

GSX who (to learn from), THE LAST TO LEARN FROM Pt.2

SUBMITTED TO THE DISTINGUISHED RELEVANT DEPARTMENT:

China Securities Regulatory Commission (CSRC).

Ministry of Education of China (Bureau of Education).

China Taxation Bureau (State Administration of Taxation) (Beijing Municipal Taxation Bureau).

Central Commission for discipline Inspection of the Communist Party of China (Central Commission for discipline Inspection) (Henan Commission for discipline Inspection) (Zhengzhou Commission for discipline Inspection).

People's Procuratorate of Zhengzhou, China (people's Procuratorate of Zhengzhou High-tech Zone).

Zhengzhou Natural Resources and Planning Bureau, China.

Securities and Exchange Commission (SEC)

1. DOUBTS ABOUT TEACHER QUALIFICATIONS

Following the problem of the level of teachers referred to in the "curriculum quality section" in the first report, we further investigated and found that many teachers are not qualified. **The common situation** is that many teachers take up their posts "teaching" without obtaining a teacher qualification certificate at all.

The second case is that they have a teacher qualification certificate but do not match their real names. **The third situation** is to engage in "teaching" in non-teaching disciplines.

The following is an example of a more serious behavior: Mr. Li GE, a gold medal lecturer from GSX, taught a course in Chinese, but did not get the qualification of a teacher in Chinese.

In the official introduction to GSX
(www.genshuixue.com/npc/detail/cellClass/3502778745858560),

Mr. Li GE is "*GSX gold medal lecturer, the first mind map composition teaching method. Deputy Secretary-General of the composition training Community of the Chinese language Committee and a certified family education instructor of the Ministry of Education. Excellent instructor of the composition contest, senior Chinese teacher, GSX the main current Chinese lecturer of primary school.*"

But is Mr. Li's information true?

Li GE's teacher qualification certificate number is "2010***000842". By this number search on the China teacher qualification Network (<http://www.jszg.edu.cn>), only to find his name is Li Panpan, and his teaching subject belongs to music (see the picture below).

Which is the real name, Li GE or Li Panpan? Li Kui or Li Gui? A music teacher should teach Chinese, which reminds me of a buzzword—*Your Chinese is likely taught by a music teacher, isn't it? (A network language to laugh at someone's language is not good)*

Such cases are no longer enumerated one by one, and the learning platform is filled with a large number of incompetent "teachers", which completely violates the responsibility of educational institutions and betrays the trust of the majority of parents. Teaching and educating people can be so

fraudulent. it is completely cheating money and misleading students! And it's really bad in nature and cannot be tolerated at all!

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课程主讲老师介绍

李格

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- 中国语文教学委员会委员
- 中国汉办认证国际汉语高级语文教师
- 国家教育部认证家庭教育指导师
- 累计培训学员50000+

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李格
小学主讲老师

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老师介绍	主讲课程 ⁴	同学评价 ⁹⁹⁹⁺
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教师资格
教师资格证号码：20103711842000842

个人简介
跟谁学金牌讲师，首创思维导图作文教学法，中国语委会作文培训共同体副秘书长，国家教育部认证家庭教育指导师。

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验证码 NWYG [REDACTED] [看不清?](#)

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任教学科：音乐
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2. VALUE-ADDED TAX FRAUD

(thanks to an ordinary investor with a sense of justice for providing us with the following ideas and information.).

1. Query of Wuhan Center.

As we all know, Chen Xiangdong "once spilled the blood of youth in Wuhan", so he has a deep affection for Wuhan. At the beginning of GSX's establishment, the R & D center was set up in Wuhan and officially opened in December 2015. It is the only R & D center outside the headquarters in Beijing. The current incumbency is 200, and 500 are planned to be recruited next.

However, not long ago, after Wuhan city "unsealed", GSX was announced that it would launch the "cherry-picking program" through the establishment of the Wuhan Center for High-way classes and the launch of the "10000 talents recruitment Plan" to comprehensively help "expand domestic demand and stabilize employment." On April 1, Wuhan Gaotuyunji Educational Technology Co., Ltd., a subsidiary company of GSX in Wuhan, was established, which marks the official operation of Wuhan Gaotuo classroom Center, the core brand of Gaotuo classroom. At present, the Wuhan Center of High-way classroom has nearly 800 people in service, with plans to reach 3500 in 2020, and 10000 people will be recruited by 2021 from GSX in Wuhan.

The same city, the same company, but two sets of independent centers and teams do things in their own way, which really makes people confused about the

legal status and tax relationship between the two.

With the help of **Tianyancha** app, we can suspectedly find out GSX, Gaotu Classroom, Baijiahulian, and a total of 105 subsidiaries set up by Chen Xiangdong, the actual controller of the above-mentioned brand or enterprise. Among them, 18 are from GSX, 5 are gathered in Gaotu Classroom and Gaotuyunji, 59 are Baijiahulian, and 23 belong to Chen Xiangdong. Only two companies of them are registered in Wuhan, and they all belong to GSX, namely Wuhan **Gaotuyunji Education Technology Co., Ltd** and **Beijing Baijiahulian Technology Co., Ltd. Wuhan branch**.

The screenshot displays two company profiles from the Tianyancha app. The first profile is for '武汉高途云集教育科技有限公司' (Wuhan Gaotu Yunji Education Technology Co., Ltd.), which is in a '存续' (Active) status. It lists the legal representative as 黄露露 (Huang Lulu), a registered capital of 1000万人民币 (10 million RMB), and a founding date of 2020-04-01. The second profile is for '北京百家互联科技有限公司武汉分公司' (Beijing Baijiahulian Technology Co., Ltd. Wuhan Branch), which is in a '注销' (Liquidated) status. It lists the responsible person as 陈鹏 (Chen Peng), a registered capital of -, and a founding date of 2014-09-26. Contact information includes a phone number (027-5990****), an email (liuyang@baijiahulian.com), and the company's short name '跟谁学' (Genshuixue).

Company Name	Status	Legal Representative	Registered Capital	Founding Date	Score
武汉高途云集教育科技有限公司	存续	黄露露	1000万人民币	2020-04-01	73分
北京百家互联科技有限公司武汉分公司	注销	陈鹏	-	2014-09-26	40分

北京百家互联科技有限公司武汉分公司

工商信息

登记信息

负责人

陈 陈鹏

他有1家公司

成立日期

2014-09-26

经营状态

注销

注册资本

-

实缴资本

-

统一社会信用代码

91420106303522578E

工商注册号

420106000382062

组织机构代码

303522578

纳税人识别号

91420106303522578E

纳税人资质

-

企业类型

有限责任公司分公司(自然人投资或控股)

行业

专业技术服务业

营业期限

2014-09-26 至 -

人员规模

小于50人

参保人数

18

北京百家互联科技有限公司武汉分公司

经营异常

列入经营异常名录原因

通过登记的住所或者经营场所无法联系

列入日期

2016-12-21

移出经营异常名录原因

列入经营异常名录3年内且依照《经营异常名录管理办法》第九条规定被列入经营异常名录的企业，依法办理住所或者经营场所变更登记后，申请移出

移出日期

2017-06-15

作出决定机关

武汉市武昌区工商行政管理和质量技术监督局

Wuhan Gaotuyunji Education Technology Co., Ltd. was established on April 1, 2020. It has just been a full moon so far, which has nothing to do with the tax-related issues we are going to discuss, which is directly excluded. We only discuss another company, that is, the Wuhan Branch of **Beijing Baijiahulian Technology Co., Ltd.**

In June 2014, Chen Xiangdong led the establishment of Beijing Baijiahulian Technology Co., Ltd., which has products such as GSX, Gaotuo classroom, Chengxi Business College, Jinyou School, Wechateacher, babyABC and so on.

Thus it can be seen that the Wuhan R & D Center reported by the media may be carrying out business activities in Wuhan in the name of *the Wuhan Branch of Beijing Baijiahulian Technology Co., Ltd.*

But it is a pity that the operation of this branch, which was established on September 26, 2014, has been abnormal. Through Tianyancha, it was once included in the list of business anomalies because the registered residence or business site could not be contacted, the size of the personnel was less than 50, the insured staff was only 18, and now it is in a state of cancellation. This is a far cry from the 200-employee R & D center claimed by General Chen.

In view of the fact that there is no match on the Tianyancha, we assume that there exists a GSX Wuhan R & D center with 200 employees operating in Wuhan under this name, but it has not been registered with the industrial and commercial tax department. Therefore, we will discuss the tax-related issues in the name of Offices about it.

There are usually three types of branches: first **The Office**, which cannot conduct business activities locally; Second, **The Branch Company**, which needs to be registered and does not have the status of an independent legal person, can obtain invoices headed by the head office or branch, and can issue invoices on its own. Third, **The Subsidiary Company**, which needs to be registered,

belongs to an independent legal person, and the contract and invoice are independent of the head office.

GSX Wuhan R & D Center is not registered with the industrial and commercial tax department, so it obviously belongs to The Offices. Suppose that this office exists in two forms: one is a legitimate office, assuming that the 200-member office is only engaged in research and development and customer liaison, with no sales revenue and no suspicion of tax evasion.; Another situation is that illegal offices conduct business like ordinary companies, have sales income, but do not make tax registration and are unable to pay all kinds of taxes, especially value-added tax.

China's VAT belongs to extra-price tax, and the VAT payable and actually paid can not be reflected in the consolidated statement of the head office, because the consumers faced by online educational institutions have no incentive to ask for invoices. it is common for private educational institutions to conceal their sales income data.

Suppose GSX Wuhan R & D Center obtained sales income without paying value-added tax, and after the operation of the company, the after sales income would be included in the report of the head office. Then no one knows whether GSX Wuhan R & D Center has paid VAT or not.

We believe that General Chen has a noble personality and will not make illegal acts of tax evasion, but it is really impossible to figure out GSX Wuhan R & D Center is what kind of form of existence.

A legitimate office?

An illegal office?

Does the R & D center have any business activities?

Does it have any sales revenue?

We sincerely hope that Mr. Chen can present us the certificate of GSX Wuhan R&D center, so as to dispel the confusion of investors on the above issues. If having registered business income, please also show the tax payment voucher as well.

2. QUERY ON VALUE-ADDED TAX

According to **article 22 of the provisional regulations of the People's Republic of China on value-added tax**, *fixed business households shall report and pay tax to the local competent tax authorities where their establishments are located. If the head office and the branch offices are not in the same county (city), they shall report and pay tax to the local competent tax authorities respectively. With the approval of the competent financial and tax authorities under the state council or their authorized financial and tax authorities, the head office may, on a consolidated basis, report and pay tax to the competent tax authorities in the place where the head office is located. Accordingly, if branch dealt with tax to register, it is independent value added tax taxpayer, should declare pay value added tax separately. If the competent financial and tax authorities under the state council or the financial and tax authorities authorized by them fail to complete tax registration upon approval, the head office shall*

collect and pay VAT. If the company is scattered in various provinces and cities, it shall pay VAT in the registered business camp without the approval of the State Administration of Taxation, but the sum of the VAT paid by the disclosed company must be equal to the VAT calculated on the basis of the aggregate income of the head office.

If the affiliated companies of GSX are scattered in various provinces and cities without the approval of the state administration of taxation, they shall pay VAT in the places where they are registered and operated. However, the sum of VAT paid by the affiliated companies shall be equal to the VAT calculated based on the aggregate income of the head office.

GSX as the light of domestic goods, since 2018 to the development of the fast lane, handed over the beautiful financial statements one after another. According to its public financial report, the operating income was 397 million RMB in 2018 and an astonishing 2.115 billion RMB in 2019, an increase of 432.3% over the same period last year.

According to the provisions of the notice of the State Administration of Taxation of the Ministry of Finance on clarifying the value-added tax policies such as financial real estate development and educational auxiliary services ((2016) No. 140), general taxpayers provide educational auxiliary services, you can choose a simple tax calculation method to calculate and pay VAT according to the 3% rate of levy. In addition, the rate of levy for small-scale taxpayers in the education industry is the same as 3%.

The usual VAT calculation method for ordinary taxpayers is the output tax minus the input tax, and the difference is the tax payable or tax credit. If the education, training and education support industries choose a tax rate of 6%, they will face the dilemma that there is no input tax deductible. The only input tax they can use to deduct is the input tax included in tickets, freight, water and electricity, communication lines, office supplies and fixed assets. After deducting the input tax, the overall tax burden will still be higher than 3%. As an education company with an annual operating income of 2.1 billion, how could it give up the option of simple taxation?

General taxpayers choose a simple method of taxation, which is very simple, and there is no need to deduct input tax. There is a fixed proportion between value-added tax and sales income. According to the financial report, if the business income of GSX in 2017, 2018 and 2019 is 97.58 million RMB, 397 million RMB and 2.115 billion RMB respectively, and the VAT is 2.92 million RMB, 11.91 million RMB and 63.45 million RMB respectively, the total VAT payable in the three years is 78.28 million RMB.

But the paradox is that according to the GSX 2017-2019 VAT data published in the US annual report, the VAT paid in the three years is 6.423 million RMB, 26.202 million RMB and 134.302 million RMB respectively, totaling more than 160 million RMB, and the tax rate is as high as 6%. More than double the tax paid according to the simple levy!

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net revenues	97,580	397,306	2,114,855	303,780
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	—	—
Gross billings (non-GAAP)	121,843	655,128	3,358,152	482,368

Thanks to the state's special VAT policy for the education industry—simple collection, according to network data, the VAT burden rate of the national education and training industry is about 3%. And now GSX's tax burden rate is so high, it is obvious that the general tax calculation method of 6% is chosen, which can be deducted against the input tax. But GSX basically does not deduct much input tax, coupled with some other income with high tax rates. Therefore, based on the comprehensive calculation, the GSX VAT tax rate has reached an astonishing 6%.

Why there is such a high tax burden rate, we guess there are two reasons: one is that General Chen Xiangdong has a good character, is well aware of the glory of paying taxes, and is willing to pay taxes for the country, so he chose to pay more taxes; second, the GSX sales income falsely increased too much, but the payment of taxes was not synchronized, only that he paid 166 million RMB in the financial report.

If GSX cannot produce a tax payment certificate to prove that it has paid a total of 166 million RMB in VAT since 2017, then either GSX has underpaid the tax or GSX has overstated its business income.

3. FICTITIOUS CASH INCOME

As an education company, GSX's income is basically in the form of cash. If the income is deposited in the commercial banking system, the investment income can be obtained. According to the GSX 2019 annual report, GSX investment income (the sum of interest income and realized investment income) was 2.193 million yuan in fiscal year 2018 and 20.256 million yuan in fiscal year 2019. If we compare the investment income in 2019 with the average of the total investment (cash, short-term investment and long-term investment) from 2018 to 2019, the average rate of return is about 1.36%. These figures are far lower than the similar indicators of their peers (TAL) (2.5%), and also far lower than the daily bank financial returns, which is a serious violation of common sense. We suspect that GSX has seriously fabricated cash income, which is likely to account for 50-80% of total revenue in fiscal year 2019!

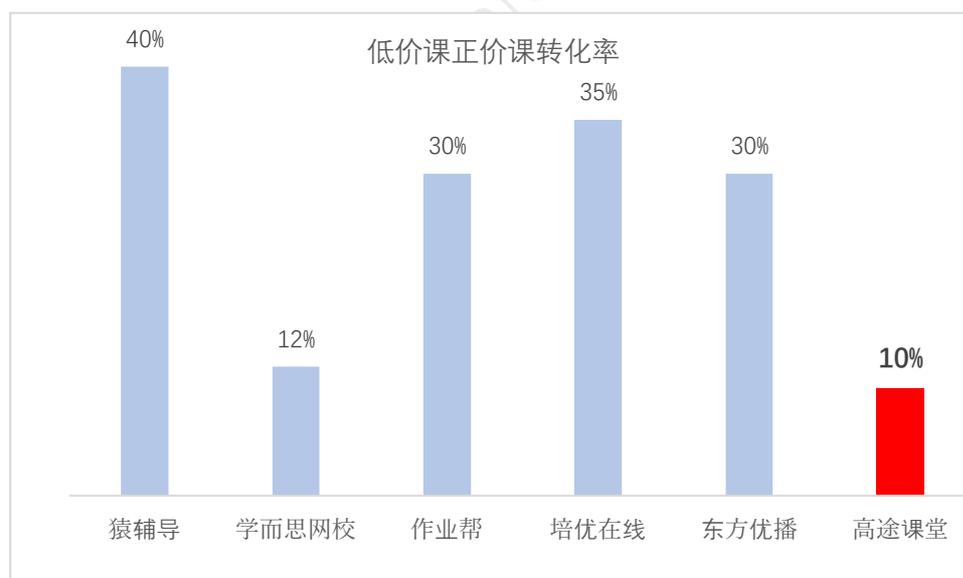
Unit / 100 million RMB	FY2019	FY18	FY17
Cash and cash equivalents	0.73967	0.33259	0.19294
Short-term investments	14.73	1.98	0.07974
Total cash	15.47	2.31	0.27268
Long-term investment	11.88286	0.05221	-
Interest income	0.08861	0.02193	0.00189
Realized return on investment	0.11395	-	-

Source: GSX's Annual Report

4. OPERATION DATA COMPARISON

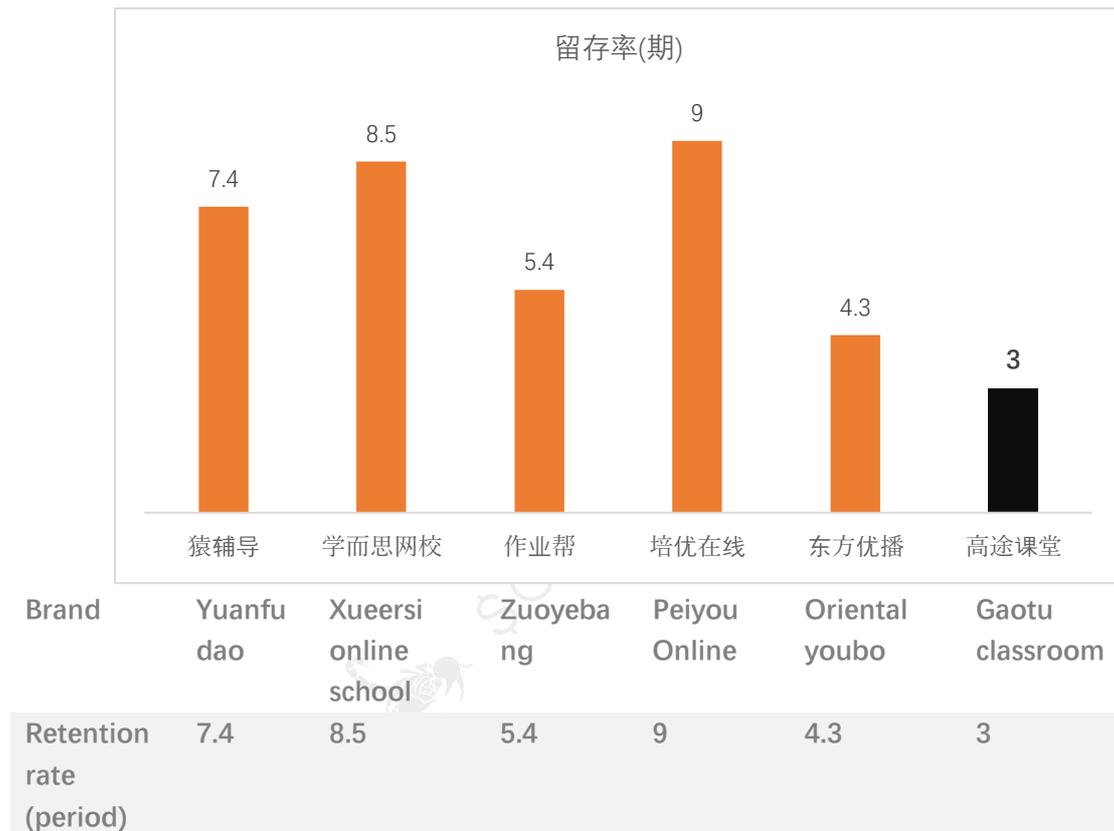
The enrollment and other operational data of GSX are online, objectively speaking, it is difficult to use traditional methods such as field research to falsify. But we grabbed the data through the crawler and analyzed it, and we found something.

For example, we find that the conversion rate of low-cost courses to positive-price courses in GSX is significantly lower than that of peers., suggesting that the business is difficult to sustain, which is obviously in contradiction with bright financial statements.



Brand	Yuanfu dao	Xueersi online school	Zuoyebang	Peiyu Online	Oriental Youbo	Gaotu classroom
Conversion rate of low-cost class to positive price class	40%	12%	30%	35%	30%	10%

For another example, we found that the retention rate of GSX is significantly lower than that of peers (word-of-mouth and user experience). The current data of 3.0 is calculated and predicted, and the crawler value is only 2.0 million, which also indicates that the business is unsustainable and there is a huge contradiction with bright financial results.



Note: the retention rate (period) refers to the average number of quarters in which the initial paying user purchased the course from the first quarter (i.e. the number of semester quarters purchased).

5. ZHENGZHOU PROPERTY PURCHASE IS SUSPECTED OF INSIDER TRADING

An insider in the Zhengzhou Economic and technological Development Zone told us that the "strange thing" that GSX bought a property in Zhengzhou is actually no secret in the Economic Development Zone or even in the natural resources and planning bureau of the municipal government. The purchase of property by GSX belongs to the actual high price, which is suspected of transferring huge benefits.

There is no shortage of excellent companies in China. There are many excellent Chinese companies in Chinese stocks, such as Alibaba, JD.com, New Oriental and so on. It is hoped that the SFC will continue to give full play to its ability to exercise long-arm jurisdiction. It is easy to know whether GSX is innocent or false. We are firmly optimistic about China's development and do more of China's integrity and outstanding enterprises.

After the relevant departments are involved in the investigation and filing the case, a direct evidence of insider trading will be sent to the relevant departments.

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<https://www.sec.gov/tcr>

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