

Research on the Strategies of Chinese Concept Stocks to Deal with the Short-selling Crisis - Taking Muddy Waters' Short-selling of Anta Sports as an Example

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Abstract: *This paper takes the 2019 Muddy Waters' short-selling of Anta Sports as an example to study the strategies of Chinese concept stocks to deal with the short-selling crisis. Muddy Waters accused Anta of manipulating finances by controlling distributors, causing the stock price to fall by 7.32% in the short term. Anta quickly denied the accusation, issued a clarification announcement and warned of legal action. The next day, the stock price only fell slightly by 0.2%, showing the market's recognition of its response. The study analyzes Anta's information disclosure, public relations management and legal strategies, revealing the key role of rapid and transparent crisis response in stabilizing investor confidence and stock prices. Combined with the Anta case, this paper proposes that Chinese concept stocks should strengthen information transparency, establish a crisis warning mechanism and optimize investor relations to effectively deal with the short-selling crisis. The study provides a practical reference for the crisis management of Chinese concept stocks and emphasizes the importance of corporate governance and market communication.*

Keywords: Chinese concept stocks; Short selling crisis; Anta Sports; Crisis management; Information disclosure.

1. INTRODUCTION

1.1 Research Background

As Chinese enterprises accelerated internationalization, Chinese concept stocks (Chinese companies listed in the United States, Hong Kong, etc.) are increasingly dominant in the international capital market. As information asymmetry, differences in regulation, and market speculation exist, Chinese concept stocks are frequently targeted by short selling institutions. Short selling institutions frame companies as financial fraud or inappropriate operation by releasing negative reports, leading to sharp fluctuations of stock prices, up to the crisis of reputation of the company itself. In 2019, Muddy Waters Research accused Anta Sports of manipulating financial reports through the use of distributors to control the distribution chain, triggering the immediate decline of 7.32% in the price of the stock, which is an archetype case of Chinese concept stocks' response to short selling crises. Anta Sports' prompt response and stable share price illustrate the most critical aspect of management of crisis. Over the last few years, such incidents recurred frequently, such as Luckin Coffee and GSX Techedu, which clearly indicate that Chinese concept stocks should have an institutional response mechanism to address short selling crises. This study takes the case of Anta Sports to discuss how Chinese concept stocks can counter short-selling crises through information disclosure, management of public relations, and law, using which to explore theoretical and practical support for the management of enterprise crises.

1.2 Research Significance

Chinese concept stocks face unique challenges in the global capital market. Short-selling crises not only threaten corporate stock prices and reputations, but may also trigger a crisis of investor confidence and affect long-term development. This study analyzes the case of Muddy Waters shorting Anta Sports and deeply explores the strategies and effects of Chinese concept stocks in dealing with short-selling crises, which has important theoretical and practical significance. In theory, this study enriches the literature in the field of crisis management, especially in the context of Chinese concept stocks, and supplements the empirical analysis of short-selling crisis response strategies. In practice, the study summarizes Anta Sports' experience in information disclosure, investor communication and legal response, and provides a crisis management framework for other Chinese concept stocks. In addition, this study reveals the relationship between corporate governance transparency and market trust, which

helps companies optimize internal management and enhance risk resistance. Against the background of the deepening internationalization of Chinese concept stocks, this study provides guidance for companies to cope with complex market environments and maintain capital market stability.

2. LITERATURE REVIEW

2.1 Overview of Short Selling Mechanism

Short selling, the method of trading the stock market, enables investors to short sell stocks that are borrowed to sell in the marketplace, hoping to repurchase at the lower price after the share price dips to realize the gains (Figure 1). This mechanism has been an integral component of the capital market since the introduction of short selling to the Chinese stock market in 2010. Empirical studies reveal that short selling can enhance the efficiency of the market through provision of liquidity, facilitating price discovery in the marketplace, and dampening the formation of market bubbles (Wang, 2013) [1]. Short selling can, however, introduce the dangers of heightened market volatility, huge price movements of the shares, especially under heterogeneous information settings of the marketplace, where the regulatory apparatus is not up to scratch (Wang, 2013) [1]. Short selling, for instance, can be effective at enhancing the informativeness of the marketplace, decreasing the likelihood of price crashes of the shares (Song, 2024) [2]. Short selling is also viewed as an external governance mechanism that can be powerful enough to restrain the actions of the management of companies and lower the likelihood of misgovernance (Li et al., 2019) [3].

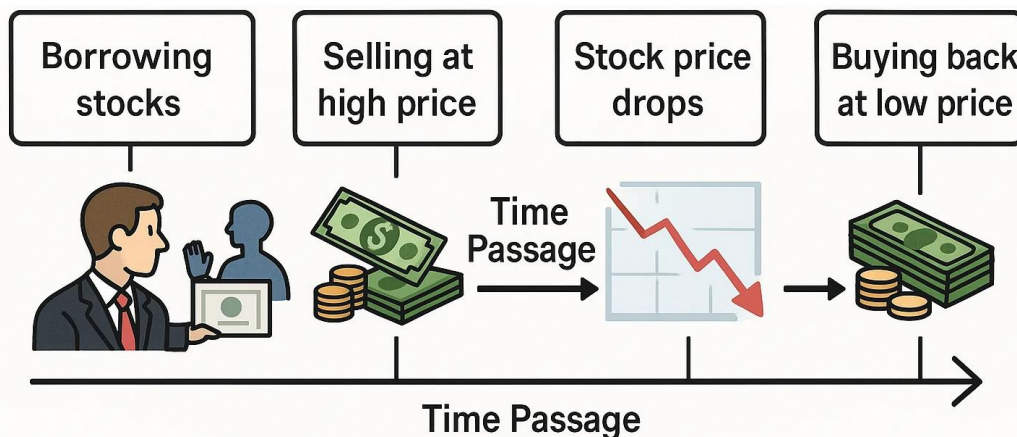


Figure 1: Principle of short selling mechanism

2.2 Characteristics of Short Selling of Chinese Concept Stocks

As overseas listed Chinese companies, Chinese concept stocks (also known as China concept stocks) bear characteristics and risks that are exceptionally salient under the assault of short selling attacks. Chinese concept stocks' vulnerability to short selling crises stems from such issues including information disclosure, governance structure imperfections, and conflict of interests among shareholders. Short sellers specifically exploit information asymmetry in the marketplace to target the share price of Chinese concept stocks, deliberately driving the share price down sharply. An example is that Muddy Waters' short selling of Anta Sports resulted in the share price dropping of the company due to disclosure of proof of claimed financial deception (Chen, 2024) [4]. These short selling attacks not only impacted the share price of the company, but prompted broad marketplace focus to Chinese concept stocks' governance structure, along with information disclosure. Studies indicated that transparent governance structure, along with an effective information disclosure mechanism, is the pivotal factor behind Chinese concept stocks' ability to handle short selling crises (Chen & He, 2019) [5].

2.3 Crisis Response Research

In the event of a short selling crisis, the company's crisis response strategy is of paramount importance. Effective response to the crisis can not only stabilize investor confidence at the appropriate time, but also lower the amplitude of the fluctuation of the stock price. According to studies, confronted with short-selling attacks, companies can lower the adverse effect of short-selling attacks through prompt and transparent disclosure, reinforcement of public relations management, and the design of legal countermeasures (He, 2024) [6]. For

instance, confronted with Muddy Waters short-selling in 2019, Anta Sports issued the clarification announcement promptly and warned of legal actions, which managed to stabilize the stock price successfully and gained the confidence of investors (Chen, 2024) [7]. Besides, some studies have also highlighted establishing the crisis warning mechanism and optimizing the management of investors to be of importance. These actions can enhance the company's response to the external attacks and lower the severity of the impact caused by short selling (Li, 2019) [8].

3. MUDDY WATERS SHORT-SELLING CASE STUDY: ANTA SPORTS

3.1 Event Overview

In July 2019, Muddy Waters Research, a US short-selling agency, released a series of reports accusing Anta Sports (stock code: 2020.HK), a leading Chinese sports brand listed on the Hong Kong Stock Exchange, of systematic financial fraud. The report stated that Anta manipulated its financial statements to inflate profits and reduce expenses by secretly controlling about 27 first-tier distributors (accounting for nearly 60% of its 46 first-tier distributors and contributing about 70% of Anta brand sales). Muddy Waters claimed that these distributors were not independent third parties as Anta claimed to the outside world, but "subsidiaries" actually controlled by the company. In addition, the report also accused Anta of using agents to divest Shanghai Fengxian (an international brand retail business) at a low price and deregistering the company within six months after the divestiture, suspected of damaging the interests of shareholders. Muddy Waters made the allegations based on internal documents, interviews with former executives and public records, which attracted widespread market attention and caused Anta's stock to be suspended from trading on July 8, 2019.

3.2 Anta's Response Strategies

Anta Sports moved swiftly to address the allegations. On July 9, 2019, the company made two announcements via the Hong Kong Stock Exchange, clearly denying the Muddy Waters report allegations, calling the report "inaccurate and misleading." The first announcement highlighted the independence of the distributors, indicating that the distributors possess independent management teams, independent financial and human resources systems, and no controlling relationship with Anta. The second announcement clarified that the divestiture of Shanghai Fengxian was normal business practice. Anta warned that it would reserve the right to initiate legal proceedings against Muddy Waters and the relevant responsible individuals, and reminded investors and shareholders to exercise caution in the trading of the shares to prevent the fluctuations of the market caused by the report. These actions are intended to quickly explain the truth, protect investor confidence, and prevent reputational damage.

3.3 Event Impact

The Muddy Waters report had an immediate but short-term impact on Anta's stock price. On July 8, 2019, after the report was released, Anta's stock price fell 7.32% to close at HK\$51.25, and trading was suspended later that day. After trading resumed on July 9, the stock price only fell 0.2% to close at HK\$51.15, showing the market's recognition of Anta's response. The following table summarizes the stock price changes during the event:

Table 1: Stock price changes during the event

| Date | Event Description | Closing Price (HK\$) | Change (%) |
|--------------|-------------------------------|----------------------|------------|
| July 5, 2019 | Pre-report (Friday) | 55.30 | - |
| July 8, 2019 | Report Release & Trading Halt | 51.25 | -7.32% |
| July 9, 2019 | Trading Resumption & Response | 51.15 | -0.20% |

Table 1 shows the stock price fluctuations of Anta Sports before and after the release of the Muddy Waters report. On July 8, 2019, the stock price fell by 7.32%, reflecting the market's initial concerns about the allegations. After trading resumed on July 9, the stock price only fell slightly by 0.2%, indicating that Anta's quick response and clarification effectively alleviated market panic and stabilized the stock price.

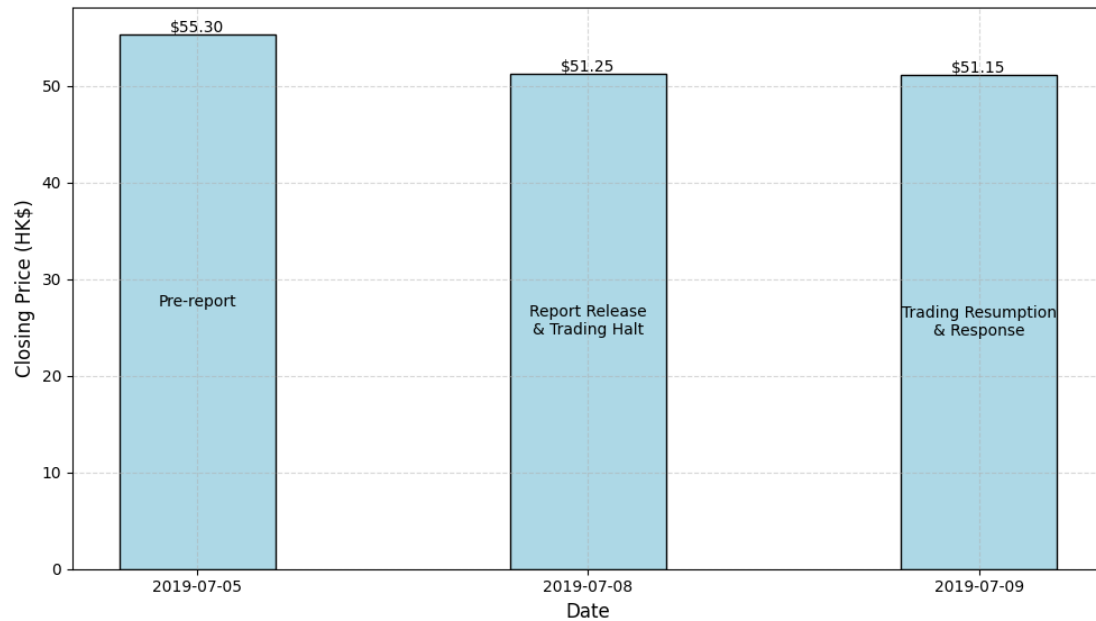


Figure 2: Anta Sports Stock Price Movement (July 2019)

Figure 2 shows the daily closing share price of ANTA Sports from July 5 to July 9, 2019, highlighting the price changes before and after the release of the Muddy Waters report. The share price was HK\$55.30 on July 5 and fell to HK\$51.25 after the report was released on July 8, a drop of 7.32%, reflecting the market's immediate reaction to the allegations. After trading resumed on July 9, the share price fell slightly to HK\$51.15, a drop of only 0.2%. The bar chart clearly presents the short-term sharp fluctuations in the share price and the subsequent stabilization through intuitive comparison of bar heights, reflecting the effectiveness of ANTA's crisis management strategy in alleviating market panic and restoring investor confidence.

In the long run, the incident has limited impact on ANTA's market performance. As of April 2025, public information has not shown the results of regulatory investigations or legal proceedings related to the allegations, and the market seems to have accepted ANTA's clarification. ANTA's strong financial performance in 2018, with net profit increasing by 32.9% to RMB 4.1 billion and revenue increasing by 44.4% to RMB 24.1 billion, also provided support for its resistance to the crisis. This case highlights the importance of rapid and transparent crisis management in maintaining market stability when Chinese concept stocks face a short-selling crisis.

4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Research Summary

Through the analysis of the Muddy Waters short-selling case of Anta Sports, this study reveals the coping strategies and market effects of Chinese concept stocks when facing a short-selling crisis. In July 2019, Muddy Waters Research accused Anta of financial fraud by controlling distributors and divesting assets at low prices, causing the stock price to fall by 7.32% in the short term. Anta quickly issued a clarification announcement, emphasizing the independence of distributors and warning of legal action. The stock price only fell slightly by 0.2% the next day, showing the market's recognition of its response. The case shows that rapid and transparent information disclosure and active public relations management are the key to alleviating market panic and stabilizing investor confidence. Anta's strong financial performance in 2018 (net profit increased by 32.9% to RMB 4.1 billion) provided support for its resistance to crises. The study further pointed out that Chinese concept stocks are often short-selling targets due to information asymmetry and differences in overseas supervision, and a sound crisis management system needs to be established. This case provides a practical reference for Chinese concept stocks to deal with similar crises, and emphasizes the importance of crisis warning and communication.

4.2 Response Suggestions

To address the short-selling crisis, Chinese concept stocks should adopt the practices listed below. First, enhance information disclosure transparency, issue complete financial statements regularly, and lower information

asymmetry risk. Second, set up a crisis warning mechanism to recognize short-selling risk beforehand through monitoring market sentiment and media coverage. Third, refine investor relations management, actively communicate with shareholders, and strengthen trust. For instance, Anta settled the market confidence through the prompt explanation and warning of lawsuits. Besides, issue prompt responses to allegations through professional PR teams and lawyers, and punish the individuals responsible for fabrication the information. Corporate governance should be enhanced, along with financial compliance, to lower the target points of short-selling institutions. These practices can make Chinese concept stocks quickly rebuild the trust of the marketplace during the crisis and lower the volatility of the stock price and reputation loss.

4.3 Future Prospects

In the future, research on how Chinese concept stocks deal with the short-selling crisis can be deepened from the following directions: First, explore the application of big data and artificial intelligence in crisis warning, such as predicting short-selling risks through social media analysis. Secondly, we compare the crisis response effects of Chinese concept stocks in different markets (such as US stocks and Hong Kong stocks) and summarize the best practices. In addition, we study the impact of regulatory policies on short selling, such as the disclosure requirements of the Hong Kong Stock Exchange for short selling reports. The Anta case shows that crisis management needs to be combined with corporate fundamentals and market environment. In the future, we can further analyze the role of long-term reputation management in stock price stability. As Chinese concept stocks become more internationalized, improving the global investor communication mechanism will become a focus to help companies cope with challenges and achieve sustainable development in a complex market environment.

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