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Executive Director and former Chairman and CEO Vincent Man San Law celebrates the company IPO on NYSE in 2013. Now Law is back.

Photo by Alamy

BTCM: It Keeps Coming Back Now It's Trying the Crypto-Hoax Space

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- ▶ **BTCM** has been losing money since 2015, a year after its IPO. We think that's intentional.
- ▶ We'll show that the crypto mining plan is *end-to-end hype*.
- ▶ We found that BTCM overstated **by 650%** the revenue of the offshore lottery business it bought then falsely blamed a regulatory change for plummeting income.
- ▶ The company has been through **five lines of business and three auditors** since its core business was banned in 2015. Crypto mining is the latest promote.
- ▶ BTCM is **known in China for running low-level scams and Ponzis**. Unfortunately, a lot of U.S. investors have not yet caught on to the grift.

BIT Mining Ltd. (BTCM)

05/27/2021

JCAP

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Prepared for Gillem Tulloch of GMT Research

You may remember BIT Mining Limited (BTCM, formerly WBAI) as that lottery scam from China. Now it's back looking very much like a crypto scam. The company's core business keeps changing. Crypto currency is the latest promote.

BTCM directors are already gleefully selling based on a pump a scant five months old. The company brought founder Vincent Man San Law back as executive director in December and sold him massively discounted shares and later upped their voting power.¹ He dumped \$17 mln in shares almost immediately. Other insiders have sold around \$6 mln in shares in Q1.

We believe the ASIC designer BTCM bought for \$100 mln in stock is a channel for enriching the CEO of BTCM's 54.2% subsidiary, Loto Interactive (8198 HK). Then there's a mining pool in decline. There are out-of-date miners. And in acquiring a money-losing data center, BTCM could not resist passing some money to friends.

The Chinese government is attacking the whole value chain in crypto, and we think it will eventually ban crypto mining on environmental grounds.

BTCM appears to be scrambling to get out of China--right after it spent a load of money on Chinese data centers. BTCM is investing in a mining center in Texas and another some place in Kazakhstan.

Until late February, when BTCM launched its crypto mining business, the majority of revenue came from an online lottery company based in Malta called The Multi Group. We will show that BTCM overreported this group's revenue by 650% on acquisition and that Multi is still as fraudulent as ever.

BTCM is strapped for cash and has pledged its bitcoin for three-month debt. Despite reporting cash in the bank, BTCM is paying 6% for short-term loans.

The last auditor refused to sign off on the accounts because of a bribery case that has sent Japanese lawmakers to jail for accepting money from BTCM. BTCM conducted its own investigation and, shockingly, declared itself innocent.

In the hiatus between promotes, BTCM scams a few million here and there from investors. We will detail eight such transactions in which they have taken money out of the business.

The bankrupt crypto plan

BTCM's crypto currency plan is one big grift. The company is trying to sell the following narrative:

1. We can build miners.
2. And if we can't, we can source the machines.
3. We've acquired a big mining pool.
4. We have a huge data center in Sichuan.

Every piece of this narrative is an exaggeration. Here's why.

The rigs—self dealing and overpaying

1 公司名稱 Company Name				
蜜蜂計算(香港)股份有限公司 Bee Computing (HK) Limited				
姓名/名稱 Name	地址 Address	股份 Shares		備註 Remarks
		現時持有量 Current Holding	轉讓* Transferred*	
		數目 Number	日期 Date	
BESTCHAIN HOLDING INC.	Le Sanalele Complex, Ground Floor, Vaea Street, Saleafi, PO Box 1868, Apia, Samoa.	2,000,000		Issuance of 2,000,000 shares on 25-Oct-2019

Source: Hong Kong corporate registry

- ▶ **Bee Computing: enriching related parties:** BTCM reported on April 5, 2021 that it had agreed to spend \$100 mln to buy an ASIC designer called Bee Computing. ASICs are the semiconductor "brains" for mining machines. Bee appears to be little more than a pass-through to enrich Yan Hao, CEO and executive director of BTCM's controlled subsidiary Loto Interactive (8198 HK). Bee has no miners on the market, and no one in the industry—including executives at

¹ <https://www.nasdaq.com/press-release/500.com-limited-announces-private-placement-and-appointment-of-new-officers-2020-12>

market leaders Bitmain and MicroBT—has heard of the company. It is ultimately owned by a mysterious Samoan company with the crypto-sounding name Bestchain.

Bee purchased “supercomputing devices”—apparently ASICs for miners—from a Taiwanese company controlled by Yan called Whalechip. Loto later said that Whalechip refunded the money.

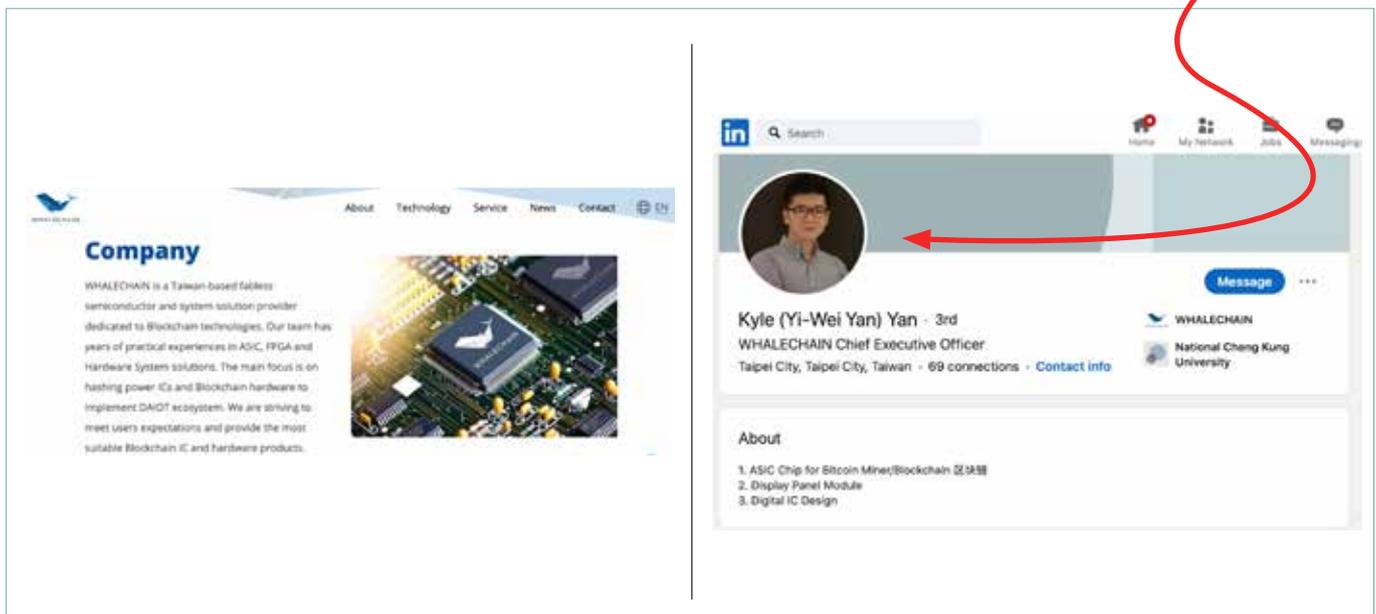
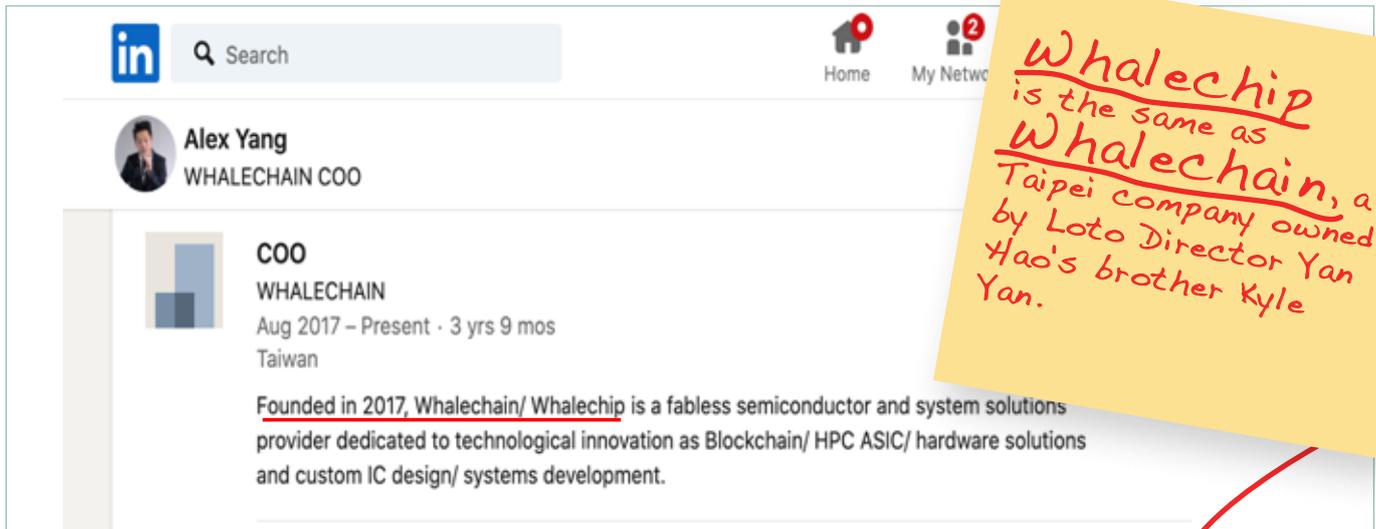
On 15 May 2020, Happy Technology Limited (“Happy Technology”), an indirect non wholly-owned subsidiary of the Company, entered into the framework purchase agreement with Whalechip Co., Ltd. (“Whalechip”) whereby Happy Technology shall purchase the supercomputing devices or other similar products from Whalechip. The framework purchase agreement has a term of one year commencing from 15 May 2020, during which, the purchase cap will be US\$2,000,000 (equivalent to approximately HK\$15,502,900). Whalechip is owned by Mr. Yan as to 36%. Mr. Yan is a director of Happy Technology, a non wholly-owned subsidiary of the Company, and therefore a connected person at the subsidiary level as defined in the GEM Listing Rules. Mr. Yan is the beneficial owner of 36% equity interest in Whalechip. Hence, Whalechip is an associate of Mr. Yan and therefore also a connected person at the subsidiary level as defined under the GEM Listing Rules.

Whalechip does not seem to be an operating company. There is no LinkedIn page or website. The registered office address is in a small shopping mall.



Whalechip’s registered address at No. 148, Sec. 4, Zhongxiao E. RD., Da-an District, Taipei City 10627. Photo from Google Maps March 2020

The real ASIC company is called Whalechain, owned by Yan Hao's brother, Kyle Yan, a relationship Loto discloses. The Whalechain COO on LinkedIn says the two companies are interchangeable



If Bee Computing makes miners, why does it need to purchase “supercomputing devices” from a director? And who got that \$100 mln from BTCM? Samoa does not disclose corporate ownership.

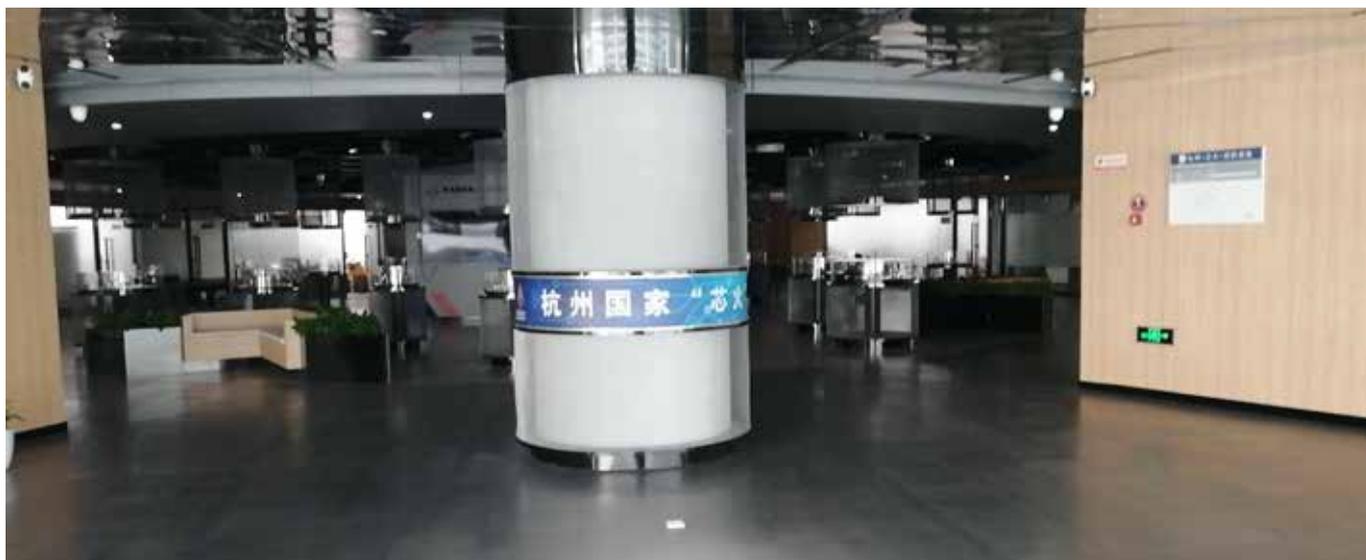
Bee Computing itself has no technology we can identify. Bee is clearly just a pass-through for Whalechain/Whalechip. BTCM claims Bee “launched a Bitcoin mining machine incorporating 7-nanometer ASICs” in 2019.² But an executive of Bee whom we interviewed by phone confirmed that Bee did not have 7 nm ASICs in 2019. The compa-

ny that did show a 7 nm machine at the CES show in the U.S. in 2019 was Whalechain, the company owned by a brother of Loto Director Yan Hao.³

In April 2021, BTCM reported that it purchased “Bee Computing's bitcoin mining machines incorporating 7-nanometer ASICs on February 2, 2021.” In fact, we believe Bee simply buys chips and arranges for contractors to put them into machines.

2 BTCM 6K April 5, 2021

3 <https://www.lifepulsehealth.com/pr/whalechain-technology-will-introduce-its-first-7-nanometer-sha256-asic-in-cs-2019/195440/>



Bee Computing Hangzhou. Photo by J Capital April 2021

We visited Bee Computing’s registered addresses in Hangzhou and Beijing, and both were empty. In Hangzhou, Bee rents space in a government-owned shared office that was dark on the Monday mid-morning that we visited.



Bee Computing Beijing. Photo by J Capital April 2021

In Beijing, the door to the shared office space was locked, and a sign told visitors to “telephone Manager XXXX at 1591100XXXX.”

We spoke with a former Bee employee who claimed the company had a “Taiwan office.” But we could not find a company called Bee in Taiwanese registries.

- ▶ ***BTCM grossly overpaid for miners it acquired externally:*** If BTCM’s disclosures are true, the company bought five-year-old miners and overpaid. On a like-for-like basis, BTCM paid 40% more than Riot Blockchain (RIOT) for the same computing power.

The most important thing in mining is having efficient miners. The Antminer S19 Pro is the 2021 Porsche 911 Turbo S of the mining world—high hash rate, power-efficient, cost-effective--and currently out of stock everywhere (as of April 2021). Riot Blockchain recently bought 8,000 Antminer S19 Pros for \$17.7 million,⁴ netting RIOT 1,446 petahash per second (PH/s).⁵ BTCM, meanwhile, spent approximately \$14.4 million and \$8.5 million in two transactions to acquire S17, T17, M20, and S9 miners for approximately 1,337 PH/s.⁶

In some cases, miners they purchased are coming up on their five-year anniversary. Would you buy a five-year old computer, and would you expect it to run smoothly? Many of these miners were probably collecting dust until the recent surge in bitcoin miners.⁷ For example, S9s had been phased out and weren’t even turned on until the recent surge in bitcoin price.⁸ Maintenance will be quite a feat, assuming there are actually real machines.

4 <https://www.prnewswire.com/news-releases/riot-blockchain-announces-milestone-purchase-of-8-000-s19-pro-antminers-from-bitmain-with-delivery-starting-january-2021--resulting-in-1-45-ehs-in-total-hash-rate-301113391.html>

5 <https://www.prnewswire.com/news-releases/riot-blockchain-announces-milestone-purchase-of-8-000-s19-pro-antminers-from-bitmain-with-delivery-starting-january-2021--resulting-in-1-45-ehs-in-total-hash-rate-301113391.html>

6 In the original press releases, BTCM refers to 918.5 PH/s and 113 PH/s (=1031.5 PH/s), but in a March 1, 2021 6K, BTCM said “the Company expects to have Bitcoin mining machines with an aggregate computing power of 1,337 PH/s by the end of the first half of 2021.”

7 <https://www.theblockcrypto.com/post/90060/bitcoin-price-mining-hardware-renaissance>

8 [Ibid.](#)

Price of Miners: RIOT vs BTCM

	Type	Number	PH/s	Price (mln USD)	\$ per PH/s
RIOT	Antminer S19 Pro	8,000	1,446	17.7	\$12,241
BTCM	Bitmain S17, T17, S9, and MicroBT M20	undisclosed	1,337	22.9	\$17,128
Premium paid by BTCM					40%

Source: RIOT and BTCM disclosures

BTCM Miners Launch Dates

Model	Launch Date	Age (as of April 2021)
Antminer S9	June 1, 2016	4 years 10 months
Antminer S17	Dec. 1, 2019	1 year 5 months
Antminer T17	June 1, 2020	10 months
Whatsminer M20	August 1, 2019	1 year 8 months

Source: Bitmain and MicroBT websites

One expert predicts that “the average lifetime of a bitcoin mining machine is one and a half years.”⁹ At most, public miners depreciate the machines over four years.

According to Hashrate Index, current capex requirements per terahash/second (TH/s) are approximately \$116.47 when bitcoin was \$53,000, near its highest level.¹⁰ At that rate, a miner would break even in 323 days.¹¹ If BTCM wants to upgrade its miners and maintain its current hash rate, we estimate it would cost around \$120 mln¹², and it would take nearly a year before BTCM would even start making a return on the investment. To be competitive, BTCM will need to do that in the next couple of years.

- ▶ **Sinking \$30.2 mln into dubious machines:** In a press release February 2021, BTCM stated that it was buying 2,000 ETH (Ethereum) mining machines for \$30.2 million, or \$15,100 each, to be delivered in three batches this year.¹³ You might wonder why BTCM was able to source new ETH machines when the company had to buy used bitcoin machines. Simple. The miners are about

to become obsolete.

Ethereum is changing from a “proof of work” model, where expensive mining equipment is used to solve complex math problems, to a “proof of stake” model. Essentially, miners will no longer compete, being chosen instead at random to mine blocks, and so they don’t need elite hardware to stand a chance of creating new blocks. A change to proof-of-stake will completely undermine BTCM’s ROI on these expensive rigs. Notably, Whalechain specializes in ETH rigs.¹⁴

BTCM announced in its Q1 2021 report that the company now has 50,113 miners deployed, with a total PH/s of 1,032, rising to 1,337 after the remaining machines that the company says it has purchased are delivered and deployed. Compare that with the British crypto company Argo Blockchain (ARB LN), which has 18,000 machines deployed with PH/s of 730—50% more the PH/s on average per machine of BTCM.

9 <https://bitcoinexchangeindex.com/analyst-over-98-of-bitcoin-mining-hardware-will-become-obsolete-after-btc-halving/>

10 As of April 22, 2021. <https://www.hashrateindex.com/machines/sha256-rig-index>

11 As of April 22, 2021. <https://www.hashrateindex.com/machines/sha256-rig-index>

12 We are giving BTCM the benefit of the doubt by basing our calculation on 1,337 PH/s. 1337 PH/s, which is equivalent to 1.337 million TH/s.

13 <https://www.prnewswire.com/news-releases/500com-limited-announces-agreement-with-bitdeer-subsiary-to-purchase-mining-machines-with-total-computing-power-of-113p-as-well-as-agreement-to-purchase-ethereum-mining-machines-with-total-computing-power-of-4800g-301236344.html>

14 <https://www.whalechain.biz/en/service.php>

Mining pool—lying about computing power?

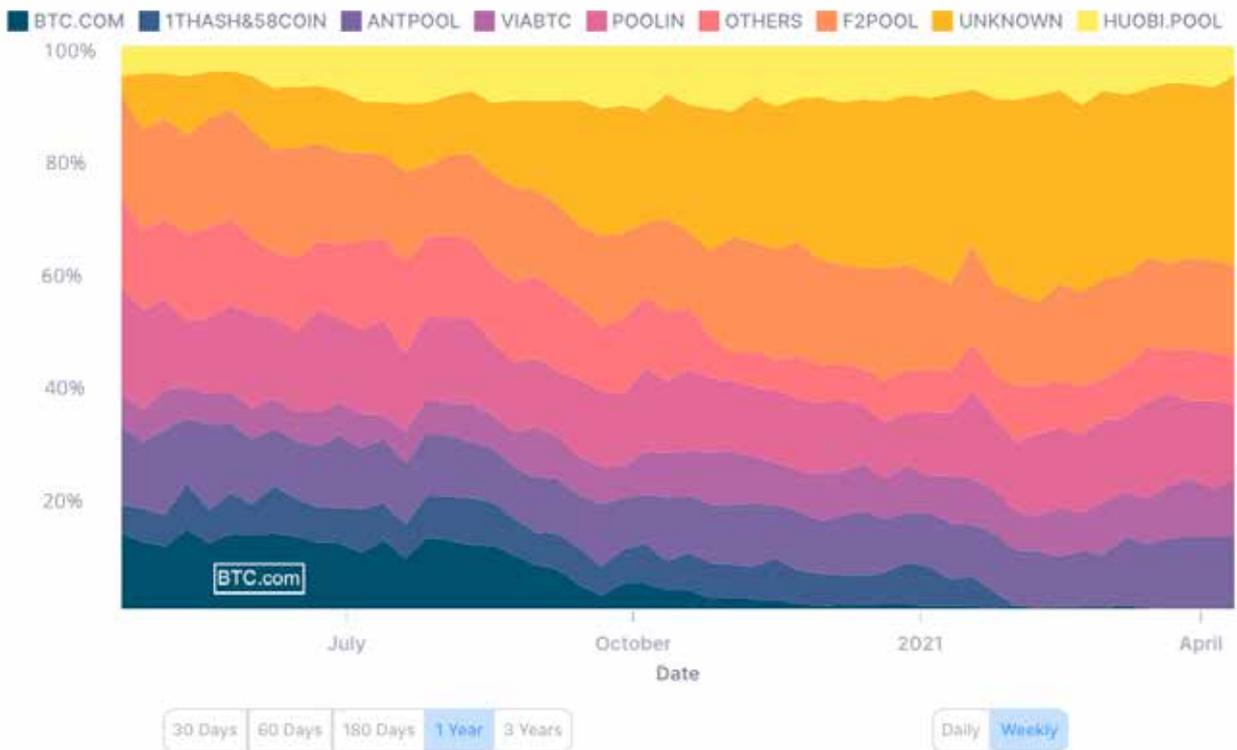
BTCM paid \$116 mln to acquire the BTC.com mining pool via its parent company, Bitdeer Technologies. Industry experts think BTC.com may be hiding the falloff in mining activity since last August by extending the period of time it uses for reporting on “average” computing power. BTC.com reports that its hashpower is around ~11% of the total. But when we checked this number on blockchain.com, a

site we think is independent, we saw that BTC.com had dropped significantly last fall.

The left-hand scale refers to the percentage of world hashrate. BTC.com, on the bottom, has dwindled significantly since last summer.

Hashrate Distribution Over Time

An estimation of hashrate distribution over time amongst the largest mining pools

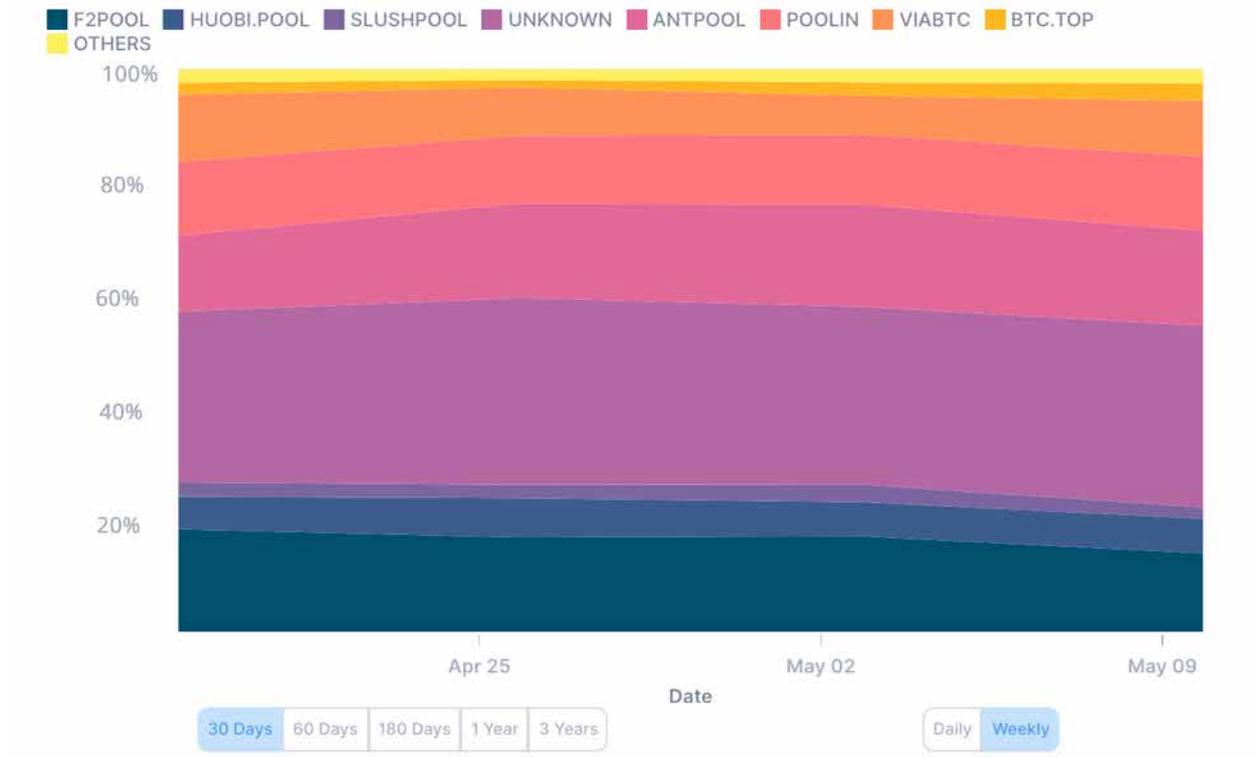


Source: blockchain.com

In the last 30 days, according to Blockchain.com, BTC.com has disappeared from the rankings.

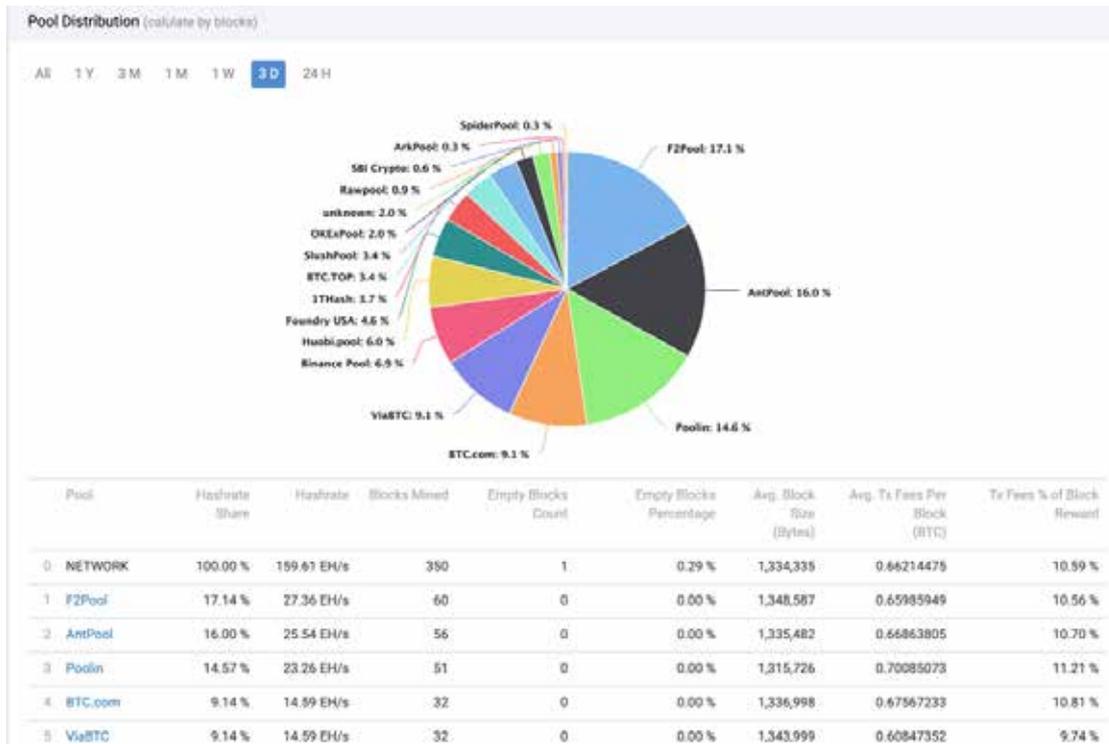
Hashrate Distribution Over Time

An estimation of hashrate distribution over time amongst the largest mining pools



Source: <https://www.blockchain.com/charts/pools-timeseries>

BTC.com continues to report that it has around 11% of world hashing power.



Source: <https://btc.com/stats/pool>

“BTC.com has declined,” a cryptocurrency expert told us. “If you calculate the hashpower over a longer period of time, the decline is smaller.” The expert believes that BTC.com stopped marketing its pool after the rift between its founder and his partner. Since clients can easily switch pools by simply changing the server address, marketing, and trust, make all the difference in pool management.

Falsifying pool data is not without precedent. There is evidence that BTC.com’s former parent pool, Bitmain’s Antpool, fakes its mining activity.¹⁵

The BTC.com transaction was a vehicle for one of the disgruntled founders of Chinese miner manufacturer Bitmain to cash out. Bitmain tried to IPO in Hong Kong and then in the United States and failed both times. Bitdeer represents assets hived off from Bitmain to co-founder Wu Jihan in his rift with Micree Zhan.¹⁶ (“Bitdeer” in Chinese is a play

on the name Bitmain.)

Insiders are laughing at BTCM investors:

“The goal for Wu Jihan to sell BTC.com is to cash out, not to join BTCM,” a former executive of Bitmain who knows Wu Jihan told us on the phone. “We insiders know that these assets are not so valuable, and the industry is in a downturn. So [Wu] found a buyer who didn’t understand the industry. BTCM was a lottery company. It got into this industry relatively late.”

China hating on crypto

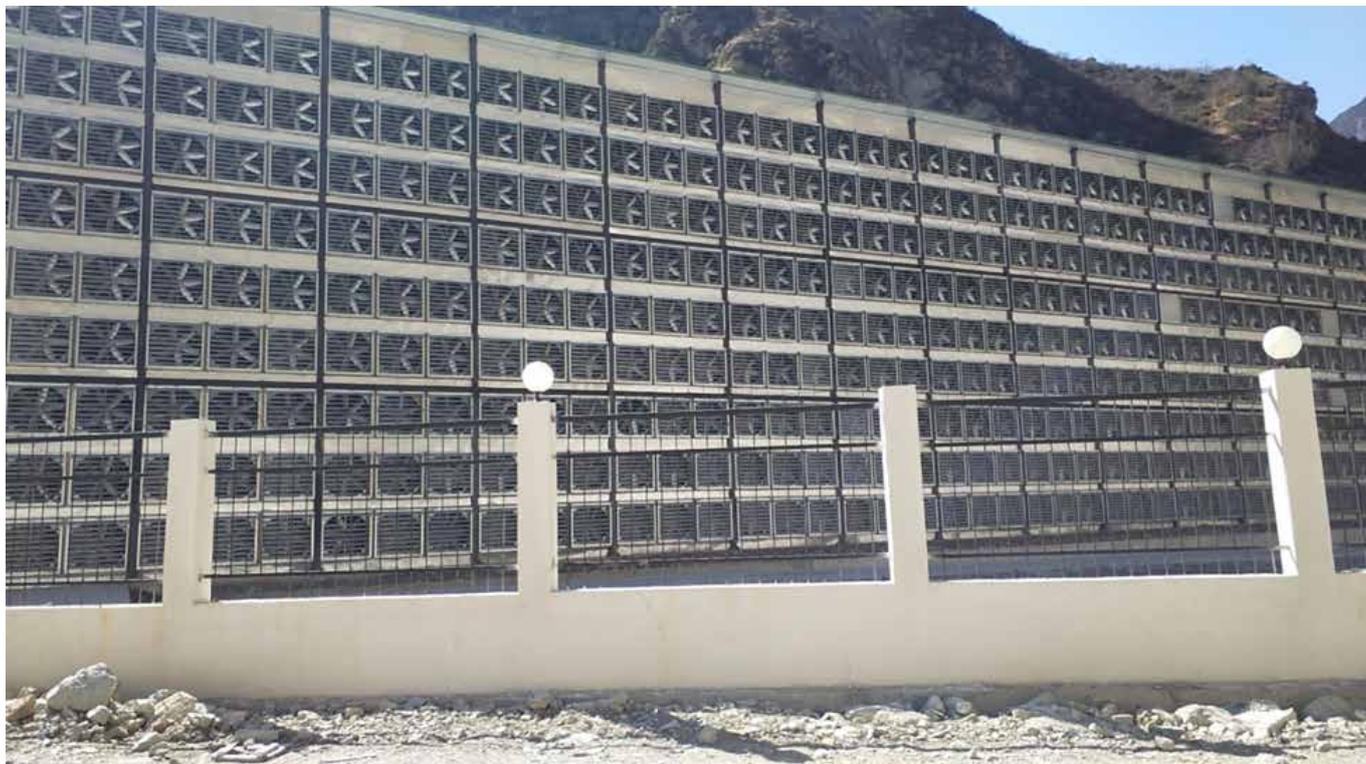
Authorities in China, which hosts 50% of the world’s crypto mining activity and whose companies manufacture around 90% of the miners, are starting to let their feelings show.

15 https://medium.com/@salva.enkidu_89587/how-bitmain-indeed-mines-coins-in-secret-2ea179e7ab75

16 See Wu Jihan’s explanation of the settlement posted on Weibo January 21, 2021: <https://weibo.com/ttarticle/p/show?id=2309404598708980547767>

Data center: more self-dealing

The only remotely real portion of the crypto acquisitions is a disaster. In January, when BTCM acquired majority control of Loto Interactive, it got three data centers in Sichuan. But Loto—which recently discarded all its other businesses, loses on the data centers. The company reported US\$48.9 mln in 2020 revenue and around US\$5 mln in losses. These losses continued into Q1 2021, with Loto's data center service revenue increasing by barely 2% compared to Q1 2020, not exactly high growth, given this was a period when bitcoin prices were nearing record highs. With evolving tighter regulations in China, both revenue growth and future creditworthiness of customers may struggle.



Loto's Changhe Dam Mining Center. There are 10 buildings operating and one under construction. Until April 2021, this Loto data center was headed by BTCM CEO Yang Xianfeng. | Photo by J Capital researcher March 2021

A key motivation for the acquisition looks like it was to pass money to insiders. At the time of the transaction, Loto held 20% ownership directly. Loto then spent ¥88.8 mln to acquire the equity shares of the three other owners. At least two of those owners, who received ¥88.2 mln, are connected to BTCM, using the same email address and phone number in Shenzhen and managed by a BTCM executive.

cryptocurrency mining business. Concurrently with the Company's entering into the share subscription agreement, Loto Interactive has entered into an acquisition agreement, pursuant to which it has agreed to acquire the remaining equity interests in its indirectly held subsidiary, Ganzi Changhe Hydropower Consumption Service Co., Ltd, or Ganzi Changhe, from two sellers for a total consideration of approximately RMB88.2 million (approximately US\$13.6 million) in cash. Upon completion of the transactions

Source: BTCM 2020 20F page 59

Ganzi Changhe Data Center Ownership

甘孜州长河水电消纳服务有限公司

甘孜州长河水电消纳服务有限公司 我要认证

存续 达正集团

电话: 028-86038373 更多联系方式 (3) 网电话企业(4)

邮箱: dengxiaolin@lotoie.com

简介: 暂无

Ganzi Changhe Hydropower Consumption Service Co. Ltd Shareholder List

Loto passes ¥88.8 mln (\$13.7 mln) into the hands of BTCM-related individuals by buying their shares in Ganzi Changhe

4	2021-04-15	投资人(股权)变更	深圳市诚信科技有限公司 出资 7020万人民币[退出]; 浙江科盈环彩信息技术有限公司 出资 5580万人民币; 乐透互娱信息技术有限公司(深圳)有限公司 出资 12420万人民币[变更]; 郭敬奎 出资 1800万人民币[退出]; 乐透互娱信息技术有限公司(深圳)有限公司 出资 3600万人民币[变更]	浙江科盈环彩信息技术有限公司 出资 5580万人民币; 乐透互娱信息技术有限公司(深圳)有限公司 出资 12420万人民币[变更]; 郭敬奎 出资 1800万人民币; 乐透互娱信息技术有限公司(深圳)有限公司 出资 3600万人民币[新增]
5	2021-01-27	投资人(股权)变更	深圳市诚信科技有限公司 出资 7020万人民币; 浙江科盈环彩信息技术有限公司 出资 5580万人民币[变更]; 郭敬奎 出资 1800万人民币	深圳市诚信科技有限公司 出资 7020万人民币; 浙江科盈环彩信息技术有限公司 出资 5580万人民币[变更]; 郭敬奎 出资 1800万人民币; 乐透互娱信息技术有限公司(深圳)有限公司 出资 3600万人民币[新增]

April 15, 2021: New investors: BTCM proxy Zhejiang Keying Huancai (¥55.8 mln) and Loto Interactive (¥124.2 mln)

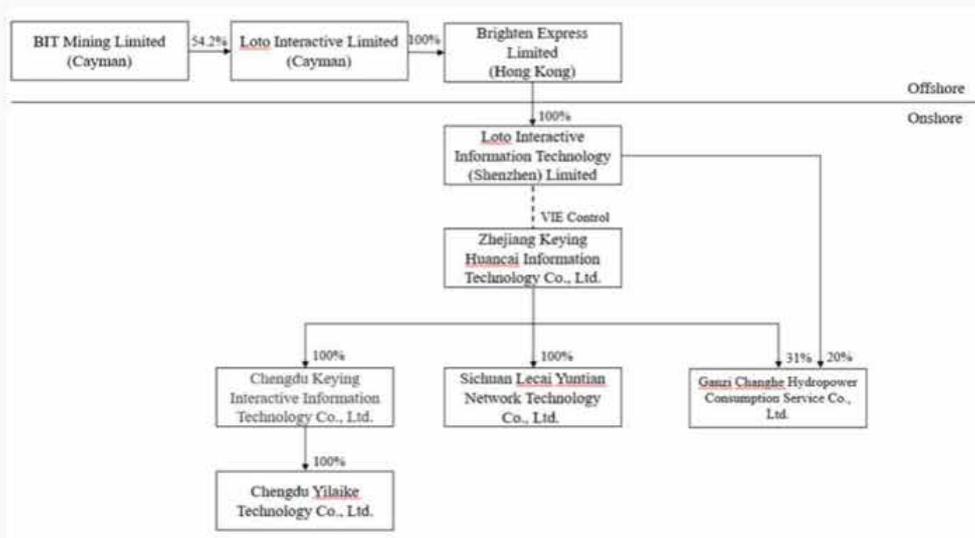
January 27, 2021: Investors are Loto Interactive (¥36 mln) and three proxies for BTCM: Shenzhen Chengyou Technology Co., Ltd. (¥70.2 mln), Zhejiang Keying Huancai Information Technology Co., Ltd (¥55.8 mln), and Guo Xiaquan (¥18 mln)

Source: Qixin database of Chinese government records

But BTCM did not even acquire the equity it claims. BTCM provides a “PRC LEGAL OPINION ON CRYPTOCURRENCY MINING AND RELATED BUSINESS OF BIT MINING LIMITED” in Exhibit 15.3 to its 2020 20-F. This contains multiple disclosures which conflict with statements made by BTCM.

For example, Loto Interactive controls the mining center contractually, not through equity ownership.

Exhibit 3 Shareholding structure showing Loto Interactive controls Ganzi Changhe, Sichuan Lecai and Chengdu Yilaike through contractual arrangements
(Based on information provided by the Company)



Loto Interactive claims to have 51% interest in Ganzi Changhe and 100% equity interest in the entities engaged in the big data center business.¹⁷ This is factually false. BTCM reiterates Loto's claims in its 20F.¹⁸ It is impossible for BTCM or Loto to not know this, since BTCM's newly appointed CEO, Xianfeng Yang, is also the chairman of Ganzi Changhe.¹⁹

BTCM's own attorneys, the JunZeJun Law Firm--including Loto CEO Yan Hao, who is a JunZeJun attorney--themselves state that Loto does not own 51% of Ganzi Changhe, 100% of Zhejiang Skying (transliterated as Zhejiang Keying), or 100% of the other three subsidiaries of Zhejiang Skying.^{20,21} At best WBAI and Loto "control" them, with VIE contractual agreements being the basis of control. However, BTCM's own attorneys separately explain that Loto's VIE control structure was never officially registered.²²

JunZeJun explains Loto's VIE control structure was never officially registered.²³

Without the registered VIE share pledges, this statement undermines BTCM's justification for consolidating the big data center operations which represent 99.1% of Loto's 2020 revenues.²⁴ PRC regulatory tightening on the cryptocurrency business raises the risk that related VIE contracts will be unenforceable in a PRC court.

It may not matter much anymore. China's hostility to crypto mining is growing, and miners are on the run. BTCM is hurrying to find a mining farm outside of China. On May 19, the company announced it would restart Bitmain's abandoned project to build a mining farm in Rockdale, Texas. Bitmain had planned to take over part of a plant abandoned by Alcoa.

The announcement follows a notice²⁵ issued May 18 by three quasi-governmental trade associations in China informing financial institutions that they could not speculate in crypto currency. The notice also said that internet platforms may not advertise

C. Opinion

Based on our review of the Documents and our understanding of the current PRC Laws, subject to the assumptions above and the Qualifications (as defined below), we are of the opinion that, as of the date hereof, so far as PRC Laws are concerned:

i. Each of the PRC Group Entities is validly existing with limited liability under the PRC Laws and has full power, authority, legal right to enter into, execute, assume, deliver and perform its obligations under each of the Corporate Structure Contracts to which it is a party and has duly executed and delivered each of the Corporate Structure Contracts.

ii. Each of the Corporate Structure Contracts is valid and legally binding under the PRC Laws, and the obligations undertaken by and the rights granted to each party to the Corporate Structure Contracts are legally permissible under PRC Laws. It's pertinent to note that the pledge on equity interest in Zhejiang Keying and Beijing Lewan, respectively, would not be deemed validly established until it is registered with the competent PRC Authorities. However, there are substantial uncertainties with regard to the interpretation and application of PRC Laws and future PRC laws and regulations, and there can be no assurance that the PRC Authorities will not take a view that is contrary to or otherwise different from our opinion stated above.

iii. To our best knowledge after a limited- scope search through the Internet (i.e. the website of China Judgments Online, the website of Beijing Court, the website of Zhejiang Court and the website of Public Information of Enforcement in China), there was no legal proceeding which had challenged the legality, effectiveness or validity of the Corporate Structure Contracts and/or the transactions contemplated thereby.

17 Loto Interactive 2020 AR, p.122-123

18 WBAI 2020 20-F, pp. 59, F-63

19 WBAI 2020 20-F, p. 113

20 WBAI 2020 20-F, Exhibit 15.3, p.7

21 WBAI 2020 20-F, Exhibit 15.3, p.28

22 WBAI 2020 20-F, Exhibit 15.3, p.3

23 WBAI 2020 20-F, Exhibit 15.3, p.3

24 Loto Interactive 2020 AR, pp.102, 105 (379,658/382,925 = 91.4%)

25 <https://m.21jingji.com/article/20210518/herald/3783a036099da2e0c756ff6e8b8e1498.html>

or promote crypto currencies. In March, Chinese miners began transferring their rigs out of Inner Mongolia²⁶ following news²⁷ that the province, responsible for about 8% of the world's hashing power, would shut down all crypto mining operations at the end of April. These moves look like precursors to a complete ban.

BTCM is finding new ways to pass money to Bitmain co-founder Wu Jihan. BTCM has announced it will spend \$25.7 mln to develop a mining farm in Texas through one of Wu's companies, called Dory Creek. Dory Creek abandoned plans to build the farm in 2020, a few months after announcing them, when Bitmain was unable to IPO. Why should BTCM carry out this investment through Wu's com-

pany rather than directly? Investors should worry that the \$25.7 mln will be diverted.

In summary, BTCM's pivot into crypto assets in China was via clunker mining machines and money-losing data centers bought at peak crypto prices right in front of a tightening regulatory spiral in the PRC that may make profitable operation of these assets near impossible or eventually illegal. Regulations are certain to devalue the assets and make it very difficult for foreign shareholders to enforce ownership or monetize the assets. We are beginning to wonder whether BTCM intentionally courts industries that are about to be banned. This happened with the company's original lottery business in China.

26 <http://www.haimanews.com/%e7%9f%bf%e4%b8%9a/4263.html>

27 <https://forkast.news/inner-mongolia-shut-down-crypto-mining-china-bitcoin-miners/>

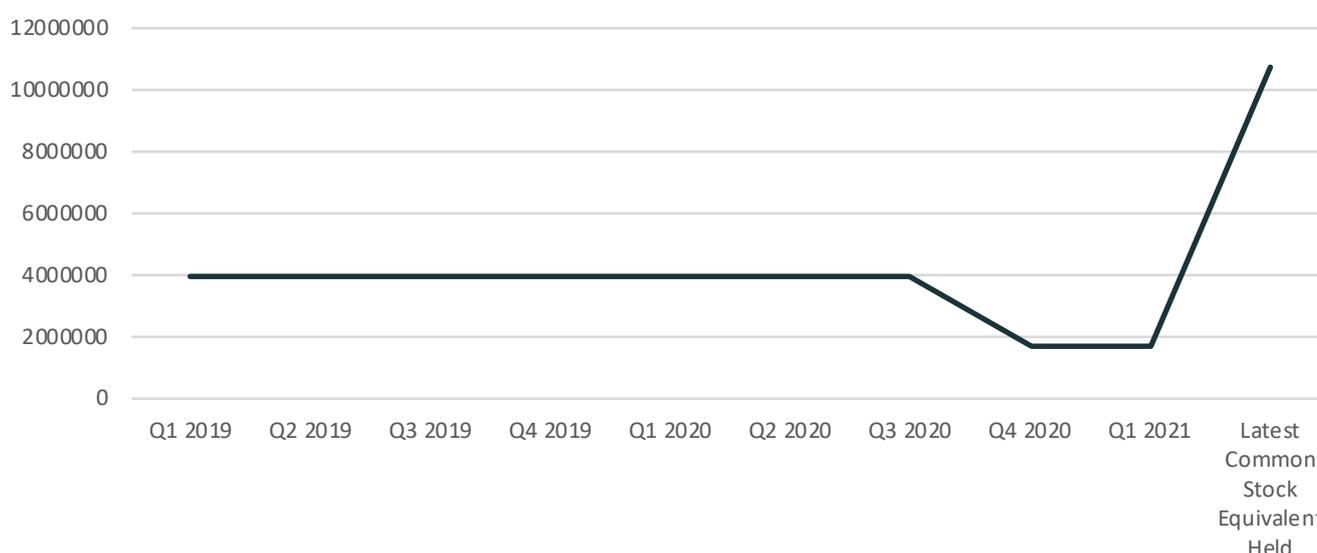
The great giveaway—diluting public shareholders

BTCM has massively diluted shareholders to build this promote, keeping the moves as quiet as the law will allow. BTCM has issued 79 mln new shares in two years, an 18% dilution, and has handed a 61.7% voting share to Director Vincent Law for a consideration of merely \$65,000 by issuing him preferred shares. Law's shares have 10,000 votes to just one for the common shareholder. Good luck ever getting rid of him.

Plan of the Issuer. Each holder of Class A Ordinary Shares is entitled to one vote per share, each holder of Class B Ordinary Shares is entitled to ten votes per share, and each holder of Class A Preference Shares is entitled to 10,000 votes per share as at the date of this Schedule 13D on all matters submitted to them for a vote.

Source: BTCM SC13D April 14, 2021

Vincent Man shares



Source: Capital IQ

Vincent Law Share Sales

Insider	Relationship	Trade Date	Type	Shares	Mkt Val
Law Man San Vincent	Executive Director	4/14/2021	Ben. Ownership (13D/G)	-	-
Delite Limited	Law company	3/30/2021	144 Sale	(600,883)	\$12,888,940
Law Man San Vincent	Executive Director	3/30/2021	144 Sale	(66,000)	\$1,509,420
Smart Mega Holdings Ltd	Law's wife's company	3/19/2021	144 Sale	(100,000)	\$2,550,000
Law Man San Vincent	>5% Own	3/15/2021	Ben. Ownership (13D/G)	-	-
Law Man San Vincent	Chairman	1/21/2021	Ben. Ownership (13D/G)	-	-
Law Man San Vincent	Chairman	12/30/2020	Ben. Ownership (13D/G)	-	-
Law Man San Vincent	Chairman	12/30/2020	Ben. Ownership (13D/G)	-	-
Law Man San Vincent	>5% Own	2/14/2020	Ben. Ownership (13D/G)	-	-
Total Law sales Q1					\$16,948,360

Source: EZ Insider

With the recent pivot to crypto mining, the announcements alone have been enough to support share sales. Law is top among the sellers, but there are more::

Insider	Relationship	Traded	Type	Shares	Price	Value
Wong Yan Ki Angel	Director	3/30/2021	144 Sale	70,000	\$26.70	\$1,869,000
Wu Shengwu	Chairman	3/30/2021	144 Sale	50,000	\$20.28	\$1,014,000
Yu Bo	COO	3/30/2021	144 Sale	65,000	\$26.09	\$1,695,850
Yuan Qiang	CFO	3/30/2021	144 Sale	70,000	\$24.31	\$1,701,700
Total						\$6,280,550

Source: RIOT and BTCM disclosures

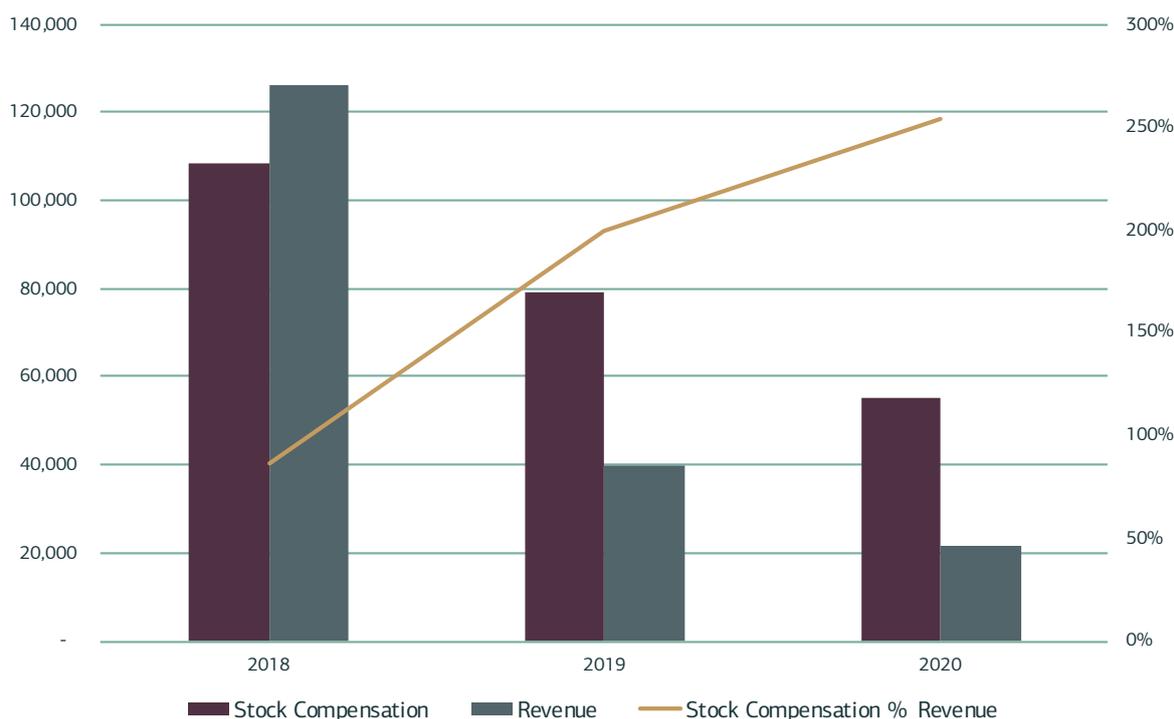
The company issued a breathless panegyric to Law even as he cashed out:

In just three months, the Company has completed a radical transformation of its business to become a cryptocurrency mining enterprise. By diversifying the Company's revenue streams, it has largely expanded its potential, business longevity, and ultimately the value proposition to its shareholders.

These achievements would not have been possible without the assistance of the Company's original founder, Mr. Man San Vincent Law.

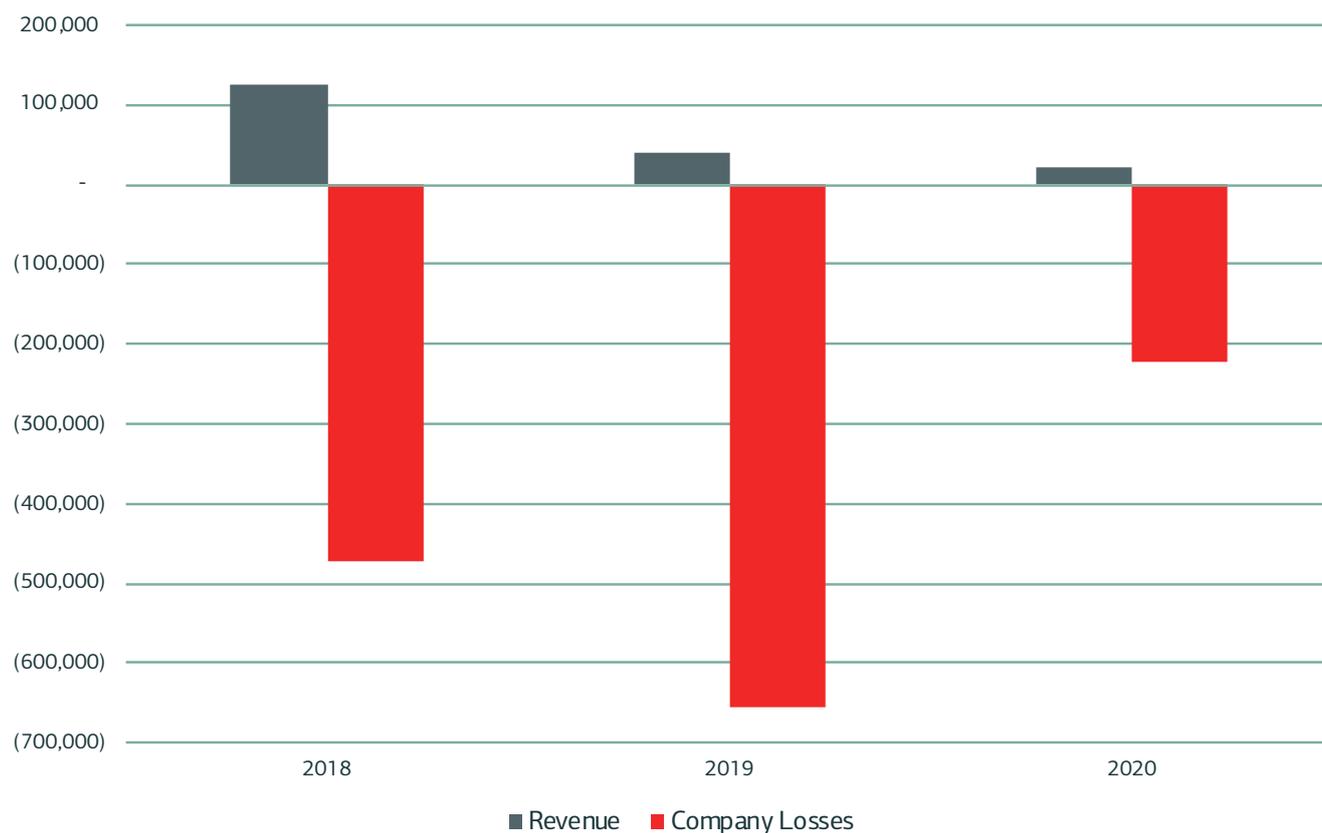
Meanwhile, BTCM is handing out a crazy number of shares to employees, or so it says. Share compensation in 2020 was an amazing TWO AND A HALF TIMES revenue, even as losses mount.

BTCM Stock Compensation and Revenue (,000 RMB)



Source: BTCM 2020 20F

BTM Revenue and Losses (,000 RMB)



Source: BTM 2020 20F

Directors' shares are separately reported. These giveaways are for rank-and-file employees, almost all in G&A:

15. SHARE-BASED PAYMENT (continued)

Restricted shares granted to employees and directors (continued)

	For the year ended December 31, 2019			
	Employees	Directors	Total	Total
	RMB	RMB	RMB	US\$
Cost of services	14	—	14	2
Sales and marketing	7,410	—	7,410	1,064
General and administrative	57,666	506	58,172	8,356
Service development expenses	13,679	—	13,679	1,965
	<u>78,769</u>	<u>506</u>	<u>79,275</u>	<u>11,387</u>
	For the year ended December 31, 2020			
	Employees	Directors	Total	Total
	RMB	RMB	RMB	US\$
Sales and marketing	4,779	—	4,779	732
General and administrative	31,462	9,331	40,793	6,252
Service development expenses	9,852	—	9,852	1,510
	<u>46,093</u>	<u>9,331</u>	<u>55,424</u>	<u>8,494</u>

Source: BTM 2020 20F page F-53; BTM 2020 20F

The number of employees, including their respective departments, is also shown in the company filings:

D. Employees

Employees

Our ability to maintain a trained management team and other employees is critical to the success of our business. We had a total of 282, 171 and 138 employees as of December 31, 2018, 2019 and 2020, respectively. The table below sets forth the number of employees categorized by function as of December 31, 2020.

Function	Number of employees
Management and Administration	9
Sales, Marketing and Website Operation	28
Service and User Support	5
Technology and Product Development	61
Administrative Support	35
Total	138

Source: BTCM 2020 20F page 120

The share compensation is in addition to salary and benefits. The majority appears to be paid to non-director staff:

General and administrative expenses. General and administrative expenses decreased by 31.9% from RMB223.8 million in 2019 to RMB152.5 million in 2020. The decrease was mainly due to cost reduction measures implemented by management, including:

- a decrease in share-based compensation expenses associated with share options granted to our directors and employees from RMB58.2 million in 2019 to RMB40.8 million in 2020, which was primarily related to restricted share units granted in 2018 and 2019, which are expensed mainly in 2019;

- a decrease in salary and benefit expenses for employees from RMB57.6 million in 2019 to RMB34.1 million in 2020, which was primarily caused by a decreased number of employees;

B. Compensation

Compensation of Directors and Executive Officers

In 2020, the aggregate cash compensation to all our directors and our executive officers was RMB4.7 million (US\$0.7 million). For share-based compensation, see “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans.” We did not have any amount accrued in 2020 for pension, retirement or other similar benefits to our directors and our executive officers.

Source: BTCM 2020 20F page 101

Options, Restricted Shares, and G&A Cash Compensation per Individual

	Y/E No of Employees	2019	Y/E No of Employees	2020
General and administrative	43	¥1,341,070	35	¥ 2,120,771
G&A average cash compensation		¥ 1,339,535		¥ 974,286

Source: BTCM 2020 20F

In other words, the company claims it paid each administrative employee, AFTER directors' compensation, ¥3 mln in cash and share comp in 2020.

We called a half dozen former BTCM employees, including at managerial levels, and none had received share grants or options. Salaries ranged

from ¥84,000 to ¥480,000 per year—a far cry from the average annual cash compensation reported for G&A employees--¥1.3 mln in 2019 and ¥974,286 in 2020.

Where are the shares really going? Hard to say, but not to employees.



Willemstad, the capital of Curaçao

The Multi Group: Faked revenue

BTCM claims that 68% of its revenue comes from an online lottery company domiciled in Malta called The Multi Group (TMG). We believe substantially all TMG revenue is faked.

Our research shows that, at acquisition, BTCM overstated TMG's revenue by more than 6x. Since then, the company has created the appearance of revenue by circulating money round-robin style money among its TMG subsidiaries.

BTCM acquired 93% of TMG for \$56 mln in May 2017. TMG's platform lets users make bets on the outcome of European lotteries.

This was a scam from the very start. In the press release announcing its acquisition, BTCM stated that TMG on a consolidated basis had €4 mln in revenue and net profit of €1.2 mln in 2015.

But we looked at financial reports for the company from Malta. The consolidated financial report of TMG registered with the Malta Business Registry showed total revenue of €502,296 and net profit of €285,255—**BTCM overstated by more than 6x.**²⁸

28 <https://registry.mbr.mt/ROC/index.jsp#/ROC/documentsList.do?action=companyDetails&companyId=C%2071212> and download.

“Multi Group has grown rapidly since it began operating in 2015. In 2015 and 2016, Multi Group generated unaudited net revenues of €4.0 million (approximately US\$4.5 million) and €10.0 million (approximately US\$11.2 million), respectively; unaudited net profits of €1.2 million (approximately US\$1.4 million) and €5.4 million (approximately US\$6.1 million), respectively; and EBITDA of €1.2 million (approximately US\$1.4 million), and €5.7 million (approximately US\$6.4 million), respectively. “

BTM Press Release May 26, 2017

The Multi Group Ltd.
Statement of Comprehensive Income
For the Year Ended 31 December 2016

	Note	Parent		Group	
		01/01/2016 to 31/12/2016	26/06/2015 to 31/12/2015	01/01/2016 to 31/12/2016	26/06/2015 to 31/12/2015
		€	€	€	€
Revenue	5	-	-	10,021,497	502,296
Cost of sales		-	-	(2,954,317)	(166,222)
Gross profit		-	-	7,067,180	336,074
Administrative expenses		(8,343)	(1,400)	(1,206,586)	(25,715)
Marketing and advertising		-	-	(877,351)	(22,640)
Other income	6	-	-	12,482	-
Finance costs		-	-	-	(2,464)
(Loss)/Profit before tax		(8,343)	(1,400)	4,995,725	285,255
Taxation	9	-	-	8,765	-
(Loss)/Profit for the year/period/Total comprehensive (loss)/income		(8,343)	(1,400)	5,004,490	285,255

The Multi Group Ltd.
Independent Auditors' Report (continued)
To the members of The Multi Group Ltd.

Report on Other Legal and Regulatory Requirements for the year ended 31 December 2016

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us
- The financial statements are not in agreement with the accounting records and returns
- We have not received all the information and explanations we require for our audit
- Certain disclosures of director's remuneration specified by law are not made in the financial statements, giving the required particulars in our report

We have nothing to report to you in respect of these responsibilities.



Rhianna Camilleri Galea
 For and on behalf of
CAMILLERI GALEA LTD
 Certified Public Accountants

1st Floor, Suite 3
 Central Business Centre,
 Marina Road,
 Zebbug ZRG 9015

23 June 2017

Source: Multilotto UK Ltd Annual Report 2018

In the 2017 and 2018 BTM annual reports, the company reports U.K. gross gaming revenue. BTM says that revenue is €47,000 and €116,000 monthly, or annually as €564,000 and €1,392,000 in each of those years. The financial report registered with the Malta Business Registry for Multilotto UK Ltd., the company that held the U.K. license²⁹, had gross gaming revenue of €76,755 and €185,497.³⁰ The financial report below for Multilotto UK filed in Malta contradicts the above statement.

BTM vs Government-reported UK Gross Gaming Revenues 2017-18 (Euro, units)

	2017	2018
BTM-Reported UK Revenue		
UK - Total Annual Gross Gaming Revenue	564,000	1,392,000
Multilotto UK Ltd Reported Revenue €	76,755	185,497
Overstatement	487,245	1,206,503
Overstatement %	635%	650%

Source: BTM 2018 20F and Malta Business Registry³¹

29 <https://beta.gamblingcommission.gov.uk/public-register/business/detail/47707>

30 <https://registry.mbr.mt/ROC/index.jsp#/ROC/documentsList.do?action=companyDetails&companyId=C%2077101> and [download](#).

31 The BTM reports provide monthly GGR, and Malta reports on the UK company are in annual sums. We have multiplied the BTM numbers by 12 for comparison's sake.

Multilotto UK Ltd
Statement of Comprehensive Income
For the Year Ended 31 December 2018

	Note	01/01/2018 to 31/12/2018	01/09/2016 to 31/12/2017
		€	€
Revenue	4.	185,497	76,755
Cost of sales		(466,511)	(104,959)
Gross loss		(281,014)	(28,204)
Administrative expenses		(47,060)	(42,942)
Loss from operations		(328,074)	(71,146)
Loss before tax	5.	(328,074)	(71,146)
Taxation	6.	112,885	20,946
Loss for the year/period		(215,189)	(50,200)
Total comprehensive loss for the year/period		(215,189)	(50,200)
Attributable to:			
Equity holders of the company		(215,189)	(50,200)

Source: Multilotto UK Ltd Annual Report 2018

This group has supposedly accounted for over 80% of BTCM revenue since H2 2017, a cumulative €25 mln.

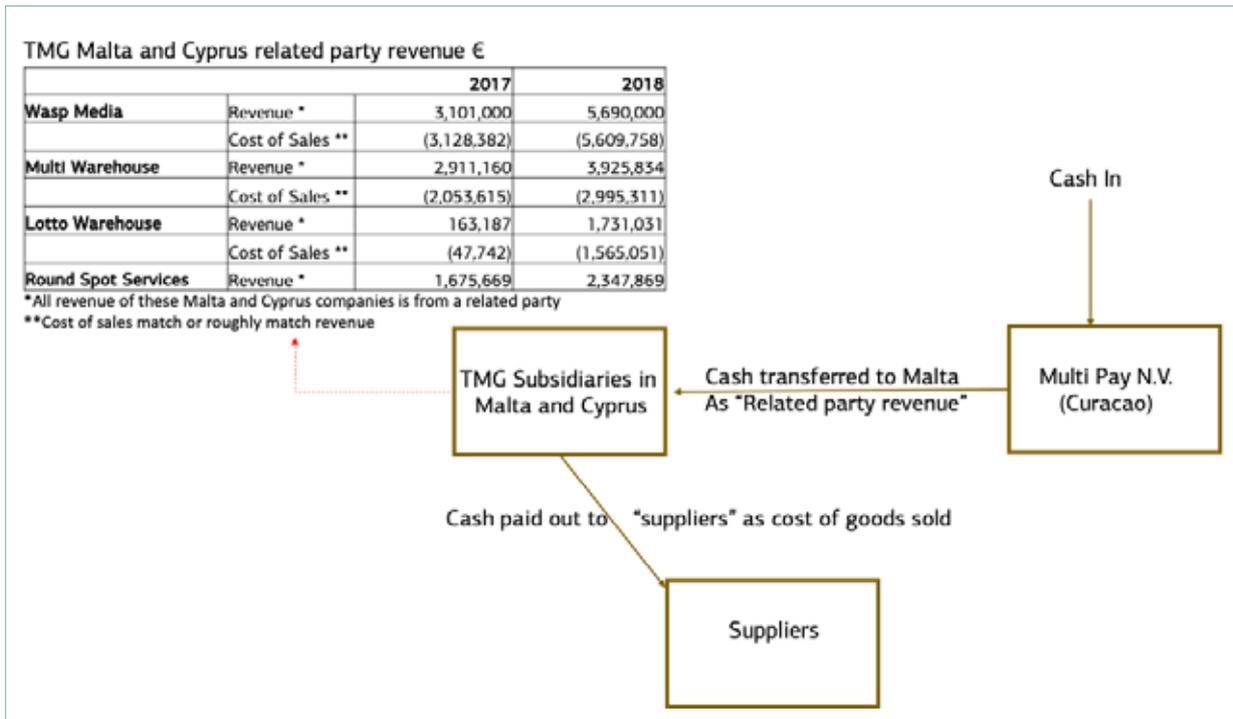
Until Sweden tightened up its market in 2019, TMG was saying its money came from gambling in Sweden and was booked in Curaçao--a Caribbean island belonging to the Netherlands that is famous for money laundering.³² Actually, we think that is a lie. We think TMG has just been pushing cash back and forth among subsidiaries.

Shortly before BTCM acquired TMG, TMG established four subsidiary companies. These subsidiaries' revenues were entirely from sister companies within the group. All of the subsidiaries are empty shells with virtually no balance sheet assets or liabilities with the exception of items owed to other subsidiaries.³³ The company reports that the costs are from related-party transactions. For that reason, we suspect that TMG is simply shipping money from one subsidiary to another.

32 <https://www.state.gov/wp-content/uploads/2019/03/INCSR-Vol-INCSR-Vol.-2-pdf.pdf>

33 Company docs can be downloaded [here](#).

The Multi Group Related-Party Transactions



Source: Company financial reports filed in Malta and Cyprus available [here](#).

We are skeptical that Multi Lotto has any business in Sweden. Reports by the Swedish online industry association about sites, regulated and unregulated, that Swedish consumers use make no mention of Multilotto or TMG.³⁴ We have found few reviews or discussion of Multi Lotto in Europe.

34 https://www.bos.nu/wp-content/uploads/2020/04/Final_en_BOS_28april-1.pdf

As of December 31, 2020, we had Renminbi denominated cash and cash equivalents and restricted cash of RMB191.9 million, EUR denominated cash and cash equivalents and restricted cash of EUR0.9 million, and U.S. dollar denominated cash and cash equivalents of US\$16.8 million. Assuming we had converted RMB191.9 million into U.S. dollars at the exchange rate of RMB6.5250 for US\$1.00 and EUR0.9 million into U.S. dollars at the exchange rate of EUR0.8177 for US\$1.00 as of the end of 2020, our total U.S. dollar cash balance would have been US\$47.4 million. If the Renminbi and EUR had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$44.6 million).

The company reported a massive foreign exchange translation loss in 2020, ¥55.8 mln (\$8.6 mln), 255% of revenue, while it had only €0.9 mln in Euro.

Total revenue now is just 14.1% of what it was in 2018, before Sweden started requiring a license. Less than three years after its acquisition, BTCM wrote down TMG's remaining assets to ZERO by end 2019, wiping out the original ¥387 mln cash purchase price.

"Impairment of goodwill increased by 100%, from nil in 2018 to ¥129.8 mln (US\$18.6 mln) in 2019, and impairment of acquired intangible assets increased by 100%, from nil in 2018 to ¥181.8 mln (US\$26.1 mln) in 2019. The increase was primarily related to the Company's acquisition of TMG, which were triggered by TMG's temporary suspension of its operations in Sweden since January 2020."

"As of December 31, 2019, the fair value of the equity value including goodwill and

the acquired intangible assets of the Multi Group that was assessed by the third-party appraiser are estimated to be nil."

A typical TMG subsidiary, Round Spot Services Ltd., incorporated in Cyprus, claims to be an insurance services company. But it has virtually no assets or liabilities. The costs of this company almost exactly match the revenue. Round Spot simply enables the fiction that TMG is making lottery payouts.

TMG produced a cumulative loss of €5 mln in 2017-19—quite a feat for online gambling, which has virtually no cost of goods sold. BTCM wrote down the TMG assets in 2019 by €40 mln—86% of the purchase price.

In the case of clients who want to cash out any bitcoin held in China—where bitcoin exchanges have been outlawed--there are "winnings," helpfully insured by TMG itself. TMG claims it has made €375 mln (\$448 mln) in payouts:

ROUND SPOT SERVICES LIMITED			
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME			
31 December 2018			
	Note	2018 €	2017 €
Revenue		2,347,869	1,675,669
Cost of sales	5	(2,343,669)	(1,666,667)
Gross profit		4,200	9,002
Administration expenses		(5,650)	(5,704)
Operating (loss)/profit		(1,450)	3,298

ROUND SPOT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

1. Incorporation and principal activities

Country of incorporation

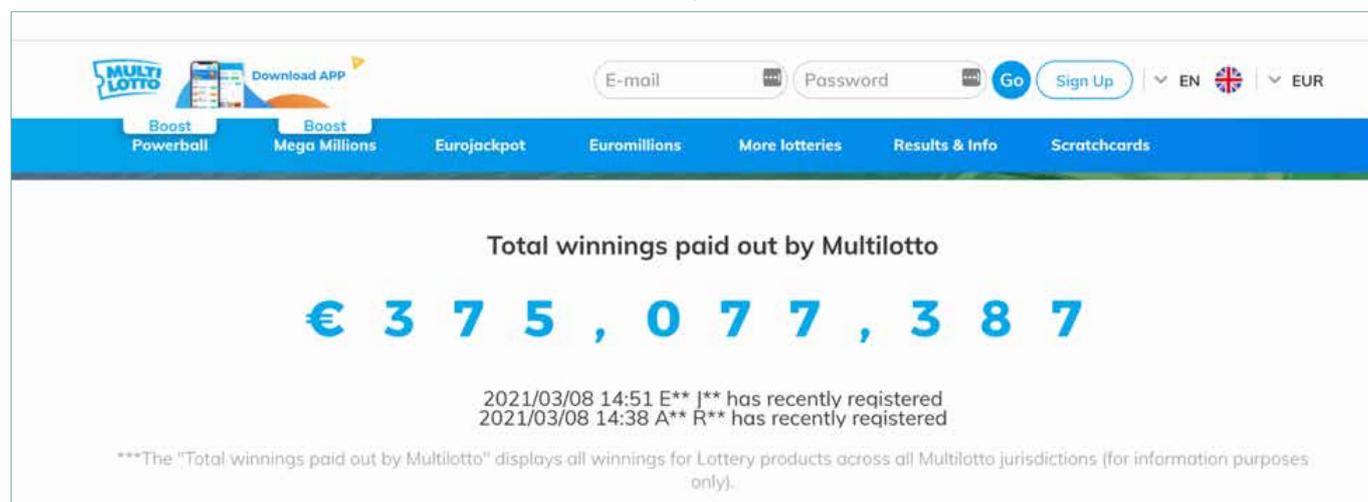
The Company ROUND SPOT SERVICES LIMITED (the "Company") was incorporated in Cyprus on 6 May 2015 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at Grigori Afenthiou 10, Livadhiti Building No. 5, Office 107, 6023 Lamaca.

Principal activity

The principal activity of the Company, which is unchanged from last year, is the provision of insurance services.

Excluding the massive losses from write-downs, TMG produced a cumulative loss of €6 mln in 2017-19—quite a feat for online gambling, which has virtually no cost of goods sold. BTCM wrote down the TMG assets in 2019 by €40 mln—86% of the purchase price.

In the case of clients who want to cash out any bitcoin held in China—where bitcoin exchanges have been outlawed--there are “winnings,” helpfully insured by TMG itself. TMG claims it has made €375 mln (\$448 mln) in payouts:



Source: Screenshot from Multilotto.com

The investment heist

In the hiatus between hype cycles, BTCM finds other ways to boost cash. Cumulatively, since 2015, we have found 18 such dubious investments. BTCM reported a **cumulative impairment of ¥206.5 mln (\$31.9 mln)** on these investments and a **¥32.99 mln (\$5.1 mln) share in their losses**. The company never explains its basis for the impairment of private companies.

Qufan: The Qufan scam in 2016-18 is a case in point. BTCM used its “investment” in Qufan to tunnel roughly ¥52 mln out of the company.

In November 2016, BTCM bought 51% of two companies collectively called Qufan³⁵ that operated “mobile and social poker games.” At the time, BTCM reported

that Qufan had just ¥0.439 mln in cash. Then, in February 2018, BTCM disposed of Qufan for about ¥10 mln more but with Qufan now containing ¥41.7 mln in cash and ¥20 mln in short-term investments. Liabilities were about the same on acquisition/disposal. In other words, there was a ¥52 mln transfer of cash and equivalents out of the company via Qufan.

Qufan was bought 51% for cash and contingent consideration of ¥110.5 mln and sold for a “cash consideration” of ¥122 mln. Yet the 2018 cash-flow statement shows total disposal cash proceeds of only ¥23.7 mln after netting out the cash included in the sale of Qufan and the unpaid contingent consideration from its original purchase.

35 The corporate names given were Qufan Internet Technology Inc. and Shenzhen Qufan Internet Technology Co., Ltd.

- ▶ **Hzone:** In March 2015, BTCM acquired 10% of the share capital of Hzone Holding Company for \$2 mln. In 2019, BTCM wrote off ¥12.4 mln (\$1.9 mln).

Rank	Shareholder Name	Shareholding Percentage	Share Count	Registration Date
1	李小明 (Majority shareholder. Name appears related to former CEO Yu Bo)	60.34%	311,1281	2033-03-25
2	吕瑞雷	11.37%	58,8266	2033-03-25
3	深圳市腾讯太空网络技术技术有限公司 (500.com)	10.00%	51,5625	2033-03-25
4	北京天智康创投中心 (有限合伙)	10.00%	51,5625	2033-03-25
5	北京阿特斯投资有限公司	8.29%	42,7453	2033-03-25

Source: Government records via Qichacha

- ▶ **Cheerful Interactive:** BTCM made \$1.25 million disappear in an investment in 2017. In March 2017, BTCM bought 5% of the share capital of Cheerful Interactive Limited, a non-listed company, for \$1.25 mln in cash. On July 17, 2017, Cheerful applied to the Hong Kong government for deregistration. Cheerful Interactive had been incorporated six months before BTCM made its “investment.”

歡騰互娛有限公司
CHEERFUL INTERACTIVE LIMITED
 UNIT 1101, 11/F KING CTR 23-29
 DUNDAS ST MONGKOK
 KL

電郵 e-mail : taxpic@ru.gov.hk
 申請書號碼 Application No. : DE0552253-0617
 公司編號 Company No. : 2394804
 商業登記號碼 : 66340824
 Business Registration No. :
 發出日期 : 2017年7月7日
 Date of Issue : 07 JUL 2017

先生/女士:

根據《稅務條例》(第 112 章) 第 88B 條
 要求稅務局局長發出不反對
 撤銷公司註冊的通知書

貴公司上述的申請已於 2017年6月8日
 收悉。

Dear Sir/Madam,

**Request under section 88B
 of the Inland Revenue Ordinance (Cap. 112) for
 a Notice of No Objection to a
 Company being Deregistered**

I refer to your above-mentioned application that was
 received on 08 JUN 2017 .

Source: Government records via Qichacha

- ▶ **Caiyu:** In July 2016, BTCM bought Shenzhen Caiyu Hudong Technology Co., Ltd. and in November 2017 disposed of it via a share-transfer agreement. The company was co-located with a company owned by then-CEO Yu Bo called Cub Computer Technology (Shenzhen) Co. Ltd.

深圳市彩娱互动科技有限公司 我要认证

存续 小微企业 A级纳税人

#体育 #文娱传媒

电话: 0755-85211015 更多联系方式 (4)

邮箱: admin@qqshidao.com

简介: 数据维护中

浏览: 3944

企业地址	深圳市龙岗区龙岗街道南联社区龙岗大道5003号旭源大厦6楼602H		
经营范围	一般经营项目是: 数码产品、电子产品、通讯产品、音响器材、摄影器材、计算机软硬件项目是:		
更新时间	2019-12-04	来源	国家信用信息公示系统

发起人/股东

发起人/股东类型	发起人/股东	认缴出资 (金额/时间)
其他投资者	CUB DIGITAL TECHNOLOGY CO.,LTD.	-

19	2019-05-20	地址变更(住所地址、经营场所、驻在地址等变更)	深圳市龙岗区龙岗街道南联社区龙岗大道5003号旭源大厦6楼604R
----	------------	-------------------------	-----------------------------------

604R and 602H Xuyuan Building, 5003 Longgang Avenue, Longgang District, Shenzhen

Bo Yu, Director

8	2015-08-26	高级管理人员备案 (董事、监事、经理等)	<p>罗文新: 总经理[退出];</p> <p>黄春华: 董事长;</p> <p>余波: 董事;</p> <p>殷志伟: 董事[变更];</p> <p>张涵: 监事</p>	<p>殷志伟: 总经理/ 董事[变更];</p> <p>张涵: 监事;</p> <p>黄春华: 董事长;</p> <p>余波: 董事</p>
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Source: Government records via Qichacha

Although BTCM booked a gain of ¥5.5 mln on the disposal of Caiyu, the money had still not been received three years later. "Receivables for disposal of long-term investments" were on the balance sheet 2017-18. In 2019, there were no "Proceeds from disposal of other long-term investments." The 2020 annual report shows the "Receivables for disposal of long-term investments" for 2019 adjusted upwards to ¥8.901 mln from ¥0.51 mln for the same year 2019 in the 2019 20F, with an additional entry of ¥8.391 mln "allowance for doubtful accounts." None of the other items in the "Prepayments and Other Receivables" section has been revised, so this write-off has to be for "Receivables for disposal of long-term investments."

	As of December 31, 2019 RMB	As of December 31, 2020 RMB	As of December 31, 2020 US\$
Receivables from third party payment service providers	5,172	2,347	360
Interest receivables	1,255	466	71
Deferred sponsorship and advertising expenses	139	175	27
Prepaid insurance	218	236	36
Deferred expense*	2,332	2,513	385
Receivables for disposal of long-term investments	8,901	8,901	1,364
Deductible value-added input tax	11,602	11,648	1,785
Others	9,052	5,595	858
Less: allowance for doubtful accounts	(8,391)	(8,901)	(1,364)
Prepayments and other receivables, net	30,280	22,980	3,522

Source: BTCM 2020 20F page F-38

- ▶ **Techelix:** In November 2016, BTCM purchased 2% of the share capital of a mysterious Cayman Islands company called Techelix Co. Ltd. for \$600,000. In November 2018, BTCM made an additional investment of \$300,000. It did not report on how much equity that \$300,000 purchased. In the 2018 20F, the company then reported “In June 2018, the Group transferred the equity investment of US\$50 to a third party.” It is unclear whether BTCM still owns Techelix. What is clear is that BTCM simply handed \$50,000 of company money to “a third party” without explanation.

In November 2016, the Group acquired 2% of the share capital of Techelix Co., Ltd, a non-listed company, for a cash consideration of US\$600. In February 2018, the Group made an additional investment of US\$300 in Techelix Co., Ltd. In June 2018, the Group transferred the equity investment of US\$50 to a third party. The equity interest was diluted to 1.98% in 2018 due to increase in shareholder of Techelix Co., Ltd.

Source: BTCM 2018 20F page F-49

- ▶ **Topgame:** In March 2015, BTCM paid \$1.4 mln for just 1.29% of a BVI company called Topgame Global and then declared an impairment on the equity in 2019.

In August 2015, the Group acquired 1.29% of the share capital of Topgame Global Limited, a non-listed company, for a cash consideration of US\$1,373. The Group also acquired 1.29% of the share capital of its VIEs, Caicaihudong (Beijing) Technology Co., Ltd. and Youwang Technology (Shanghai) Co., Ltd., for cash consideration of RMB13 and RMB477, respectively.

Source: BTCM 2018 20F page F-49

December 31, 2017 and 2018. Impairment charges for the year ended December 31, 2019 consisted of impairments on equity investment in Hzone Holding Company of RMB12,400, impairments on equity investment in Topgame Global Limited of RMB9,463, impairments on equity investment in Caicaihudong (Beijing) Technology Co., Ltd. of RMB13 and impairments on equity investment in Youwang Technology (Shanghai) Co., Ltd of RMB477.

Source: BTCM 2018 20F page F-49

- ▶ **Panfeng:** In 2018, BTCM established a “consolidated affiliated entity, Hainan Panfeng Network Technology Co., Ltd. on July 18, 2018 and invested ¥10 mln. The company filed one annual report with the Chinese government in June 2019, claiming no employees. BTCM “disposed of” the company on December 25, 2019 without further comment.
- ▶ **Jinyingzaixian:** In May 2018, BTCM spent ¥9 mln to acquire 45% of Shenzhen Jinyingzaixian, a commodities-trading company. The company was established only on May 11, 2018. The company’s website³⁶ claims that it is 100% owned by the Shenzhen Gold Investment Corp. and has no ownership by BTCM.

36 <https://www.gold-v.com/>

企业名称	深圳金赢在线科技服务有限公司			Shenzhen Jinyingzaixian Science and Technology Co. Ltd.
登记状态	存续 (在营、开业、在册)	成立日期	2018-05-11	
实缴资本	2000万元人民币 ①	核准日期	2021-01-25	
工商注册号	-	纳税人识别号	91440300MA5F4HCN22	
营业期限	2018-05-11 至 无固定期限	纳税人资质	一般纳税人	
所属地区	广东省	登记机关	福田局	
参保人数	66 ①	曾用名	-	

Source: Government records via Qichacha

In 2017 and 2018, BTCM recorded an impairment of ¥28,781 and ¥149,896 in Loto Interactive when its holding was less than a controlling stake and the company was still classified as an equity investment.

These are just a few examples of how BTCM is taking money from investors. The “equity-method” investment book looks like nothing more than a way to skim.

Equity Method Investments (,000 RMB and ,000 Dollars last column)

	2019	2020	2020
Equity Method Investments			
Private company	9,000	9,000	1,379
Listed company	302,843	283,252	43,410
Limited partnership	14,385	12,380	1,897
Cost of equity method investments	326,228	304,632	46,686
Impairment on equity investment	(187,412)	(206,522)	(31,651)
Loss from equity method investment	(32,991)	(42,182)	(6,464)
Carrying amount of equity method investments	105,825	55,928	8,571

Source: BTCM 2020 20F Page F-36

BTCM the parent reports a negative value of -¥53 mln for "Investment in subsidiaries and VIEs." in 2020 Using the equity method for U.S. GAAP, this is impossible—this is curious, because technically the lowest possible value of an investment should be zero **unless there is a further undisclosed obligation bundled within.**

Bribery case

In Japan, four legislators were convicted of accepting bribes from BTCM. Yet BTCM declared itself innocent. The company reported to Nasdaq that its special investigation committee “did not find a sufficient basis to establish a violation of the US Foreign Corrupt Practices Act of 1977 in connection with the company’s prior activities in Japan.”³⁷

In September 2020, Japanese member of Parliament Tsukasa Akimoto was arrested for the fourth time on charges tied to his dealings with BTCM. The multiple arrests arose because, when it was discovered Akimoto had taken bribes, he tried to pay off witnesses to change their stories. Those witnesses include BTCM advisors Katsunori Nakazato and

Masahiko Konno.³⁸

Partly as a consequence of these payments, BTCM’s auditor, Friedman LLP, resigned in September 2020. Friedman said the numbers could no longer be relied on and said BTCM had weak internal controls.

BTCM has been the subject of at least three class-action lawsuits by shareholders and had paid out \$2.5 mln to settle one such suit. The most recent complaint basically alleges that BTCM has improperly dismissed the notion that it has no liability under the U.S. Foreign Corrupt Practices Act for the cases in Japan.

Friedman has elected to resign as the auditors of the Company because of the disagreement with the management of the Company on the effectiveness of the Company's internal control over financial reporting in light of certain alleged unlawful payments ("Payments") by three former consultants while they were engaged by the Company in connection with the potential development of an integrated casino resort project in *Japan*. The Company is not involved in any legal proceeding in *Japan* but

BTCM 2018 20F page F-49

37 <https://agbrief.com/headline/500-dot-com-declares-itself-innocent/>

38 <https://calvinayre.com/2020/09/09/casino/akimoto-continues-to-rack-up-arrests-in-japans-casino-bribery-saga/>

Fraud dream team

In the years following China's ban on BTCM's on-line lottery business in 2015, the company has changed its business five times. BTCM has been through third-party payment services, commodities trading, P2P lending and sale of financial products, mobile games and European lotteries, writing much of it off. And now there is blockchain.

BTCM has "fired" two audit firms and now uses Malone Bailey's notorious George Qin, auditor of China Media Inc., which the SEC charged with fraud,³⁹ Ebang Holdings, credibly accused of fraud by Hindenburg,⁴⁰ and Newater, a company we believe to be fraudulent but which has avoided exposure simply due to a falling share price. We believe this company has been scamming investors for a

decade and will continue to do so.

Friedman is already a Tier 3 auditor, with clients such as Senmiao Technology, Farmmi, Inc., Wunong Net Technology, and Grayscale Ethereum. But Friedman has its limit, and BTCM apparently is it.

Previous to this, Ernst & Young Hua Ming, the E&Y Chinese affiliate, was the auditor and resigned on January 25, 2018.

On the legal side, BTCM is advised by Grandall Law Firm, whose client include TKKS, GSMG, OCFT, CEFC China, ZTX, NM, TME, NIO, and MOGU.

Strapped for cash?

BTCM 's accounts are all but inscrutable. The company appears to have borrowed a chunk of cash to complete its purchase of Loto Interactive. The BTCM Q1 2021 balance sheet contains ¥309 mln in restricted cash that the company briefly describes as being for mortgage loans and for the Loto general offer. This is about 43% of current assets that appears out of nowhere. Some of the restricted cash may be reserved for buying the remaining outstanding equity in Loto at a time when the regulatory environment in China may severely restrict Loto's activities. The company had \$26.5 mln in restricted cash and equivalents by the end of Q1 2021 and negative operating cash flows in each of the last four years. BTCM has pledged its Renminbi cash and all of its reported bitcoin against loans

amounting to \$25.97 mln.

"In March 2021, the Company, entered into a loan agreement and a pledge agreement for one year, pursuant to which the lender agreed to lend to the Company funds equal to 70% of the current fair market value (the "Loan-to-Value Ratio") of 350.00971804 bitcoins, with a fixed interest rate of 3.25% per annum and 2% service fee. As of the date of this report, the loan principal obtained by the Company is US\$14.28 million."

Accrued expenses and other current liabilities, at ¥165.9 mln, up nearly 200% QoQ, are going through the roof.

² Restricted cash represents: (i) deposits in merchant banks for mortgage loans and with special purpose use for general offer for our acquisition of a controlling stake in Loto Interactive, (ii) deposits in merchant banks yet to be withdrawn, and (iii) government grants received but pending final clearance.

³⁹ <https://www.reuters.com/article/us-sec-chinamedia/sec-charges-china-mediaexpress-ceo-with-fraud-idUSBRE95J13L20130620>

⁴⁰ <https://hindenburgresearch.com/ebang/>

BIT Mining Limited
Condensed Consolidated Balance Sheets
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"), except for number of shares)

	December 31, 2020	March 31, 2021	March 31, 2021
	RMB	RMB	US\$
	Audited	Unaudited	Unaudited
ASSETS			
Current assets:			
Cash and cash equivalents	308,676	173,376	26,462
Restricted cash	3,829	309,753	47,278
Accounts receivable	-	20,057	3,061
Amounts due from related parties	368	821	125
Prepayments and other current assets	22,980	93,694	14,300
Cryptocurrency assets	-	134,641	20,550
Total current assets	335,853	732,342	111,776
Non-current assets:			
Property and equipment, net	19,779	375,502	57,313
Intangible assets, net	2,398	2,399	366
Deposits	1,480	26,411	4,031
Long-term investments	99,972	69,076	10,543
Right-of-use assets	9,327	12,673	1,934
Other non-current assets	1,664	86,303	13,172
Total non-current assets	134,620	572,364	87,359
TOTAL ASSETS	470,473	1,304,706	199,135
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short term loans	-	170,208	25,979
Accounts payable	-	21,318	3,254
Amounts due to related parties	-	2,503	382
Accrued payroll and welfare payable	13,401	2,510	383
Accrued expenses and other current liabilities	55,960	165,945	25,324
Income tax payable	549	6,785	1,036
Operating lease liabilities - current	3,710	6,354	970
Total current liabilities	73,620	375,623	57,328
Non-current liabilities:			
Long-term payables	526	457	70
Operating lease liabilities - non-current	5,807	7,009	1,070
Total non-current liabilities	6,333	7,466	1,140
TOTAL LIABILITIES	79,953	383,089	58,468

Source: BTCM Q1 2021 announcement May 10, 2021

Grifting

BTCM is well known for recruiting unsuspecting consumers as “part-time staff” and asking them to deposit money. Many of these part-timers complain about losing money and seek the advice of attorneys online.



I work part-time on the 500 lottery pushing cash through the system. As part of my responsibilities, I'm going to place a bet as my instructor told me to. I already added ¥2,000 to the account and now have to recharge it. Can I get the money back?

Source: 110.com legal advice <http://www.110.com/ask/question-14469594.html>

Typically, bloggers say, 500.com assigns them a “coach” who instructs them to place money on accounts, beginning with small amounts and moving up until they lose large amounts of cash. Here is a typical story from someone who responded to an online ad for part-time work at 500.com.

第三天老师告诉我 有一个新人带赚活动 让我准备五千盈利本金的百分之三十 我纠结了一会 我充了五千 (这个时候才是骗局的开始) 然后他说给我推荐一个更厉害的分析师带我 过了十几分钟这个老师带我操作 第一次就让我买了一千五 当时心里特别紧张 还好中了 中了之后这个老师让我预约三万的带我赚 我没有充 然后老师说什么时候想在预约在联系他 然后就让我跟群去了 上午结束我账号里有七千多了 我就提现好大一会都没有到账 之前以为提现都是十分钟就到了 这次已经过了半个小时 我开始紧张了 我就去联系老师 老师说可能是提款高峰期 要时间长一些 当时就想在等一会吧 我就去吃午饭 吃过午饭还没有到账 我又去问老师 老师让我联系在线客服问问什么情况 我问在线客服 客服告诉我 我账号异常在让我充值3倍资金解封 (这个时候我开始在网上搜索彩票骗局的套路) 这下我彻底明白了

“...I contacted my coach, who said that this was peak time for withdrawals so it might take some time. I went to lunch and came back, still no money. So I called the coach again. The coach told me to contact customer service online. Customer service told me my account was ‘abnormal’ and I needed to add triple the amount of cash in order to make a withdrawal.”

Source: <https://zhuanlan.zhihu.com/p/197373230>
August 2020

The blogger contacted the police.



“I took a part time job and was not careful. I put ¥110,000 on the 500.com lottery app. Now what should I do?”
 October 11, 2020
<https://www.zhihu.com/question/387314696/answer/1517868648>

Someone posting on Weibo in 2017 talked about a Ponzi scheme run by a BTCM sub.⁴¹

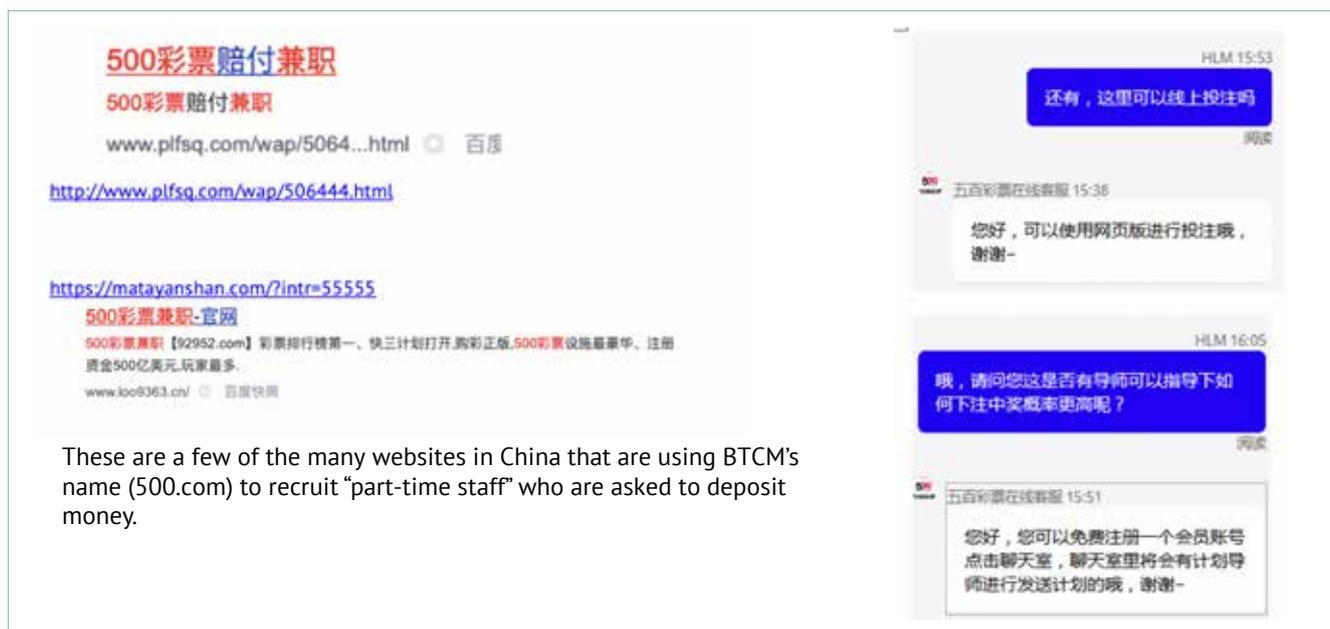


July 25, 2017: Shenzhen Guangyi Network Technology Co. Ltd. (WFOE sub disposed of in June 2018): “This company is a fraud. It does multi-level marketing and has scammed a whole lot of people nationwide. I hope everyone finds where they are physically. They have stolen a lot of people’s money than run away!!! Help those of us who have lost money!!! Many thanks”

Source: Weibo https://weibo.com/u/3760150512?is_all=1#_rnd1614580148821

41 https://weibo.com/u/3760150512?is_all=1#_rnd1614580148821

BTCM has a reputation as a small-time scammer in China, so much so that fly-by-night companies appear to pose as BTCM to cadge money from unsuspecting consumers.



We wonder where BTCM gets revenue at all. The company singles out its Kaisheng subsidiary as offering financial technology services.⁴² But we obtained basic financial statements for Kaisheng. In 2020, its total revenue was ¥214,700—just \$33,000.

Some companies slip into fraud as their business changes. Some companies are just scams from the start. We believe BTCM is the latter type.

42 **2020 AR:** "Due to the voluntary suspension of our online sports lottery sales services and the uncertainty about when such services can be resumed, we continue to strive for diversification across our business lines. We have offered several different lines of services, including (i) *online gaming services through our newly acquired subsidiary, TMG; and (ii) financial technology services through our controlled subsidiary, Shenzhen Kaisheng.*"

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