

# Research on the Strategies of Chinese Concept Stocks in Dealing with Short Selling Crises: A Case Study of Anta Sports' Counterattack against Muddy Waters' Short Selling

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**Abstract:** With the deepening of economic globalization, many Chinese enterprises will conduct transactions in overseas markets. At the beginning, Chinese concept stocks were favored by overseas markets. However, as the trade friction between China and the United States intensified and Chinese concept stocks became increasingly important in overseas capital markets, short selling incidents occurred frequently. Therefore, whether Chinese concept stocks can successfully cope with the short selling crisis has become the key to the survival and development of enterprises. As a representative of Chinese concept stocks being shorted, Anta's successful counterattack against short selling can provide reference and experience for Chinese concept stocks. This article will take Anta Sports' counterattack against Muddy Waters' short selling as an example, combined with relevant financial data and information disclosure records, to assess how Chinese concept stocks can effectively deal with short selling crises and put forward relevant strategic suggestions.

**Keywords:** Short-Mechanism; Reverse Short Selling; China Concept Stock; Anta Sports.

## 1. Introduction

The growing prominence of Chinese ADRs in overseas markets has drawn the attention of numerous short-selling firms. Since March 2011, foreign short-sellers like Muddy Waters and Citron have frequently released reports targeting Chinese companies listed in the U.S. for alleged financial fraud. By the end of 2011, nearly 50 Chinese ADRs had been suspended or delisted due to accusations of accounting irregularities. This wave of short-selling has now spread from the U.S. stock market to Hong Kong China. Facing intervention by specialized short-selling firms, Chinese companies listed overseas are on high alert.

Short-selling firms typically target companies with incomplete disclosures. Their negative reports inflict significant damage: if a company fails to provide reasonable explanations or compelling data and evidence, its stock may plummet by over 50% or even face suspension and delisting. Therefore, Chinese companies listed overseas must prepare in advance to ensure they can emerge unscathed from short-selling crises.

This paper analyzes Anta Sports' successful counterattack against Muddy Waters' short-selling campaign. It examines the multiple reasons behind Anta's targeting and Muddy Waters' short-selling tactics, while also dissecting the factors enabling Anta's effective crisis response. By studying this case, we aim to provide relevant insights and policy recommendations for Chinese companies listed overseas, helping them better navigate short-selling challenges.

## 2. Case Studies

### 2.1 Background of Short Selling

In today's globalized economy, many Chinese companies choose to list overseas. Following the short-selling frenzy of 2021, Chinese ADRs face increasingly precarious positions in foreign securities markets. Short selling has become rampant, with the involvement of specialized short-selling firms leaving Chinese-listed companies on edge. Numerous Chinese stocks targeted by short sellers have experienced continuous declines, trading suspensions, or even delisting. The profit mechanism of short selling operates as follows: 1. Borrow shares and sell them at a high price. 2. Release research reports to drive down the stock price. 3. Buy back the shares at a lower price to return them. The difference between the selling and repurchase prices constitutes the profit earned by the short-selling firm.

## 2.2 Introduction to Short-Selling Firms

Muddy Waters was founded in July 2010 by Carson Block and is headquartered in New York City. As an internationally renowned research organization, the company's name derives from the Chinese proverb "fishing in troubled waters." This choice stems from two primary reasons: first, it signifies the firm's specialization in investigating companies that engage in "fishing in troubled waters" within capital markets; second, it reflects Muddy Waters' core business strategy of "catching fish in murky waters." First, it stirs up the waters, then profits through short selling.

The group's primary activity involves investigating and gathering information on listed companies defrauding investors. After compiling, analyzing, and publishing critical reports, it aims to trigger rapid stock price declines-hence its designation as a "short-selling institution." From its founding through the end of 2021, Muddy Waters has shorted 22 Chinese-listed companies, with over a dozen subsequently delisted.

From numerous cases where Muddy Waters has shorted companies, it is evident that while the specific issues uncovered vary from firm to firm, the core tactics employed by short-selling institutions remain consistent. Most attacks leverage incomplete or untimely corporate disclosures.

## 2.3 Introduction to Anta Sports

Anta Sports is a renowned Chinese sportswear brand established in 1991. It listed on the Hong Kong Stock Exchange in 2007. In 2020, Anta Sports held a 15.4% market share in China's athletic apparel sector, ranking third behind Nike and Adidas. Anta's accolades include ranking 289th on the 2021 Fortune China 500 list, 86th on the 2024 Top 200 Smart Factories ranking, and 60th on the 2024 Top 100 Chinese Equipment Manufacturers list.

## 2.4 Event Recap

On July 8, 2019, Muddy Waters released its first short report targeting Anta Sports. On the same day, Anta suspended trading, closing at HK\$51.25, down 7.32%. Subsequently, Muddy Waters issued four additional short reports on Anta, during which Anta responded with four clarification statements.

In its five short-selling reports, Muddy Waters primarily highlighted the following major issues concerning Anta: 1. Financial data manipulation

at Anta Sports 2. Questionable independence of distributors 3. Deception of investors, with insiders diverting premium company resources for personal gain 4. Inaccurate reporting of FILA store numbers.

## 3. Case Analysis

### 3.1 Financial Status

As a renowned Chinese sportswear and footwear brand, Anta Sports has consistently maintained strong operational performance with gross profit margins significantly exceeding those of other brands. However, Muddy Waters alleges that Anta has inflated profits and engaged in financial data falsification. Since becoming China's largest sportswear brand in 2011, Anta has established a dual-brand strategy: its main brand targets the mass market, while acquired brands focus on the premium segment. Consequently, Anta's retail outlets predominantly serve China's second- and third-tier cities, whereas its acquired brands like FILA are concentrated in first-tier cities. FILA, serving as Anta's primary profit driver, contributes nearly 30% of the group's revenue with an impressive gross profit margin of 70%. In 2018, its retail sales exceeded 10 billion yuan. Since Anta had never publicly disclosed FILA's financial data prior to this, short-selling institutions mistakenly believed they had uncovered a critical vulnerability, alleging that Anta had inflated profits by shifting certain expenses to distributors. In reality, only some distributors claimed to be Anta subsidiaries for promotional convenience, which merely signifies their affiliation with the Anta Group. In 2019, Anta Group disclosed FILA's financial data. The report revealed that FILA Group generated RMB 6.538 billion in revenue during the first half of 2019, accounting for 44.1% of Anta Group's total performance. This robust profitability directly countered Muddy Waters' short-selling allegations, reassuring investors.

### 3.2 Information Disclosure

Muddy Waters' primary concern regarding Anta Sports lies in its belief that the company misrepresented the number of FILA stores under its brand, raising issues of information falsification and incomplete disclosure. Compounding this, FILA-Anta's main profit driver-had never disclosed any related information prior to 2019. This led Muddy

Waters to mistakenly conclude that the lack of disclosure stemmed from data fabrication, bolstering its confidence in shorting Anta.

Fundamentally, in 2008, Anta Group acquired the then-loss-making FILA Group from Belle Group. For historical reasons, Anta retained only franchisees with business performance above 20%. Subsequently, Anta has been negotiating with various franchisees to repurchase control rights-information widely known in the market. Muddy Waters rushed to make accusations without thorough investigation. However, some argue that Muddy Waters' short-selling was largely prompted by Anta Group's failure to fully disclose information. Therefore, from a certain perspective, Muddy Waters' short-selling in this instance was both fair and well-founded.

### 3.3 Corporate Governance

Beyond questioning Anta Sports' inflated profits, Muddy Waters also suspects the company deceives consumers and that insiders divert premium resources for personal gain. Regardless of the specific allegations, these concerns collectively indicate Muddy Waters perceives deficiencies in Anta's corporate governance.

In its short-selling report, Muddy Waters alleged that Anta Sports secretly controlled 27 distributors, at least 25 of which were first-tier distributors, while also manipulating related financial data. Anta Sports issued a clarification report stating that all 25 distributors are independent third parties with no affiliation to the company. Each distributor operates with its own management team, and no mutual control exists between them. The term "subsidiary" used to describe distributors is solely for promotional purposes, indicating their affiliation with the Anta brand, and carries no legal implications. This demonstrates that Muddy Waters' short position on Anta Sports was based on incomplete information and misjudgment.

### 3.4 Anta's Measures in Response to the Short-Selling Crisis

Following the release of the short-selling report, Anta faced a sharp decline in its stock price. In response to this situation, Anta's management promptly requested a trading suspension to halt losses. This action was not an attempt to evade the short-seller's allegations nor an admission of the report's claims, but rather the most effective measure available at the time to limit losses, preserve market value, and protect assets.

Meanwhile, Anta promptly issued corresponding clarification reports. Upon receiving short-selling reports, Anta did not falter. Faced with one short-selling report after another, Anta consistently released clarifications either on the same day or the next. In these clarifications, Anta not only addressed the allegations raised in the short-selling reports but also strongly refuted Muddy Waters' claims, reserving the right to pursue legal action against the firm. Anta's resolute stance and prompt responses significantly bolstered investor confidence, leading to a recovery in the company's stock price.

Moreover, Anta Group promptly disclosed information in response to the short-selling attack. Facing the short-seller, Anta Sports promptly released its earnings report to reduce the information gap between the company and investors. This move enabled investors to better understand the company's operational status, bolstered their investment confidence through the disclosure of performance, and delivered a strong counter to Muddy Waters' short-selling allegations.

### 3.5 Reasons Behind Anta's Successful Response to Short-Selling Crisis

First and foremost, Anta Sports' financial disclosures are truthful and comprehensive, which is the primary reason for its successful defense against this short-selling attack. While possessing substantial operational strength, Anta consistently adheres to all regulatory standards. Its financial reports are prepared by qualified professionals, ensuring high credibility. This foundation enabled Anta to confidently confront Muddy Waters' allegations with the capability to refute false claims. The company's resolute stance significantly bolstered investor confidence, leading to a swift recovery in its stock price following an initial sharp decline.

Secondly, Anta has consistently responded promptly. Upon the release of the first short-selling report, Anta immediately implemented an emergency trading suspension to prevent further losses. Confronted with a series of short-selling reports, Anta has consistently issued timely clarifications. Its proactive response, resolute stance, and robust capabilities have reassured investors.

Finally, Anta's inherent strength cannot be overlooked. Whether it's the company's resolute stance against short-sellers or all subsequent

measures taken, each action is grounded in its formidable capabilities. It is precisely because Anta possesses outstanding performance and solid fundamentals that it has no need to fabricate profits through fraudulent means.

### **3.6 Insights and Reflections Based on Case Studies**

Short-selling attacks against companies are increasingly common today, with many firms regrettably delisting as a result. Our analysis of Anta Sports' successful counterattack against Muddy Waters reveals that this victory was no accident. Anta's strong performance, timely responses, and comprehensive financial disclosures all played crucial roles. This serves as a reminder for Chinese companies listed overseas to consistently uphold these standards-remaining vigilant even in favorable conditions and always preparing to counter short-selling threats.

However, Muddy Waters' short position on Anta Sports is not entirely without merit, as the company itself faces certain issues. (1) The majority of core members within Anta Group are family members. In large enterprises, such a personnel structure undoubtedly increases the feasibility of financial fraud, as internal personnel may engage in mutual cover-ups. This is a major reason why Muddy Waters suspects Anta's insiders of seeking personal gain. Therefore, Anta should adopt and implement a scientific management and operational model to prevent such phenomena. (2) Anta's initial disclosures were incomplete. FILA, one of Anta's primary profit-generating brands, was never disclosed in earlier filings. This inevitably raises suspicions that data manipulation might be the reason for withholding information. Such omissions erode investor confidence and led Muddy Waters to mistakenly believe it had uncovered a major flaw. This also highlights gaps in Anta's information disclosure practices, which require prompt improvement.

## **4. Policy Recommendations**

### **4.1 Pre-Short Selling: Crisis Prevention**

As previously mentioned, many companies now choose to list on overseas securities markets. However, if a company fails to thoroughly understand the rules and risks of these markets and rushes into listing by fabricating data for short-term convenience, it is highly likely to

become a target for short-selling institutions. Therefore, when opting for an overseas listing, companies should fully comprehend the relevant regulations, prepare adequately, and proceed with caution.

At the same time, companies need to prepare in advance to address short-selling risks and enhance the quality of their information disclosure. Chinese companies listed overseas should proactively disclose information-not merely to counter short-selling attacks, but also to attract investors and enhance transparency. This step itself promotes better corporate disclosure practices. Then, companies must ensure disclosure quality through multiple measures: delivering strong performance, implementing sound management practices, and avoiding issues like data fabrication or inflated profits. Only with authentic and comprehensive data disclosure can companies successfully withstand short-selling challenges.

### **4.2 Short Selling: Crisis Response**

When Chinese ADRs face short-selling attacks, they should promptly disclose financial data and release relevant clarification reports. Following the release of a short-selling report, stock prices typically experience a significant decline. At this juncture, the most effective response is to issue a corresponding clarification report. When releasing such reports, it is advisable to adhere to the following principles: 1. Present complete and authentic data that is clear and unambiguous. 2. Disclose comprehensive and relevant financial information. 3. Respond promptly-the faster the response, the more effective the outcome. These measures demonstrate the company's strong capabilities and proactive stance, indirectly proving the absence of issues. This boosts investor confidence and stabilizes the stock market.

Chinese companies listed overseas can also coordinate responses with multiple stakeholders. For instance, statements and reports from close business partners can bolster the credibility of corporate information. Furthermore, engaging reputable accounting firms during audits enhances the reliability and authenticity of routine financial data, laying the groundwork for addressing short-seller disclosures of financial information.

### **4.3 Post-Short Selling: Crisis Recovery**

After the intensity and impact of short selling

mechanisms have subsided, companies should not relax their vigilance. Instead, they should draw lessons from this experience and identify shortcomings across all aspects of their operations. This involves refining corporate governance systems, continuously improving the quality of information disclosure, driving stronger business performance, enhancing core capabilities, and bolstering crisis resilience. Furthermore, companies should seize developmental opportunities arising from such crises to lay a solid foundation for effectively addressing similar challenges in the future.

### 5. Conclusion

In my view, Muddy Waters' rationale for shorting Anta Sports this time is incomplete, its evidence insufficient, and it bears the suspicion of malicious short-selling. Anta responded promptly to Muddy Waters' short attack by issuing a corresponding clarification report. Furthermore, Anta is underpinned by strong performance, maintains accurate and complete information disclosure, and has mobilized multiple stakeholders in countering the short attack—all key factors in its successful defense. However, certain internal issues within Anta warrant prompt improvement to facilitate the company's continued growth.

This paper proposes corresponding measures for crisis prevention, crisis response, and crisis recovery. It advises Chinese companies listed overseas to exercise caution in overseas listings, enhance the quality of information disclosure, proactively address short-selling crises with timely responses, seize development opportunities while managing such crises, and promptly summarize lessons learned afterward to refine corporate shortcomings. This approach will drive better corporate development and enable turning crises into opportunities when confronting short-selling attacks.

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