

These Terms of Use govern current reports published by Muddy Waters Research and supersede any prior Terms of Use for older reports of Muddy Waters Research, which you may download from the Muddy Waters Research's website.

The reports on this website have been prepared by Muddy Waters Capital LLC ("Muddy Waters Capital"). We refer to Muddy Waters Research and Muddy Waters Capital collectively as "Muddy Waters" and individually these entities are referred to as a "Muddy Waters Entity". **You should assume that, as of the publication date of a Muddy Waters report, Muddy Waters Related Persons (possibly along with or through its members, partners, affiliates, employees, and/or consultants), Muddy Waters Related Persons clients and/or investors and/or their clients and/or investors have a short position in one or more of the securities of a Covered Issuer (and/or options, swaps, and other derivatives related to one or more of these securities), and therefore stand to realize significant gains in the event that the prices of either equity or debt securities of a Covered Issuer decline or appreciate.** Muddy Waters Research, Muddy Waters Capital and/or the Muddy Waters Related Persons intend to continue transacting in the securities of Covered Issuers for an indefinite period after an initial report on a Covered Person, and such person may be long, short, or neutral at any time hereafter regardless of their initial position and views as stated in the research report published by Muddy Waters Research or Muddy Waters Capital. Neither Muddy Waters Research nor Muddy Waters Capital will update any report or information on its website to reflect changes in positions that may be held by a Muddy Waters Related Person. Each report specifies the publisher and owner of that report. All reports are for informational purposes only. Under no circumstances should any of these reports or any information herein be construed as investment advice, or as an offer to sell or the solicitation of an offer to buy any securities or other financial instruments.

Muddy Waters Research is an online research publication that produces due diligence-based reports on publicly traded securities, and Muddy Waters Capital LLC is an investment adviser registered with the U.S. Securities and Exchange Commission. The reports are the property of the applicable Muddy Waters Entity that published that report. This website is owned by Muddy Waters Research. The opinions, information and reports set forth herein are solely attributable to the applicable Muddy Waters Entity and are not attributable to any Muddy Waters Related Person (defined below) (other than the applicable Muddy Waters Entity).

By downloading from, or viewing material on this website, you agree to the following Terms of Use. You agree that use of the research on this website is at your own risk. You (or any person you are acting as agent for) agree to hold harmless Muddy Waters Research, Muddy Waters Capital and its affiliates and related parties, including, but not limited to any principals, officers, directors, employees, members, clients, investors, consultants and agents (collectively, the "Muddy Waters Related Persons") for any direct or indirect losses (including trading losses) attributable to any information on this website or in a research report. You further agree to do your own research and due diligence before making any investment decision with respect to securities of the issuers covered herein (each, a "Covered Issuer") or any other financial instruments that reference the Covered Issuer or any securities issued by the Covered Issuer. You represent that you have sufficient investment sophistication to critically assess the information, analysis and opinion on this website. You further agree that you will not communicate the contents of reports and other materials on this site to any other person unless that person has agreed to be bound by these Terms of Use. If you access this website, download or receive the contents of reports or other materials on this website on your own behalf, you agree to and shall be bound by these Terms of Use. If you access this website, download or receive the contents of reports or other materials on this website as an agent for any other person, you are binding your principal to these same Terms of Use.

This is not an offer to sell or a solicitation of an offer to buy any security. Neither Muddy Waters Research nor any Muddy Waters Related Person (including Muddy Waters Capital) are offering, selling or buying any security to or from any person through this website or reports on this website. Muddy Waters Research is affiliated with Muddy Waters Capital. Muddy Waters Capital is an investment adviser with the U.S. Securities and Exchange Commission and is not registered as investment adviser in any other jurisdiction. Muddy Waters Capital does not render investment advice to anyone unless it has an investment adviser-client relationship with that person evidenced in writing. You understand and agree that Muddy Waters Capital does not have any investment advisory relationship with you or does not owe fiduciary duties to you. Giving investment advice requires knowledge of your financial situation, investment objectives, and risk tolerance, and Muddy Waters Capital has no such knowledge about you.

If you are in the United Kingdom, you confirm that you are accessing research and materials as or on behalf of: (a) an investment professional falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (b) high net worth entity falling within Article 49 of the FPO (each a "Permitted Recipient"). In relation to the United Kingdom, the research and materials on this website are being issued only to, and are directed only at, persons who are Permitted Recipients and, without prejudice to any other restrictions or warnings set out in these Terms of Use, persons who are not Permitted Recipients must not act or rely on the information contained in any of the research or materials on this website.

The research and reports presented on this website express the opinion of the applicable Muddy Waters Entity only. Reports are based on generally available information, field research, inferences and deductions through the applicable Muddy Waters Entity's due diligence and analytical process. To the best of the applicable Muddy Waters Entity's ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources that the applicable Muddy Waters Entity believe to be accurate and reliable, and who are not insiders or connected persons of the Covered Issuers or who may otherwise owe a fiduciary duty, duty of confidentiality or any other duty to the Covered Issuer (directly or indirectly). However, such information is presented "as is," without warranty of any kind, whether express or implied. With respect to their respective research reports, Muddy Waters Research and Muddy Waters Capital makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. Further, any report on this site contains a very large measure of analysis and opinion. All expressions of opinion are subject to change without notice, and neither Muddy Waters Research nor Muddy Waters Capital undertakes to update or supplement any reports or any of the information, analysis and opinion contained in them.

In no event shall Muddy Waters Research, Muddy Waters Capital or any Muddy Waters Related Persons be liable for any claims, losses, costs or damages of any kind, including direct, indirect, punitive, exemplary, incidental, special or, consequential damages, arising out of or in any way connected with any information on this website. This limitation of liability applies regardless of any negligence or gross negligence of Muddy Waters Research, Muddy Waters Capital or any Muddy Waters Related Persons. You accept all risks in relying on the information on this website.

You agree that the information on this website is copyrighted, and you therefore agree not to distribute this information (whether the downloaded file, copies / images / reproductions, or the link to these files) in any manner other than by providing the following link: <http://www.muddywatersresearch.com/research/>. If you have obtained research published by Muddy Waters Research or Muddy Waters Capital in any manner other than by download from that link, you may not read such research without going to that link and agreeing to the Terms of Use. You further agree that any dispute between you and Muddy Waters Research and its affiliates arising from or related to this report and / or the Muddy Waters Research website or viewing the material hereon shall be governed by the laws of the State of California, without regard to any conflict of law provisions. You knowingly and independently agree to submit to the personal and exclusive jurisdiction of the state and federal courts located in San Francisco, California and waive your right to any other jurisdiction or applicable law, given that Muddy Waters Research and its affiliates are based in San Francisco, California. The failure of Muddy Waters Research or Muddy Waters Capital to exercise or enforce any right or provision of these Terms of Use shall not constitute a waiver of this right or provision. You agree that each Muddy Waters Related Person is a third-party beneficiary to these Terms of Use. If any provision of these Terms of Use is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of these Terms of Use remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to this website or the material on this website must be filed within one (1) year after the occurrence of the alleged harm that gave rise to such claim or cause of action, or such claim or cause of action be forever barred.

ANTA Part 4: “Liars Lie”

We resume our campaign to expose ANTA’s fraud, and have several more pieces planned that will expose other inconsistencies and lies. In this piece though, we first take stock of the lies in ANTA’s responses to our pieces last week. Muddy Waters has been exposing frauds for nine years, and never once have we been accused by a regulator of lying. Yet, in almost every single instance of our accusing a company of fraud, the company denied our conclusions. Regardless, of the 14 PRC-based companies we have previously shorted due to research conclusions of fraud published on our website, six have been de-listed, one has been halted for almost five years, two have been later acquired by managements at premiums (one subsequently paid a significant regulatory settlement), two are down over 90%, two more are down significantly, and only one other stock is up. That’s 11-3 by our reckoning. Nine of these wins are knockouts (down over 90%, de-listed, or in suspended animation).

So with ANTA we see the same pattern: We present evidence of fraud (in this case, well over 100 pages and counting), the company denies it, and surrogates come out to defend the company. In this case, the company has shifted almost all of the burden of defense to the ever-pliable sell-side, effectively turning some analysts into little more than sock puppets. Ordinarily, managements have no effective downside to trying to lie their way out of fraud accusations – there is usually no increased regulatory penalty or shareholder opprobrium, so lying in the face of fraud accusations becomes one of the most asymmetric bets a management can undertake. In ANTA’s case, it has outsourced much of the lying to the sock puppets, effectively mutualizing the reputational risk. We now address these lies-in-response.

Lie 1: “We never said we own all Fila stores”

ANTA’s statement through analysts that it never claimed to own all Fila stores is an attempt to rewrite history, and it is a lie. This fact points again to our conclusion that the reported numbers for Fila cannot be relied upon.

Our Part 3 report made it literally indisputable that a third party, Mr. Su Weiqing, owned the Beijing Fila stores. The company initially reacted by issuing a Clarification Announcement that stated it “vigorously denies” the allegations. The problem ANTA had with this denial is that even a 10-year old could see it was a lie. So ANTA attempted to re-write history by falsely stating through sock puppets that it never claimed to own all Fila stores.¹

Just weeks prior to publishing our report, we held a call with ANTA’s internal Investor Relations representative, Ms. Suki Wong. We asked her whether ANTA owns all Fila stores in China, and she repeatedly assured us that it does. Below is the transcript of the portions of the conversation that dealt with Fila store ownership.

Q: [With respect to Fila] In 2014 you went from wholesale to retail, and then when you say you went from wholesale to retail, everything is self-owned and self-operated?

¹ See analyst report by Qian Yao, Kevin Yin, and Derek Choi dated July 10, 2019.

A: Um yes. We own the brand and we sell the product directly to the customers

Q: You mean, we are talking here about Fila, just about Fila.

A: Yea, yea, yea. We do the retail by ourselves. In our P&L, Fila's revenue [indiscernible] is retail.

Q: How many, I don't have the number to hand, what's the store count for Fila in China?

A: We have the PowerPoint in our website. I can ask my colleague to send. The PowerPoint is actually on our website, and then on slide 22, and For Fila brand we have 1,600 stores.²

Q: Ok, and all of those are self-operated?

A: Yes...And for Fila managing the inventory is slightly easier because we own the retail.

The above is of course consistent with what ANTA stated in response to Blue Orca Capital / Soren Aandahl's presentation. On a response conference call, CFO Lai Shixian was reportedly asked whether ANTA was considering doing wholesale for Fila, and responded that:³

“We have no plan for Fila to engage in wholesale... We will continue to operate Fila's self-operated model.”

The would seem to have been a pretty opportune time to disclose that ANTA does engage in some wholesale business under the Fila brand. The most logical conclusion by far is that ANTA intended to lie to investors about its ownership of Fila stores. The Fila financials should not be relied upon.

Lie 2: The disposal of Shanghai Fengxian and its subsidiaries was proper.

Through a sock puppet, ANTA management addressed the obviously corrupt and improper transaction by stating that the international brands retail business was doing poorly, as evidenced by its losses, and that the recipient was an independent party. This was a new, rapidly growing business that was ahead of plan in terms of sales.⁴ One would think that even the least switched-on sock puppet would understand that new, rapidly growing businesses often report losses. This is not a valid reason for the disposal. Instead, it shows that ANTA insiders stuffed the public company shareholders with losses necessary to scale the business before taking it for themselves.

² In Anta's 2018 full year annual results presentation slide #22 indicates 1652 Fila stores.

³ http://www.sohu.com/a/247126682_313170 “问题 2:有没有考虑把 fila 做批发? 回答: 并没有打算做批发, 仍然打算做直营.

⁴ Anta 2007 AR, pp. 31, 36, 37; Anta 2007 Interim Report, p. 21

The ultimate recipient of Shanghai Fengxian was not an independent party – certainly not in substance, and likely not in form. After Fengxian passed through a straw buyer within six months, the ultimate recipient was ANTA proxy network member Chen Dinglong. At the time, Chen was the largest shareholder of a then-disclosed Connected Person, Guangzhou Anda. Even if ANTA were to argue that Chen was technically not a Connected Person, the use of the obvious straw purchaser to disguise the ultimate recipient shows that Chen is, in fact, a Connected Person.

Lie 3: ANTA distributors are independent, and are not Connected Persons.

The evidence is overwhelming that ANTA brand distributors are not actually independent, and that they are controlled by ANTA in ways that make them Connected Persons. More importantly, as we detailed in Part 1, ANTA controls their finance departments by hiring the finance manager and paying finance department employees (likely through Yundong). This control over finance departments in particular is improper and we believe enables ANTA to create fraudulent transactions. Having this control is not about supporting distributors in their marketing, nor providing management knowhow. The obvious purpose is to create accounting records. (Note also the use of ANTA IT infrastructure by distributors' finance personnel reporting to SAIC.⁵)

There are two problematic reactions we have seen to the evidence of the distributors' lack of independence. The first problematic reaction is getting hung up on the enumerated portion of the Connected Persons disclosure rules. ANTA has clearly put much thought into creating the appearance of independent distributors. For situations such as these, the Listing Rules also create a category called a "Deemed Connected Person". This applies when in substance, if not form, the party is not independent. This is clearly the case with ANTA's distributors – that they should be Deemed Connected Persons. However, focusing too much on this violation misses the point.

The Listing Rules about Connected Person disclosures exist because of the significant potential for abuse that controlled counterparties present. Colluding counterparties are the bedrock of almost all stock fraud committed by PRC issuers. Sino-Forest's shambolic suppliers and customers were little different – they were controlled through proxies, and produced fraudulent transaction documentation. This leads to the next problematic reaction: That auditors have somehow "audited" these distributor relationships.

Auditors do not "audit" parties that are presented as independent. Auditors have no ability to compel independent parties to provide information, provide their accounting records, or provide any detailed information. Auditors occasionally send "confirmation letters" to companies' counterparties asking to confirm information that the companies have supplied. In countries with developed legal systems, lying in a confirmation letter to the auditor and assisting with a stock fraud can bring serious consequences. Auditors' procedures were developed in these markets.

However, in China, collusion with counterparties is far more common than in developed markets. The legal consequences for such collusion are usually inconsequential because

⁵ Part 1, pp. 20, 45.

enforcement is so lacking. In reality, audits of PRC-based issuers provide close to zero assurance against fraud, and actually increase fraud risks because they provide investors with a false sense of security. For example, see the sock puppet statement that “Anta’s control of and influence on distributors are audited: Management reiterated that its distributors are independent, as each has its own management team that makes independent business decisions and its own financial and human resources management functions. This is also verified by KPMG, who has been auditing Anta and performing on-the-ground assessments of the distributors since 2004.” The bottom line is that audits have done nothing to ensure that ANTA’s distributors are independent.

The below is from ANTA’s 2018 Annual Report.⁶ It lists the auditors’ methods for reviewing recognition of revenue from distributors: a) reviewing distributor agreements (supplied by ANTA), b) assessing whether ANTA’s accounts reflect revenue in the manners the distributor agreements provide (information supplied by ANTA), c) reviewing documentation of credit notes and returns (supplied by ANTA), d) sending confirmation letters to the distributors (whose finance departments ANTA controls), and e) asking management (the masterminds of the fraud) about significant sales adjustments.

Revenue recognition: Sales to distributors	
<i>Refer to note 1 to the consolidated financial statements on page 97 and the accounting policies (U)(i) on page 141.</i>	
The key audit matter	How the matter was addressed in our audit
Revenue from distributors principally comprises revenue from sales of branded sporting goods, including footwear, apparel and accessories.	Our audit procedures to assess the recognition of revenue from sales to distributors included the following:
Every year, the Group enters into a framework distribution agreement with each distributor and, in accordance with the terms of each agreement, branded sporting goods of the Group are delivered to the location designated by the distributor which is when the control of the sporting goods is considered to have been transferred to the distributor and the point at which revenue is recognised.	<ul style="list-style-type: none"> inspecting agreements with distributors, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, applicable rebate and/or discount arrangements and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards;
As a part of the Group's business model, distributors place most of their orders during the various trade fairs held by the Group during the year.	<ul style="list-style-type: none"> assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate period in accordance with the terms of sale as set out in the distribution agreements;
We identified recognition of revenue from sales to distributors as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	<ul style="list-style-type: none"> identifying significant credit notes issued and sales returns from the sales ledger after the year end and inspecting relevant underlying documentation to assess if the related revenue had been accounted for in the correct accounting period in accordance with the requirements of the prevailing accounting standards; obtaining external confirmations of the value of sales transactions for the year ended 31 December 2018 and outstanding trade receivable balances as at that date directly from distributors, on a sample basis; inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

⁶ Pp. 90-91.

Of the above list, the only step that appears to involve externally-sourced information is the confirmation letter procedure. Because ANTA directs the distributors' finance departments, it almost certainly fills out the confirmation letters from the auditors. We can conceive of no reason other than stock fraud ANTA would direct its distributors' finance departments.

Also note that ANTA's official response completely ignores that senior executives at ANTA refer to the distributors as subsidiaries. We spoke to four former senior executives who stated this, and none who disputed this characterization. To portray this issue as one of the distributors showing their ANTA pride is intellectually dishonest. It's not only the distributors that use this terminology.

Conclusion

ANTA has shown no evidence to counter the well over 100 pages of evidence and commentary regarding ANTA's corruption. Rather, it has relied on proxies to make unsupported (and nonsensical) statements. Why? Because liars lie.