

January 11, 2020

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## Bit Digital (BTBT US)

*“The Company was not able to reach Mr. Liu.” BTBT euphemism to describe the jailing of their board member and controlling shareholder.*



Zeng Erxin, former company CEO, now being sought by Chinese police.

**Anne Stevenson-Yang**

With key executives in jail or on the lam for having bilked Chinese investors out of \$42 mln in a fraudulent P2P business, Bit Digital (BTBT) has moved on to a fake crypto currency business. We will show that the assets probably do not exist, and the business is designed to steal funds from investors.

BTBT tried to downplay the criminality. It disclosed that it had to replace Director Liu Xiaohui

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in September 2020 because “the Company was not able to reach Mr. Liu.”<sup>1</sup> That is because, as BTBT knew, Liu was in jail. It reported that the then-CFO, Leng Jing, also in jail, was “the subject of such criminal enforcement measures.” The VIE bank accounts were frozen by a Shanghai court and remain frozen to this day.

Once police had shut down its business, BTBT tried to distance itself by selling the China operations, for \$10 plus “other good and valuable consideration.” Actually, even after divesting, BTBT may have liability for the \$42 mln lost through fraud.

BTBT is now onto its third scheme since IPO for stealing money from investors. There was P2P lending, car rental, and now “bitcoin mining.” The company reported at end Q3 2020 that it was operating 22,869 bitcoin miners in China. That is simply not possible. With no subsidiary in China, that would be illegal and the machines subject to confiscation. What’s more, we verified with local governments supposedly hosting the BTBT mining operation that there are no bitcoin miners there. We also believe that BTBT has not bought new miners—two of the companies it says sold them the machines were surprised to hear they did business with BTBT, and the third refused to confirm that BTBT is a customer. We suspect the company has simply stolen the \$18.8 mln it claims to have spent on miners in the first nine months of 2020.

To operate this sham bitcoin business, BTBT acquired a Hong Kong company called XMAX and employed one of its founders, Yu Hong, without disclosing Yu’s relationship. We found seven lawsuits against Yu Hong in China by disgruntled investors in his various other companies.<sup>2</sup>

Multiple stories in the Hong Kong and U.S. press indicate that XMAX is a fraud, as is its crypto currency, XMX.

XMAX was reported to have halted its mining operations last May and had its miners confiscated in China. A November 23, 2020 article in The Paper reads: “In May 2020, Yu Hong announced that, due to the impact of the macro economy and the halving of Bitcoin production, all mining machines were suspended and the repurchase plan [of XMAX’s crypto currency, XMX] was suspended. Yu Hong revealed on Weibo on June 1 that the mining was suspended because the XMX mining machines in Lanzhou mine were confiscated and a lawsuit was being filed.”<sup>3</sup>

<sup>1</sup> Company 6K Oct 31, 2019

<sup>2</sup> The lawsuits can be accessed via one of China’s credit information services, such as Qixin: <https://www.qixin.com/lawsuit/8379182d-2d37-4a08-94b4-c493ee346de1/5f852f8d79112e8320004cf1>

<sup>3</sup> [https://www.thepaper.cn/newsDetail\\_forward\\_10101207](https://www.thepaper.cn/newsDetail_forward_10101207)

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2019年XMX从公链转型为算力币，玉红也是这时开始主打挖矿概念，用户持有一定比例的XMX相当于“云挖矿”。然而在2020年5月，玉红宣布受宏观经济及比特币产量减半影响，暂停所有矿机运行，并暂停执行回购计划。玉红在6月1日的微博上透露，矿机关停是因为XMX在兰州矿场的矿机被扣，还在打官司。目前XMX又开始转型DeFi概念。

Before the P2P business, BTBT claimed it was in car rentals. But all it did was book deposits of cash for cars then write them off, magically making cash disappear.

The BTBT gatekeepers are the lowest of the low, starting with the underwriter, Viewtrade, whose underwriting clients have seen their share prices drop by at least 75% on average--when they haven't been delisted.

### Performance of Viewtrade underwriting clients

Name	Ticker	Performance Since IPO
<b>EV Biologics</b>	YECO	-83%
<b>TDH Holdings</b>	PETZ	-73%
<b>Newater Technology Inc.</b>	NEWA	-60%
<b>Farmmi, Inc.</b>	FAMI	-85%
<b>Senmiao Technology Ltd.</b>	AIHS	-79%
<b>AzurRx BioPharma</b>	AZRX	-81%
<b>China Customer Relations Corp.</b>	CCRC	-64%
<b>Tantech Holdings</b>	TANH	-81%

Source: S&P Global

The company has had three strip-mall auditors resign in three years. One of them, Wei & Wei, stayed for just nine months and did not sign any of the statements. Now this New York-based company has an auditor based in Singapore.

The executives who still secretly control the company are in jail or are fugitives from the law. We will show that the people appointed to replace the jailed executives—a CEO with a junior-high education who managed a wholesale market and a hair-growth clinic and a CFO with no accounting background—are mere proxies for the jailed owners. In fact, the company disclosed that the jailed CEO and fugitive chairman “have, and will continue to have, substantial influence over our business.”<sup>4</sup>

4 BTBT 20F/A March 27, 2020



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This team diverted cash from Chinese investors into their personal bank accounts. Chinese legal cases against them allege that they directed at least ¥2.5 mln into personal bank accounts.

And yet these are the executives U.S. investors are being asked to believe run the biggest pure-play bitcoin mining operation now listed on a public market.

### Fraudulent “mining” operations

We think the bitcoin business BTBT discloses is completely fraudulent.

In September 2020, BTBT changed its company name from Golden Bull Limited to Bit Digital, Inc. and its ticker from DNJR to BTBT. It announced it would be going into bitcoin mining. But without a Chinese-registered entity, that would not be legal. Companies are required to show a registration document from a domestic legal entity before they can sign a lease or a hosting contract. Yet the company clearly claims that it both operates and leases mining facilities in China:

The Company operates a recently updated bitcoin mining facility for the sole purpose of mining bitcoin. Our facility and mining platform are operating with the primary intent of accumulating bitcoin which we may sell for fiat currency from time to time depending on market conditions and management's determination of our cash flow needs. Our mining operations are in Wuhai, Zhundong, Xinlinhot and Sichuan China hosting about 21,800 Application Specific Integrated Circuits ("ASIC") miners since May 2020 which have access to approximately 74.5 megawatts of power supplied to our leased facilities. During the second quarter of 2020, the Company purchased 16,817 units next generation MicroBT M21S miner, 2,696 units MicroBT M20S miner, 2,000 units MicroBT M10 Miner, 800 units Innosilicon T3 miner and 256 units Bitmain T17+ miner. Most of them have now been installed and are currently operating at Wuhai site, Zhundong site, Xilinhote site and Sichuan Site while some are still in transit. The Company is currently evaluating plans to make more purchases to increase the total mining hash, conditioned upon our raising required funds.

BTBT 6K August 6, 2020

BTBT disclosed that, until September 2020, all its bitcoin mining operations were in China.

“Our mining operations are in Wuhai, Zhundong, Xinlinhot and Sichuan, China.”<sup>5</sup>

In China, you have to register with the government to have a data center, and local governments have records of all data centers and bitcoin mining operations. But J Capital contacted the governments of Wuhai, Inner Mongolia, Zhundong, Xinjiang, and Xilinhote, Inner Mongolia. In telephone calls, local government officials of each locality told us they had no bitcoin mining operations and had not heard of Bit Digital.

“Big data, crypto currency, cloud computing parks or data centers—none of these have registered here,” said an official of Zhundong.

“There is no bitcoin center here,” said an official of Xilinhote.

“There’s no bitcoin center here,” said an official of Wuhai. “I’ve never heard of Bit Digital.”

Sichuan, being a province with a population of 82 million, is too large to identify all bitcoin mining operations. The company has anonymized the other operations as well. Lest anyone go looking for the miners, the location of the company’s mining operations changed from Wuhai, Zhun-

<sup>5</sup> BTBT 6K August 6, 2020

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dong, Xinlinhot, and Sichuan in the company's earlier filings to Xinjiang, Inner Mongolia, and Sichuan Provinces. Naming huge provinces instead of towns makes it tough to verify the miners.

We will continue to invest in the miners to increase the hash rate capacity, as a percentage of total computing power contributed by all mining pool participants. Our mining operations are distributed in Xinjiang, Inner Mongolia and Sichuan Provinces PRC, and in Nebraska and Texas, United States which was newly launched in September 2020.

BTBT provides no disclosure within the property and equipment itemization (or anywhere else) in its most recent filings, for leased assets, leasehold improvements, basic furniture or even everyday non-mining IT equipment—it's just mining equipment. We are sure mining machines do not operate by themselves in thin air, especially in remote and very difficult-to-audit locations.

## 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net was comprised of the following:

	September 30, 2020	December 31, 2019
Miners	\$ 18,906,938	\$ -
Less: accumulated depreciation	(1,241,652)	-
Property and equipment, net	\$ 17,665,286	\$ -

From these ghost facilities, BTBT claims it is supplying computer power to bitcoin miners (mining pool operators). The following disclosure on page 17 of the 2019 20F is worth reading in its entirety:

***The Company's reliance on a third-party mining pool service provider for our mining revenue payouts may have a negative impact on the Company operations.***

We use third-party mining pools to receive our mining rewards from the network. Mining pools allow miners to combine their processing power, increasing their chances of solving a block and getting paid by the network. ***The rewards are distributed by the pool operator, proportionally to our contribution to the pool's overall mining power, used to generate each block.*** Should the pool operator's system suffer downtime due to a cyber-attack, software malfunction or other similar issues, it will negatively impact our ability to mine and receive revenue. Furthermore, we are dependent on the accuracy of the mining pool operator's record keeping to accurately record the total processing power provided to the pool for a given bitcoin mining application in order to assess the proportion of that total processing power we provided. While we have internal methods of tracking both our power provided and the total used by the pool, ***the mining pool operator uses its own record-keeping to determine our proportion of a given reward.*** We have little means of recourse against the mining pool operator if we determine the proportion of the reward paid out to us by the mining pool operator is incorrect, other than leaving the pool. If we are unable to consistently obtain accurate proportionate rewards from our mining pool operators, we may experience reduced reward for our efforts, which would have an adverse effect on our business and operations.<sup>6</sup>

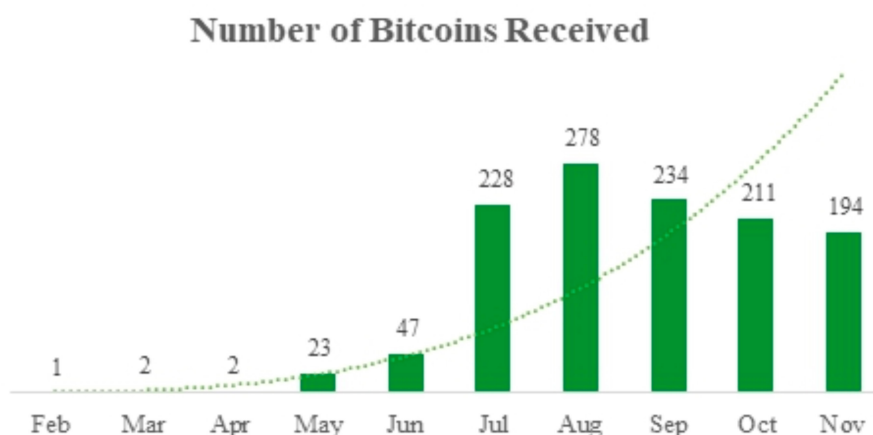
<sup>6</sup> <https://www.sec.gov/Archives/edgar/data/1710350/000121390020020552/0001213900-20-020552.txt>

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BTBT makes very little money from this activity. The payment is in bitcoin but is adjusted for the value of bitcoin at the time of the transaction, so if bitcoin value goes up, the company receives less bitcoin.

The Q3 2020 disclosure shows that bitcoin received per month from mining operations FELL from 278 in August 2020 to only 194 in November 2020. Between that time, on average the bitcoin price increased by very roughly 40%, while BTBT's August-to-November drop in bitcoin received per month was about 30%. The higher the bitcoin price, the fewer bitcoins the company receives.

For the first 18 days of December 2020, the number of bitcoins received was only 112.2, a run rate far below previous months despite having supposedly added miners.



At any rate, at the end of 2019, the company had only three IT employees - and it wanted to start a bitcoin business?

## Fake purchases?

The company says it has been investing in bitcoin miners and uses these miners to mine on behalf of customers: "We will continue to invest in the miners to increase the hash rate capacity, as a percentage of total computing power contributed by all mining pool participants. Our mining operations are distributed in Xinjiang, Inner Mongolia and Sichuan Provinces PRC, and in Nebraska and Texas, United States which was newly launched in September 2020." But how can auditors determine whether mining activity is being conducted?



BTBT provides this photo of a server rack on its website. The miners are very sparse compared with the 41,000 machines the company claims.

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We spoke with all the major manufacturers in China of bitcoin mining equipment. None had heard of BTBT.

One employee of MicroBT, a Shenzhen-based company from which BTBT reported buying 21,713 machines in 2020, told J Capital that BTBT had not purchased equipment from them. “I have never heard of Bit Digital,” he said. We provided the name of the company’s former VIE with no better result. Three other MicroBT employees said they were not permitted to discuss customers.

Bitmain, from which BTBT said it bought 256 miners in the first nine months of 2020, drew a blank when we inquired about BTBT. Bitmain supplies roughly 65% of the world market for miners and is unlikely not to know of a company that has purchased more than 41,000 machines in one year—even if the machines were bought second-hand.

We suspect that the capex spent in the first nine months of 2020--\$18.8 mln—was simply stolen.

## The XMAX fraud

The company’s entry into the crypto business was via an acquisition called XMAX.:

In April 2020, we acquired another entity XMAX Chain Limited in Hong Kong as wholly owned subsidiary, operating the bitcoin mining business and we expect a significant amount of business will be executed under this wholly-owned subsidiary in the future.

XMAX’s crypto-currency, XMX, has been flagged as a fraud by numerous analysts.<sup>7</sup> It was pegged as the top “fraud coin” for the first half of 2020 by the publication Blocking.<sup>8</sup> SY Caijing called XMAX “malicious.”<sup>9</sup> SY Caijing pointed out that XMX was issued at around ¥0.02 and suddenly went to ¥30 on one exchange before plummeting back to ¥0.02 24 hours later. It now trades at around ¥0.001.<sup>10</sup>



Tencent ran a picture purporting to represent the business of XMAX.

7 <https://blocking.net/10950/the-top-5-fraud-coins-in-the-first-half-of-the-year-the-lowest-increase-of-1400/>

8 ibid

9 <http://www.sycaijing.com/news/details?id=39193>

10 [https://www.thepaper.cn/newsDetail\\_forward\\_10101207](https://www.thepaper.cn/newsDetail_forward_10101207)



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The same article called XMAX's white paper on XMX "fraudulent."<sup>11</sup>

But XMAX does not mention BTBT anywhere on its website. The Hong Kong corporate documents for XMAX do not show ownership by BTBT.

BTBT "acquired" XMAX at the same time as it appointed as its "chief strategy officer" one of XMAX's original investors and the person who appears to control XMAX, Yu Hong.

### The law breaking

Chinese courts have made available at least four legal cases against Shanghai Dianniu, the former subsidiary of BTBT. The cases show that the former CEO and chairman is a fugitive from the Chinese police. Chinese-language media say the company's customer service department claims he is in the U.S. raising money.<sup>12</sup> Seventeen BTBT executives, including the then-CFO, were arrested in Shanghai in July 2019. Five are still in jail. The VIE has been formally charged with illegal fundraising and its bank accounts frozen. The VIE is on the hook for about \$42 mln in unpaid debts to consumers. The listed company's liability is unclear, but BTBT could be implicated.

Not only did BTBT conduct an illegal investment business, it actually stole funds from the investors and transferred the money to private bank accounts, according to Chinese legal documents.

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11 <https://new.qq.com/omn/20180512/20180512A0ZKVL.html>

12 See this October 26, 2019 article in East Money, which quotes company Customer Service saying that "CEO Zeng (Dianniu CEO and Chairman Zeng Erxin) is busy in America raising money." <http://stock.eastmoney.com/a/201910261272809096.html>

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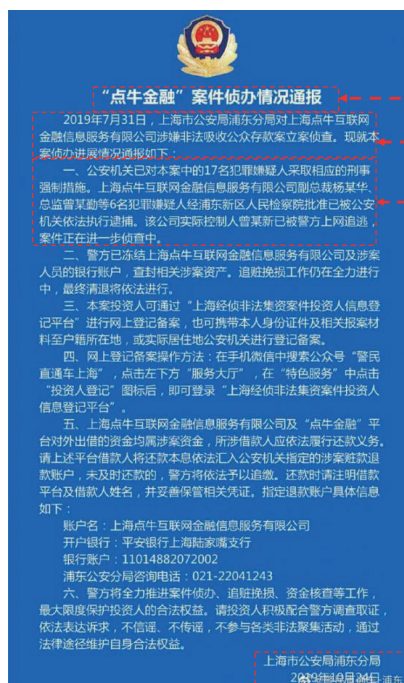
## 点牛金融 2020.6.2.....点牛金融借款人彭某某起诉书.....

2016年12月起，被告人彭某某明知上述事实，仍以其本人及张某某、杨某某等人作为借款人，通过点牛金融线上平台发布借款标的，向不特定社会公众募集资金，所得资金进入其所控制的个人银行账户，一部分其提现后放贷使用，一部分点牛金融使用。经审计，被告人彭某某控制的个人账户共募集资金623万余元，其提现共计250万余元

Source: <https://www.bozhua.cn/76785/>

“Since December 2016, the defendants [employees of BTBT’s VIE company] themselves released loan targets through the Dianniu Finance online platform to raise funds from the general public then directed the funds into personal bank accounts under their control. Some of the funds were used as loans and some used by the company. An audit determined that the personal account controlled by the defendant Peng XX raised a total of more than ¥6.23 million yuan, and he personally withdrew more than ¥2.5 million yuan.”

BTBT disclosed that they matched lenders with borrowers and took commissions on small loans without bearing any balance sheet responsibility. That activity is legal in China. But court cases in China plainly show that BTBT itself was collecting capital from investors—not legal. It would take this capital and invest it in a pool of loans held by banks but for which BTBT had responsibility.



### Dianniu Finance Investigation Case

Shanghai Public Security Bureau Pudong Branch  
October 24, 2019

On July 31, 2019, the Pudong Branch of the Shanghai Public Security Bureau filed an investigation into the suspected illegal taking of cash deposits from the public by Shanghai Dianniu Internet Financial Information Service Co., Ltd.

The Public Security Bureau has initiated criminal action against 17 suspects in this case. Shanghai Dianniu Internet Financial Information Service Co., Ltd. Vice President Yang XXhua [Yang Ronghua], Director Zeng XXqin [Zeng Erqin] and 6 other suspects have been arrested by the Public Security Bureau by court order. The controller of the company [CEO], Zeng XXxin [Zeng Erxin], is being pursued by police, and the case is under further investigation.

Source: <https://www.bozhua.cn/76785/>

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## Case Against Dianniu

### People's Procuratorate of Pudong New District of Shanghai

Indictment: Shanghai Pudong Criminal Prosecution [2020] No. 2540

Issued: June 2, 2020

曾某某（另案处理）设立上海\*\*互联网金融信息服务有限公司（以下简称“\*\*金融”），后伙同他人开发线上融资平台在上海市浦东新区等地实际经营，在未经国家有关部门批准的情况下，通过网站推广、口口相传等方式公开宣传推介理财产品，承诺固定年化收益，向社会不特定公众非法吸收资金。经审计，点牛金融累计募集资金人民币24.4亿余元（以下币种同），未兑付金额为2.7亿余元。

Zeng XX [former CEO and Chairman Zeng Erxin] (subject in a separate case) established Shanghai \*\* Internet Financial Information Service Co., Ltd. (hereinafter referred to as "\*\* Finance") [Shanghai Dianniu Internet Finance Information Service Co. Ltd.], and then cooperated with others to develop an online financing platform to operate in Shanghai Pudong New Area and other places. Without approval by relevant agencies, the company publicly promoted wealth management products online, by word of mouth, etc., promised a fixed return, and illegally aggregated funds from the general public. An audit showed that Dianniu Finance has raised more than ¥2.44 billion (in the below currencies) and has not repaid ¥270 million.

Source: <https://www.bozhua.cn/76785/>

BTBT claimed that none of the loans ever defaulted. But the company issued a notice on its website in May 2019 admonishing borrowers for failing to pay their debts.

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**Dianniu Public Notice to Clients Delaying Payments Due to Rumors****Notice  
May 13, 2019**

Lately, because the internet has published inaccurate information about this platform, a few borrowers—channels and individuals—have maliciously delayed, so that payments are not made. This platform is officially informing these malicious borrowers: baseless internet sources are not credible, and those maliciously evading legitimate debt will be prosecuted. The platform is currently exchanging data with the Internet Trust Center and presenting information. At the same time, we are preparing information for lawsuits. In a society built on trust, those maliciously evading debt will ultimately face legal consequences. Shanghai Dianniu Internet Finance Service Co. Ltd.

A public notice that appeared on <https://www.dianniu98.com/>, Shanghai Dianniu's website. | Accessed via the Wayback Machine.

According to an August 11, 2019 article in the Chinese publication “Eye on Internet Loans,”<sup>13</sup> up until that date, BTBT collected ¥2.5 bln in investment.

When the loan platform was closed down by government authorities in July 2019, ¥270 mln (\$41.7 mln) in investment products were outstanding, according to a lawsuit in Shanghai.<sup>14</sup> BTBT's Shanghai VIE is on the hook to repay the money. The Shanghai police froze that company's accounts when they made the arrests, but the accounts reportedly held just ¥400,000 (\$61,900).

In September 2020, BTBT exited the P2P business by selling its BVI, Point Cattle Holding Limited, for \$10 plus “other good and valuable consideration.”

On the same date, the Company entered into a certain share purchase agreement (the “Disposition SPA”) by and among a BVI company, Sharp Whale Limited (the “Purchaser”), Point Cattle Holding Limited (the “Subsidiary”) and the Company (the “Seller”). Pursuant to the Disposition SPA, the Purchaser purchased the Subsidiary in exchange for nominal consideration of \$10.00 and other good and valuable consideration.

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Investors believe that BTBT is a Chinese miner. In reality, following its disposal of Point Cattle Holdings, BTBT no longer owns a mainland China business. The disclosure was as follows:

On September 8, 2020, the Board approved the disposal of Point Cattle Holdings Lim-

<sup>13</sup> <https://news.p2peye.com/article-547983-1.html>

<sup>14</sup> Full text: <https://www.bozhua.cn/76785/>

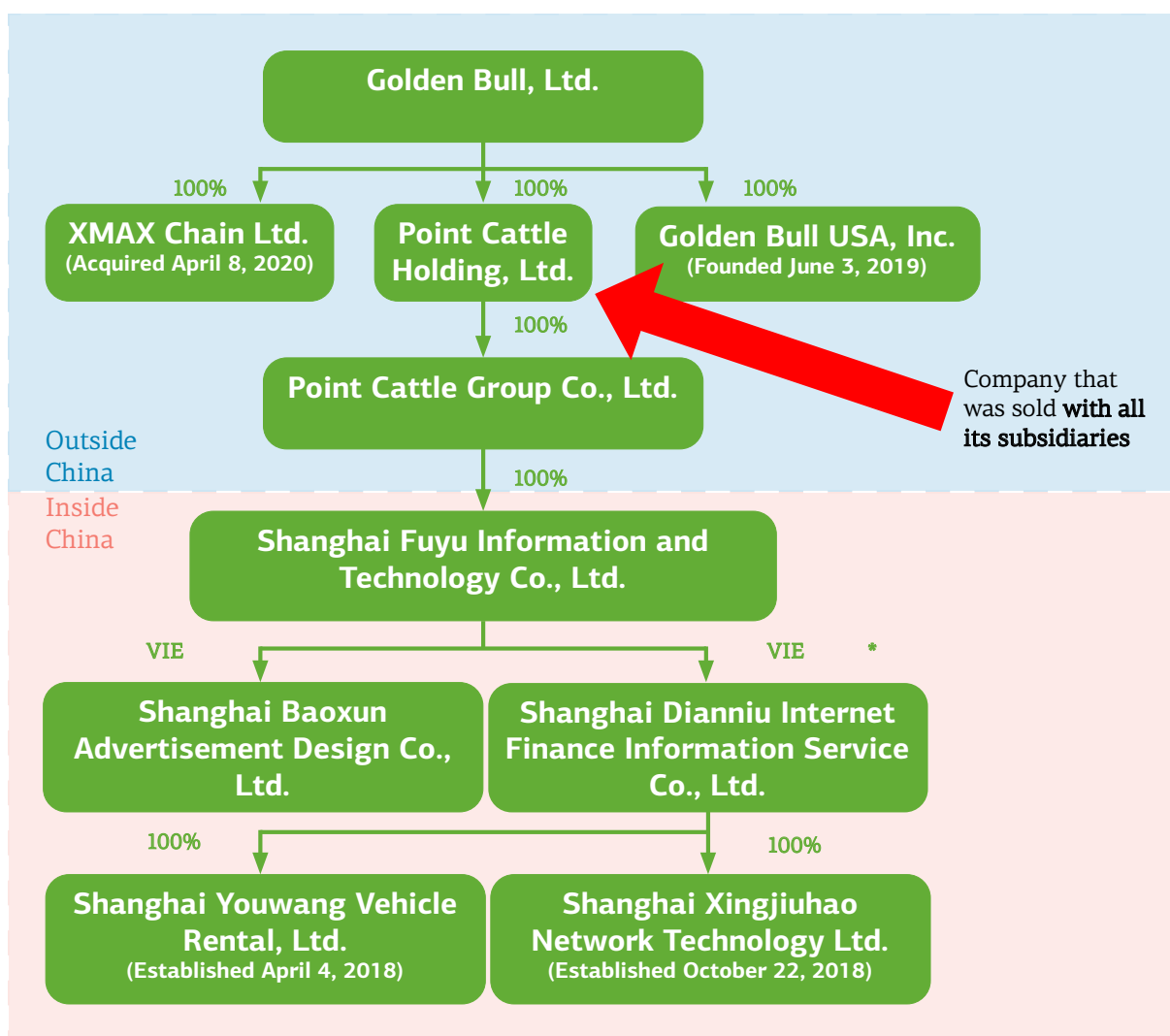


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ited, a former wholly owned subsidiary of the Company in the British Virgin Islands, and its subsidiaries and VIEs, through which the Company previously operated its peer-to-peer lending business and the car rental business in PRC. Upon the sale, we discontinued our peer-to-peer lending business and the car rental business in the PRC (“discontinued operations”). In addition to our bitcoin mining business, we expect to operate our car rental business through Golden Bull USA, Inc., a wholly owned subsidiary based in the United States once the Coronavirus pandemic is curtailed.

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### Company Organization Chart



Company organization chart, from 2019 20F, [https://www.sec.gov/Archives/edgar/data/1710350/000121390020018934/f20f2019\\_goldenbull.htm](https://www.sec.gov/Archives/edgar/data/1710350/000121390020018934/f20f2019_goldenbull.htm)

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The Q3 2020 company filings clearly show no ownership in any PRC subsidiaries within mainland China.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

Name	Background	Ownership
Golden Bull USA	<ul style="list-style-type: none"> <li>A United States company</li> <li>Incorporated on June 3, 2019</li> <li>Engaged in bitcoin mining business</li> </ul>	100% owned by Bit Digital, Inc.
XMAX CHAIN LIMITED	<ul style="list-style-type: none"> <li>A Hong Kong company</li> <li>Acquired on April 8, 2020</li> <li>Engaged in bitcoin mining business</li> </ul>	100% owned by Bit Digital, Inc.
BIT DIGITAL USA, INC.	<ul style="list-style-type: none"> <li>A United States company</li> <li>Incorporated on September 1, 2020</li> <li>Engaged in bitcoin mining business</li> </ul>	100% owned by Bit Digital, Inc.

So, when a listed company's VIE engages in an illegal business, embezzles funds from consumers, and racks up unpaid debts, does the listco bear liability? Possibly. If the VIE is aided and abetted by the listed company, the listco would be liable, according to an attorney who specializes in Chinese corporate law whom we reached by phone. The Shanghai Dianniu financing platform advertised itself as part of a NASDAQ-listed company. That creates liability for BTBT (formerly DJNR).



中国车贷第一股  
纳斯达克股票代码: DNJR

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[信息披露](#)
[我的账户](#)

**满标活动**  
第二十三期 · 1.1-1.31

Screenshot from <https://www.dianniu98.com/> January 22, 2019

### Direct theft

According to a court case filed in June 2020,<sup>15</sup> BTBT posed as borrowers on the P2P platform and raised money, that they directed to personal accounts. One case identifies ¥6.23 mln in fake loans, of which ¥2.5 mln was embezzled.

<sup>15</sup> See the full text of the case here: <https://www.bozhua.cn/76785/>

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Not only was the VIE company embezzling, BTBT the listco appears to have been stealing from its investors via mysterious “consulting fees” paid to a party in the Caymans.<sup>16</sup>

There is no revenue but only expenses occurred in another three subsidiaries in China, Baoxun, Youwang and Fuyu. As a result, the Company forecast there won't be profit in the future in these three subsidiaries, so expenses occurred in these three subsidiaries is non-deductible.

<b>Note 2</b>	Cayman-consulting fee	1,301,668
	China income tax rate	25%
	Net income (loss) before taxes	-3,998,297
		-8.1%
<b>Note 3</b>	Foreign-external service fee	584,886
	China income tax rate	25%
	Net income (loss) before taxes	-3,998,297
		-3.7%
<b>Note 4</b>	IPO costs	-389,635
	China income tax rate	25%
	Net income (loss) before taxes	-1,268,366
		7.7%
<b>Note 5</b>	PRC – non-deductible expense	-37,729
	PRC – expense-Baoxun	-
	PRC – US GAAP adjustment	123,978
	China income tax rate	25%
	Net income (loss) before taxes	-1,268,366
		-1.7%
<b>Note 6</b>	Cayman-consulting fee	488,334
	China income tax rate	25%
	Net income (loss) before taxes	-1,268,366

## August 30, 2019 correspondence with the SEC<sup>18</sup>

The company explains that substantial “business consulting” fees of \$3.76 mln for “professional teams to monitor and provide business advice on our business in the area of human resource strategic management and business strategic management”

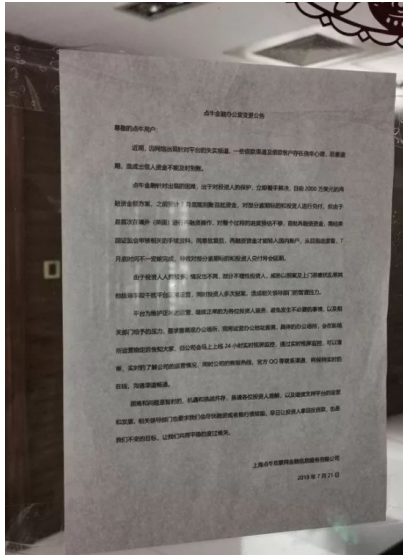
16 See SEC correspondence here: <https://www.sec.gov/Archives/edgar/data/1710350/000121390019017005/filename1.htm>

17 <https://www.sec.gov/Archives/edgar/data/1710350/000121390019017005/filename1.htm>

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## AWOL

After the arrests, BTBT went AWOL. A sign on the door of the old office said “Sorry, the office location is secret,” according to the Chinese press. Apart from the VIE, other Chinese subsidiaries registered at empty locations on the desolate Chongming Island in Shanghai.



Left: Photo from *The Paper*, July 27, 2019 [https://www.thepaper.cn/newsDetail\\_forward\\_4021668](https://www.thepaper.cn/newsDetail_forward_4021668)  
Right: BTBT office location on Chongming Island in Shanghai. | Photo by J Capital researcher

Customer service lines went dead.



Can't reach customer service, and no one calls back.

Screenshot of one of many posts on a thread on Baidu entitled “Bit Digital runs away.”<sup>19</sup>

<sup>18</sup> <https://tieba.baidu.com/p/6201693938>



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## They're still in charge

We believe the key shareholders who founded and operated the company until the Chinese authorities shut down the P2P business remain in control of the company today. They are no longer named executives or directors, but they control the voting power and operations via the puppet CEO and CFO they had appointed. The criminals responsible for the P2P and the fake car leasing business are driving the repositioned “bitcoin mining” concept.

At the time of the arrest in July 2019 BTBT had six directors.<sup>19</sup> CEO Zeng Erxin was chairman of the board and owned 16.6%, and Liu Xiaohui was a director, with 42% of the company.<sup>20</sup> Liu Xiaohui was arrested, and Zeng Erxin escaped arrest and is in the U.S. Chinese authorities have asked for international assistance in bringing him to justice.<sup>21</sup>



Liu Xiaohui is second from right.

The remaining directors not under arrest or subject to a warrant removed Liu Xiaohui and Zeng Erxin from the board in October 2019.<sup>22</sup>

<sup>19</sup> 2018 20F

<sup>20</sup> 2018 20F

<sup>21</sup> PSB update on the case in March 2020 [\[insert URL link\]](#)

<sup>22</sup> Company 6K Oct 31, 2019

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The board then appointed Hu Min as CEO and a director and Huang Erke as CFO and a director. Both lacked experience requisite for the roles. Hu Min's bio says he graduated from Qingdao Qiushi College. This institution targets 14- to 15-year-olds who cannot pass an entrance exam for high school.<sup>23</sup> His bio says he has a law degree from this institution, but Qingdao Qiushi does not offer studies in law.<sup>24</sup> If Hu received any diploma at all, it could only have been a vocational certificate for teenagers. According to his official bio, Hu's work experience was as manager of a small liquor company, manager of a wholesale market, and manager of a hair-growth center. We could not identify the hair-growth center based on the English provided. Possibly the company has closed down.

唐风采增发  
全国 60 家店  
20 年经验  
隐形无痕增发 头发稀少增密 增发遮白发  
增发前 增发后  
非手术“植入式”增发  
唐风采隐形无痕增发 脱发 掉发 一站式解决方案 免费体验  
电话：400-600-3692 网址：www.tangfc.com

Ad for a hair-repair clinic near Hu's home in Hohhot, Inner Mongolia. | Source: Tangfa Center: [http://www.tangfc.com/2016/huhehaotedian\\_0121/1786.html](http://www.tangfc.com/2016/huhehaotedian_0121/1786.html)

Liu now owns 18% and Zeng 5.2% having been diluted by the new shares issued in 2020. We believe the Hu Min and Huang Erke are shadow directors operating the company on behalf of the criminal and fugitive Liu Xiaohui and Zeng Erxin.

The new directors are foxes in the chicken coop. In August 2020, the company named the two: Ichi Shih and Chaohui Deng. Shih, who handled “due diligence” for fraud promoter firm Brean Murray from 2007, was CFO of China Valves Technology (CVVT) during the period for which the SEC identified serious fraud at the company.<sup>25</sup> Deng claims to have earned an accounting degree, but the institution named in his biography, Hengyang Industrial College, like CEO Hu Min's institution, is a high school-level institution whose matriculating students are young teenagers.<sup>26</sup> The institution, whose name is better translated Henyang Industrial Institute, ap-

23 <http://www.dailuopan.com/MParticle/detail?aid=23897>

24 [http://www.cnsdjxw.com/school\\_brows.asp?id=4600](http://www.cnsdjxw.com/school_brows.asp?id=4600)

25 <https://www.sec.gov/litigation/litreleases/2015/lr23266.htm>

26 <https://baike.baidu.com/item/%E8%A1%A1%E9%98%B3%E5%B7%A5%E4%B8%9A%E5%AD%A6%E9%99%A2/8210972?fr=aladdin>

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pears to have been shut down after administrators refused to acknowledge the death of a student.<sup>27</sup>

The newly appointed CFO, Huang Erke, 31, has zero accounting qualifications or experience, according to his profile. Huang is head of two investment firms.

Yu Hong became an executive director and the chief strategy officer of BTBT on April 19, 2020.<sup>28</sup> In its release, the company did not mention that Yu was founder of XMAX, the fraudulent crypto platform BTBT had acquired two weeks earlier.

Liu Xiaohui and Zeng Erxin were not forced to sell their shares and remained in control of the company. We believe the Hu Min and Huang Erke are shadow director operating the company on behalf of the criminal and fugitive Liu Xiaohui and Zeng Erxin.

### Rental business?

The company represented itself as conducting car rentals and had a rental app in China. "When the Company was first listed on Nasdaq in 2018, the Company had entered the car rental business," BTBT reported in a December 5, 2019 6K.

The company signed contracts in 2018 to purchase 145 cars and announced plans to open 12 offices to rent them out. Financial statements showed \$3.2 mln in deposits for rental vehicles at end 2019.

However, we cannot find any evidence that BTBT ever rented autos. We interviewed three former employees of the company in Shanghai, who confirmed that BTBT never did auto rentals. Several articles in the Chinese press show that "leasing" was simply a cover for the P2P business.<sup>29</sup>

衡阳工业专修学院是不是倒闭了？知道的说一下，谢谢！

我来答 分享 举报

1个回答

#热议# 30+的生活是不是总是忙忙碌碌？



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2012-11-26

关注

嗯倒了

**Blog post: "Hasn't Hengyang Industrial Institute gone bankrupt? If you know, please say! Thank you."**

<sup>27</sup> <https://ts.voc.com.cn/question/view/11594.html>

<sup>28</sup> BTBT 6K April 24, 2020

<sup>29</sup> See this Chinese-language article from Sohu September 12, 2018 on the "Billion Dollar Strategic Pact Between Dianniu and Qinjia Group" [https://www.sohu.com/a/253361343\\_632083](https://www.sohu.com/a/253361343_632083)

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Nevertheless, BTBT managed to write off **deposits containing cash** made for this business, something we can only conclude amounts to theft.

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,650	\$ 2,334,425
Other receivables	529,606	142,255
Prepaid costs and expenses	-	3,187,052
Total current assets	560,256	5,663,732
<b>PROPERTY AND EQUIPMENT, NET</b>	-	723,777
<b>OTHER ASSETS</b>		
Restricted cash	600,000	600,000
Deposits for rental vehicles	\$3,246,277 Deposits containing cash written subsequently off during 2020	2,482,592
Deposits for property and equipment	110,000	-
Prepaid expenses	-	2,200,506
Deferred tax assets	-	810,863
Total other assets	3,956,277	6,093,961
Total assets	\$ 4,516,533	\$ 12,481,470

	June 30, 2020 (unaudited)	December 31, 2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,911,226	\$ 15,988
Restricted cash	600,000	-
Cryptocurrencies	153,478	-
Other current assets	12,801	12,501
Assets of discontinued operations	-	531,767
Total Current Assets	2,677,505	560,256
Restricted cash, noncurrent	-	600,000
Deposits for equipment	6,864,320	110,000
Property and equipment, net	4,419,939	-
Assets of discontinued operations, noncurrent	-	3,246,277
Total Assets	\$ 13,961,764	\$ 4,516,533

The company put down significant deposits to buy cars for rent in 2018-19 but explained that delivery had been delayed due to changes in Chinese emissions standards--and due to Covid19. This sounds like complete nonsense.

#### Note 5 – Deposits for rental vehicles

Deposits for rental vehicles consist of the following:

	December 31, 2019	December 31, 2018
Deposits for rental vehicles	3,246,277	2,482,592
Total	\$ 3,246,277	\$ 2,482,592

The delivery of the vehicles was delayed due to the policy change in PRC regarding vehicle emission standard change. The deposits for rental vehicles are for developing the Company's car rental business expected to occur in fiscal 2020.

In August 2019, the company released a 6K in which was buried a statement about delivery of cars:

*"In April 2018, we established Shanghai Youwang Vehicle Rental Limited ("Shanghai Youwang"), a subsidiary wholly owned by Shanghai Dianniu Internet Finance Informa-*



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tion Service Co., Ltd. (“Dianniu”), an entity we control via contractual arrangement, in order to start our car leasing business. Based on the vehicle procurement contract we entered with the vehicle supplier, the first batch of vehicles should be delivered to us beginning in September 2019. **On July 1, 2019, the Chinese government implemented a new emission standard which requires vehicles to have better filtering systems. As such, our supplier may not be able to deliver the vehicles we purchased as previously scheduled. Management expects to launch the car leasing operations in the first quarter of 2020.** As of the date of this report, Shanghai Youwang has no substantive operations.”

For 2019, the China Association of Automobile Manufacturers disclosed that some 21.4 mln passenger vehicles were sold in China. Over 21 mln purchases of passenger cars in China had no problem at all with the updated emission standards, which manufacturers would have prepared for in advance anyway.<sup>30</sup> Yet BTBT with millions of dollars’ worth of cash deposits already made in both 2018 and 2019 could not buy one single car.

What’s more, BTBT did manage to buy cars for its own staff. In 2018, the company purchased about \$0.7 mln worth of motor vehicles for its own staff’s use. Naturally, these company cars for staff, which were probably around 1.5 years old, were 100% written down during 2020.

#### Investing Activities

Net cash used in investing activities was approximately \$0.9 million for year ended December 31, 2019, which was attributable primarily to an approximate \$0.1 million paid for deposit for property and equipment. and an approximate \$0.8 million paid for deposit for the rental vehicles.

Net cash used in investing activities was approximately \$3.3 million for year ended December 31, 2018, which was attributable primarily to purchases of motor vehicles for daily use and an approximate \$2.5 million paid for purchasing automobiles for the new line of business.

There were no Q1 2020 results published to see what happened, only a Q2 2020 report, by which time the bait-and-switch had already taken place. It appears a full impairment was taken against the car rental business in the first half of 2020. In other words, no idea what happened to those deposits to buy cars for the rental business. The company did not disclose these deposits were returned, and in a typical accounting trick maneuver, the deposits were written down as a non-cash item, because the asset was classified as the deposit and not the cash within it.

30 [https://www.marklines.com/en/statistics/flash\\_sales/salesfig\\_china\\_2019#:~:text=In%202019%2C%20passenger%20car%20production,9.6%25%20y%2Fy%20decline](https://www.marklines.com/en/statistics/flash_sales/salesfig_china_2019#:~:text=In%202019%2C%20passenger%20car%20production,9.6%25%20y%2Fy%20decline)

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## Sham Cooperation to Boost Car Rental Business Credibility

In 2018, BTBT conducted a splashy promotional event to project an image that it was active in car leasing. Dianniu announced a ¥10 bln cooperation with Qinjia Group on September 10, 2018 to promote the credibility of its vehicle-leasing business.<sup>31</sup> The press release is breathless in how this cooperation would get the partners a chunk of the trillion Renminbi car-finance market. But it was just an empty announcement.

[Qinjia Group](#) appears to be a consultancy that promotes businesses deploying the latest buzz words. Qinjia was never a player in car leasing or car finance. [The video](#) produced to promote the cooperation is a master class in fake cooperation announcements replete with empty statements.



On the left, the one who looks like Kim Jung Un, is Song Junwei, chairman of Qinjia Group. On the right, with the silly glasses, is Zeng Erxin, former CEO and chairman of Dianniu | Source: [https://www.sohu.com/a/253361343\\_632083](https://www.sohu.com/a/253361343_632083). For nonsensical business speak, listen to the two on video (Chinese language): <https://v.qq.com/x/page/a0703980o5l.html>.

## More embezzling

Including the written down cash, which was the main asset of the PRC car rental business that had not even started, the company wrote off a total of \$3.74 mln of net assets:

*“ Net loss from discontinued operations*

*For the nine months ended September 30, 2020, we provided full impairment of \$3,734,498 on the net assets of our discontinued operations, and recorded a net loss from discontinued operations of \$100,185 from classification of accumulated translation adjustments, both resulting in a net loss of \$3,834,683 million from discontinued operations”*

The cash deposits for the company’s rental business were fully written down during the first half of 2020 as a discontinued business, although it was not really even a business because it had not started operating. Writing down cash is quite a trick.

BTBT reports that it is “exploring” a business in auto rental in the US. We expect it’s exploring more channels for stealing cash. From page 43 of the most recent 20F:

On June 3, 2019, Golden Bull USA, Inc. (“Golden Bull USA”) was incorporated in the State of New York, which is a wholly owned subsidiary of Golden Bull Limited .Golden Bull USA is our principal office and we plan to develop car rental business through

<sup>31</sup> [https://www.sohu.com/a/253361343\\_632083](https://www.sohu.com/a/253361343_632083)

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Golden Bull USA. We've been actively seeking car rental business opportunities in both the State of New York as well as the State of Florida. . . Starting in the second quarter of 2020, the Golden Bull USA office has established some leads towards Car Rental Business possibly in the State of Florida, United States. Although it is still in the investigation and due diligence process, we may be able to commence Car Rental Operations in the United States in the third quarter of 2020."

## Dodgy professionals

BTBT uses third-tier accounting firms, and yet even these cannot bring themselves to sign the accounts. The company has had three auditors resign in three years.

**Friedman LLP:** 2015-September 2019 Friedman resigned on September 23, 2019.

**Wei Wei & Co.** This auditor had a tenure of just nine months, September to December 2019, and resigned 12 days before the end of BTBT's fiscal year. According to the 6K January 9, 2020: "On December 19, 2019, Wei, Wei & Co., LLP ("WWC") resigned as the independent registered public accounting firm of Golden Bull Limited (the "Company"). WWC was appointed by the Audit Committee of the Company's Board of Directors on September 23, 2019 to audit the Company's consolidated financial statements as of and for the fiscal year ending December 31, 2019 ("Fiscal 2019"). However, on December 5, 2019, the Company announced on its Form 6-K filed with the Securities and Exchange Commission ("SEC") that it had shut down the peer-to-peer lending business with an ensuing investigation by the Pudong Branch of the Shanghai Public Security Bureau as a result of a policy change of the Chinese government. The Company also announced that it was entering the car rental business and bitcoin mining business. WWC stated that after substantial deliberation, it was not familiar with bitcoin mining and resigned.

WWC did not start the audit for Fiscal 2019. With the previously announced change in management of the Company, the Company inadvertently failed to file this Form 6-K. Through the date of resignation, December 19, 2019, (i) there were no "disagreements" (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the Company and WWC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to WWC's satisfaction, would have caused WWC to make reference in connection with an opinion (none were issued) to the subject matter of the disagreement; and (ii) there were no "reportable events" as the term is described in Item 304(a)(1)(v) of Regulation S-K."

**JLKZ LLP** took over from Wei Wei but resigned on December 15, 2020, again, just two weeks before the end of the fiscal year. JLKZ audits such dubious companies as AGMH and American Education Center (OTB: AMTC).

**Audit Alliance LLP**, a Singapore firm, was appointed on December 16, 2020.

It is little wonder that BTBT cannot hold onto an auditor, given the material weaknesses in

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internal controls.

*“We did not maintain effective internal control over financial reporting due to the existence of the following significant deficiencies and material weaknesses:*

*- Lack of sufficient full-time personnel with appropriate levels of accounting knowledge and experience to monitor the daily recording of transactions, address complex United States Generally Accepted Accounting Principles (“U.S. GAAP”) accounting issues, and prepare and review financial statements and related disclosures under U.S. GAAP and, as a result, the Company may not be able to identify and monitor significant accounting issues appropriately on a timely basis;*

*- Lack of a functional internal audit department or personnel that monitors the consistencies of the preventive internal control procedures and, as a result, the Company may not be able to discover the existence of problems and prevent the problematic behavior in internal control;*

*- Lack of adequate policies and procedures in internal audit function to ensure that the Company’s policies and procedures have been carried out as planned;*

*- Lack of reviewed documentation for management’s approval on aging analysis and as a result, the Company may not be able to accrue provision for bad debt appropriately on a timely basis;;*

*- Lack of sufficient monitoring of the employee resignation procedure, which may result in an inaccurate number of employees in the annual report;*

*- Lack of well-structured IT general control policies and procedures for documentation of program changes, periodic transaction log reviews; control quality evaluations, back-up restoration tests and centralized anti-virus detections, which may result in failure to accurately collect operational data to prepare the financial statements;*

*- Lack of proper segregation of duties within accounting functions;*

*- Significant deficiencies were also detected at Dianniu, one of our VIEs, which in the aggregate, constitute a material weakness and create a reasonable likelihood that a material misstatement of our annual and interim financial statements will not be prevented or detected on a timely basis. Such deficiencies include: (i) lack of reviewed documentation for management’s approval on aging analysis and, as a result, the Company may not be able to accrue provision for bad debt appropriately on a timely basis; and (ii) lack of sufficient monitoring of the employee resignation procedure, which may result in an inaccurate number of employees on the annual report.”*

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Meanwhile, BTBT failed to file its 2019 interim or annual reports by the SEC deadline.

**Underwriter:** The company underwriter was Viewtrade, underwriter of such companies as Yulong Eco-Materials, ReTo Eco-Solutions, TDH Holdings, Farmmi, Senmiao Technology, AZURRX Biopharma, CCRC, NEWA, Tantech. Basically, only frauds need apply.

### Burning

At the end of Q3 2020, the company had \$522K in unrestricted cash and had burned \$8.6 mln in operating cash flows in nine months. Unless it raises money soon, BTBT will be out of business. The desperation is showing. In December 2020, BTBT issued \$1.65 mln debt principal to receive just \$1.28 mln in proceeds.<sup>32</sup> The convertible debt matures this April 2021. That suggests to us a death spiral.

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32 [https://www.sec.gov/Archives/edgar/data/1710350/000121390020045790/ea132499-6k\\_bitdigital.htm](https://www.sec.gov/Archives/edgar/data/1710350/000121390020045790/ea132499-6k_bitdigital.htm)

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