

*The following open letter was sent to members of SEC, NYSE, FBI, US Government, Investment Banks with substantial GSX holdings or analysis (Goldman Sachs, JP Morgan, Barclays, Credit Suisse, Nomura, UBS, Deutsche Bank), GSX's auditor (Deloitte) and members of the press on June 30, 2020.*

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**MAILTO:**

SEC, NYSE (email addresses redacted)

**CC:**

Investment banks, auditors, members of press (email addresses redacted)

**WEB FORM SUBMISSION:**

- Federal Bureau of Investigation, NY Office
- Office of Senator Marco Rubio
- US Secretary of State, Michael Pompeo

**EMAIL BODY:**

To SEC & Members of the Press:

This is a public letter requesting that immediate action be taken on behalf of American investors against the Chinese NYSE-listed stock, GSX Techedu (ticker: GSX), based on overwhelming evidence of fraud and the SEC's awareness of such violations since no later than February 25, 2020.

Reports against GSX began to surface just 8 months after its June 2019 IPO, as GSX was reporting never-before-seen growth figures to the degree that even a young Google would have been envious. Being suspicious of such too-good-to-be-true figures, a financial firm, Grizzly Research, published its first report on February 25, 2020, presenting evidence to back up its accusations that GSX reports false financials to investors and the SEC.

Numerous reports have since been published — a total of 12 to date, and more coming — from other financial firms & independent researchers, both in the US and China. All firms provide substantial evidence to make claim that between 70% and up to 90% of GSX's reported users are fake (largely based on brushing & computerized bots that they have instated). Further, evidence from more than one firm, via other methods, support the accusation that GSX inflates its revenue by 900%.

Additionally, incriminating data from GSX's own software has been preserved and been made available for the public to inspect (see item 13), furthering the claims against the company. Firms' leadership have stated that they are willing to testify, under oath, to the veracity of their claims against GSX. Former GSX employees have

been interviewed, recorded and detail the ways in which the fake usage data is spawned.

GSX Executive Management's retorts to the accusations have all been shallow and fail to directly address any of the claims. Zero counter evidence has been provided for any of the accusations.

We write because Lukin Coffee was not an outlier; GSX is an ever-greater fraud. Allowing GSX to continue to be listed on the NYSE enables this corrupt Chinese company to once again, siphon money from respectable, hardworking Americans, into the hands of a few unethical, immoral Chinese executives. To that point, GSX's market cap has grown by 570% since June 2019's IPO, to \$14.3B USD. Much of this growth has occurred in the last 32 days (as fraud evidence mounted), through market manipulation (see CEO's relationships to TIGR, IBKR & Singapore's QQQ).

**We understand that the SEC is hosting a roundtable discussion on July 9 to discuss risks of investing in emerging markets, including China. However, GSX should not be mischaracterized as a risk; it is a flagrant violator and a lack of immediate action by the SEC or NYSE would be overt negligence and an outright failure of fiduciary responsibilities.**

**We ask that an investigation into GSX be expedited and justice be carried out by American institutions, on behalf of American investors — *not* to rely on Chinese authorities or the fraudulent company to do so on our behalf. Specifically, we are asking for GSX to be delisted from American exchanges and for GSX's Founder, Chairman & CEO, Larry Xiangdong Chen to be permanently banned from US capital markets.**

Below you will find links to the cited research reports detailing GSX's fraud, a repository of GSX's incriminating data, and a bullet point summary of some of the more notable findings derived from these reports.

We thank you for fulfilling your promise to US investors by enforcing the same standards on Chinese companies as you do on American.

Best regards,  
A Cohort of American Investors

1. Grizzly 2/25 Report: <https://grizzlyreports.com/wp-content/uploads/2020/02/Research-Report-GSX-Grizzly-Research-25-Feb-2020.pdf>

2. Citron Research 4/14 report: <https://citronresearch.com/wp-content/uploads/2020/04/GSX-Techedu-The-Most-Blatant-Chinese-Stock-Fraud-Since-2011-ver2.pdf>
3. Citron Research 04/30 report #2: <https://citronresearch.com/wp-content/uploads/2020/04/GSX-Conclusive-evidence-final.pdf>
4. Scorpio.VC (China) 5/06 report: <http://www.scorpio.vc/pdf/200506/174e818f-7df2-4360-be5d-b8ff0d7fb7e5.pdf>
5. Citron Research 05/07 report #3: <https://citronresearch.com/wp-content/uploads/2020/05/Citron-presents-to-US-regulators-definitive-evidence-of-GSX-Techedu-update.pdf>
6. Muddy Waters 5/18 report: <http://d.muddywatersresearch.com/research/gsx/mw-is-short-gsx/>
7. Scorpio.VC (China) 5/26 report #2: <http://www.scorpio.vc/pdf/200526/08dd6ea6-8b67-4609-b44c-5ed60af4a5be.pdf>
8. Muddy Waters 5/28 report #2: [http://d.muddywatersresearch.com/content/uploads/2020/05/MW\\_GSX\\_05282020.pdf](http://d.muddywatersresearch.com/content/uploads/2020/05/MW_GSX_05282020.pdf)
9. Grizzly 6/2 Report #2: <https://grizzlyreports.com/Research/GSX-New.pdf>
10. Anonymous Report to Office of Marco Rubio, 6/8: [https://drive.google.com/file/d/1BIFQHrEF1qb6QC-hA7QVBTqVy\\_k3DtwB/view](https://drive.google.com/file/d/1BIFQHrEF1qb6QC-hA7QVBTqVy_k3DtwB/view)
11. Scorpio.VC (China) 6/15 report #3: <http://www.scorpio.vc/pdf/200615/bf678d34-c8c5-48e6-b469-99b278a24fc6.pdf>
12. Anonymous Report to Chairman of GSX, 6/30: <https://drive.google.com/file/d/1pysXxXO4IOQqoX54-VHiYAqGFPVLNp4J/view>
13. Github file repository of GSX fraud: <https://github.com/67647f8/gsx-fraud>
  - a. Enrollment data captured from May 9 to June 2. It shows flat Q2 enrollment and fake Q3/Q4 enrollments: <https://github.com/67647f8/gsx-fraud/tree/master/data>
14. Video of GSX API Analysis and proof of fake user / bot network - concludes that revenue was inflated by 900%:

<https://www.youtube.com/watch?v=m4gxJdTVtFI>

15. Audio recording of former GSX brusher detailing bot operation:

<https://www.youtube.com/watch?v=-7y3X1uhYAE>

**Select highlights from above-referenced reports:**

- Falsifying financial information reported to US shareholders — revenue overstated by 70% or more.
- 74.6% discrepancy in net profits reported to China vs. SEC filings
- VAT discrepancies highlighted in Scorpio.VC 6/15 followup report
- Interest income issues.
- Costs offloaded to multiple off-balance sheet GSX entities, some of which are defunct, that have relationships that lead up to CEO Larry Chen
- Commercial real estate purchased for RMB 330 million, when only RMB 75 million actually went into the facilities
- “Brushing” — fake student enrollments, amounting to 70 - 90% of users being fake
- Scorpio VC reports up to 80% of GSX’s usage data is fake
- Muddy Waters concludes that between 73.2% - 90% of users are fake based on GSX’s own user and attendance data files and former GSX manager’s corroboration & explanation of GSX’s bot operation (see Muddy Waters 5/18 Report)
- Fabricated teacher profiles, website for teacher signup non-functional
- GSX's "teachers'" LinkedIn profiles show work histories that are not of teachers
- Insiders selling shares aggressively
- YoY revenue growth claimed to be 432%, vs top Chinese education stocks EDU, TAL & Koolearn at 46%, 57% & 46% respectively
- Claim to get 1,000% more revenue productivity out of teachers than their established & successful Chinese competition

- Fake students in WeChat groups, posting identical positive comments
- GSX ranks 101st on iPhone for top education apps, while competitor Good Future ranked 15th; GSX 123rd on iPad, competitor Xueersi ranked 13th; does not support revenue numbers relative to competitors
- According to Questmobile and Orient Securities Research Institute, for the first 2 months of 2020, GSX's app activity were in the middle and lower end of the Chinese ed tech industry, behind competitors TAL, ZuoYeBang and YuanFuDao (who they are supposedly outperforming financially)
- Former employees and firms employed by GSX have provided many of the reports and insights into the fraud
- Recorded phone calls with employee at brushing outfit hired by GSX explaining that at least 40% of GSX's 2019 registered users were fake
- CEO Larry Chen's longtime partner and former GSX executive, Xiong Xiao, was charged with fraud for breaching an agreement and withdrawing restricted funds
- Analysis of WeChat and Baidu (GSX's marketing sources) search indexes (a quantitative indicator of brand awareness and prospective customer's views). No matter what timespan, both platforms show flat performance
- Quality issues — large number of complaints, typically requesting refunds and claiming that they replaced the platform teacher with someone else
- History of shady backgrounds on executive team and activity of major shareholders
- CEO, Larry Chen, blatantly lying. For example, claiming that GSX had zero ties to JiaZhangCun and parent company, YouYou — companies that are not only known by GSX and management but are actively engaging in customer acquisition. See 20200507 Citron Research GSX Report.pdf)