

The Impact of Regulatory Inquiries on the Content Quality of Corporate IPO Disclosure - A Case Study of HyperStrong

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Abstract: The registration system is a fundamental system for China's capital market, which has been widely recognized by academics and regulators, followed by a positive response from the SSE STAR Market. Based on the backdrop of the registration system, this paper takes the company prospectus and inquiry letter as the research object. It selects the case study of Beijing HyperStrong Technology Co., Ltd., which has gone through two rounds of inquiry and has been successfully listed. First, this paper describes the research background and significance of the regulatory inquiries under the SSE STAR Market registration system. It analyzes the current status of research at home and abroad. Secondly, it introduces the basic situation of the case companies. Then, the percentage of various questions and concerns of the SSE's two rounds of questioning of the case companies are analyzed respectively. Finally, the impact of SSE's regulatory inquiries on the disclosure quality of the case companies is analyzed in terms of adequacy, consistency, and comprehensibility. The study shows that regulatory inquiries have significantly improved adequacy, consistency, and comprehensibility in the prospectuses of proposed listed companies, effectively optimizing the quality of initial prospectuses. As a result, proposed listed companies should respond to trading inquiries promptly, maintain consistency in information disclosure, and comprehensively consider risk factors to enhance trust between companies and investors. Currently, there are fewer case studies of regulatory inquiries under China's registration system, and this paper provides a case study of regulatory inquiries, which can enable issuers to understand better the concerns and significance of regulatory inquiries by regulators for IPOs.

Keywords: Regulatory Inquiries, Information Disclosure, IPO, SSE STAR Market

1. Introduction

1.1. Background of the study

The SSE STAR Market officially opened in 2019 and is committed to supporting high-tech and strategic emerging industries, synchronizing the inquiry work centered on information disclosure and focusing on the quality of information disclosure to strengthen the attention. In December of the same year, introducing the new Securities Law systematically provides for an information disclosure regime. It clarifies the principles of information disclosure and improves the content of information disclosure. In 2022, the regulators have continued to optimize and improve information disclosure rules. The China Securities Regulatory Commission (CSRC) explicitly proposes to take the needs of

investors as the guide and to enhance the effectiveness and readability of the content of information disclosure and so on, which is a concept conducive to improving the accuracy of investor decision-making, enhancing investment confidence, and enhancing market credibility. In February of the following year, the CSRC fully launched the implementation of the reform of the registration system for stock issuance and formally released the main institutional rules associated with it. Against this backdrop, the SSE STAR Market strengthened its review of prospectuses and urged issuers to make accurate, complete, and compliant disclosures. According to the "Summary of Regulatory Inquiries for the First Quarter of 2023 of the SSE STAR Market", the inquiries focus on market volume, competitive strengths and weaknesses, and technological frontiers.

It has been almost six years since the introduction of the registration system for the SSE STAR Market. How has the advancement of regulatory inquiries improved the quality of corporate IPO disclosure content? After listing, how have the regulatory inquiries affected enterprises' stock market trading indicators? In actual operation, many areas still need to be perfected in the IPO of the SSE STAR Market. Therefore, this paper analyzes the impact of regulatory inquiries on the quality of IPO information disclosure and the stock market trading indexes after listing enterprises with Beijing HyperStrong Technology Co., Ltd. as the research object.

1.2. Research significance

From the theoretical point of view, this paper takes the IPO listing process of HyperStrong as the research object and studies the situation and impact of its being questioned many times. This paper enriches the research on the impact of regulatory inquiries on the quality of IPO disclosure under the registration system. The above practices are conducive to a more comprehensive understanding of regulators' concerns on IPO regulatory inquiries and their significance.

From a practical point of view, the significance of the study is analyzed mainly from two perspectives: enterprises and investors. For enterprises, it can further optimize the quality of IPO information disclosure, provide reference to the adequacy and consistency of IPO information disclosure of enterprises applying for listing on the SSE STAR Market, and help improve the probability of their listing success. For investors, it can reduce the risk of information asymmetry between investors and enterprises, prevent them from being influenced by false information when making investment decisions, protect investors' rights and interests, and help investors make rational investments.

1.3. Current status of domestic and overseas research

As an important regulatory mechanism for the pre-disclosure of information before a company goes public, regulatory inquiries play a key role in the quality of information disclosure. In domestic research, Xue Shuang and Wang Yu found that IPO inquiries involve a variety of question types, mainly including basic corporate information, financial status, business status, and so on, which enables them to reflect corporate status more comprehensively [1]. In addition, research by Binyan Zhao and Chunming Ye confirmed that regulatory inquiries can protect the rights and interests of small and medium-sized investors by improving the quality of information disclosure in the securities market [2]. Tu Xiaolan and Zhan Lei studied 25 first batches of companies listed on the SSE STAR Market. They found that multiple rounds of inquiries can enhance the prospectus's length, urge the issuer to make improvements and additions to the disclosure of information and improve the efficiency of the disclosure of information to a certain extent [3]. In the foreign research, Li F study unearthed that the numerical information of the disclosure in the prospectus can be evaluated from the perspectives of completeness, accuracy, and comprehensibility, and the textual information can be analyzed from the indicators of text length, percentage of specialized vocabulary and percentage

of charts and graphs [4]. Bozanic states that regulatory inquiries effectively ensure disclosure reliability and weaken the information asymmetry between the investment market and the company [5]. Johnston and Petacchi demonstrated that regulatory questioning can optimize the disclosure quality for questioned firms by examining the accuracy of analysts' forecasts [6].

2. Company profile

Beijing HyperStrong Technology Co., Ltd. was founded on November 4, 2011, focusing on the field of new energy storage; a high-tech enterprise always committed to power battery systems for new energy vehicles, lithium battery energy storage system-related products, research and development, production and sales, in order to become a leader in the whole life cycle of the value of the power battery utilization of the solution for the goal of deep plowing, to provide customers with power battery system for new energy vehicles, innovative grid energy storage system, electric logistics vehicles leasing operation of three business segments.

In June 2020, HyperStrong was restructured into a joint stock company and renamed “Beijing HyperStrong Technology Co., Ltd.”. On January 27, 2025, the SSE STAR Market officially listed Beijing HyperStrong Technology Co., Ltd. (stock short form: HyperStrong, Stock Code: 688411). The Company has an efficient and complete quality management system. It has obtained several authoritative certifications, such as ISO 9001 quality management system certification and IEC 62619 certification, for its outstanding performance in this field.

3. Overview of HyperStrong regulatory inquiries

3.1. First round of inquiries

After reviewing the prospectus first filed by HyperStrong, the Exchange conducted the first round of detailed questioning on its failure to meet compliance. In the first round of questioning, 14 broad categories of questions were covered, and more comprehensive questioning was conducted on their details, which were mainly related to changes in shareholding, market competition, connected transactions, repayment ability, and so on. As derived from Figure 1, financial indicator-related questions accounted for 35%, which is the most concerned content of the Exchange. The SSE inquired in detail about the reasons for the continuous decline in the gross profit margin of the Company's energy storage system, requested it to confirm the accuracy of the data on research and development expenses, and confirmed in detail the financial information of the Company's revenue, costs, current accounts, inventory, and other aspects. Secondly, the Exchange's more concerned issues centered on business operations and corporate governance, which accounted for 29% of the overall total, with the content of business operations mainly focusing on supplier dependence, product technology competitiveness, over-concentration of customers, and customer affiliation. In terms of corporate governance-related issues, the Exchange was mainly concerned with the changes in the shareholding of HyperStrong, the flow, and use of funds transferred by shareholders, considered the business layout of subsidiaries and their relationship with the Company's core product areas, and further paid attention to the subsequent business cooperation transferred by subsidiaries. For the 7% project compliance issue, the SSE mainly inquired about the reasonableness of the fund-raising project and environmental compliance.

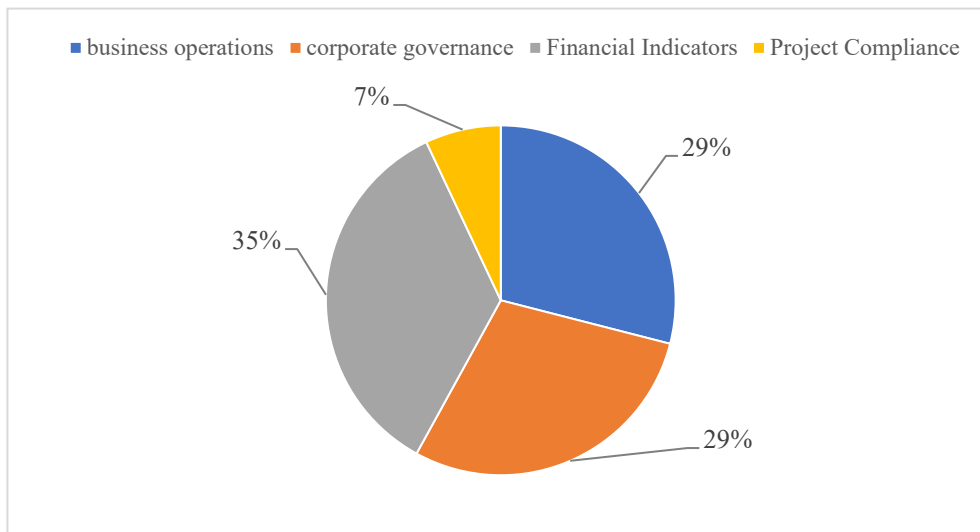


Figure 1: Percentage of various questions in the first round of questioning by HyperStrong
Data source: EastMoney Network HyperStrong's first round of audit inquiry letter response information

3.2. Status of the second round of inquiries

After HyperStrong responded to the first round of inquiries, the Exchange conducted the second round, mainly focusing on the Company's business operations, corporate governance, and more detailed financial information. Regarding the number and length of the inquiries, the number of questions in the second round decreased from 14 to 7. The length of the second round of inquiries changed from 635 pages to 207 pages, a substantial decrease compared to the first round of inquiries. The effect of the first round of inquiries was remarkable.

The second round of questioning was a deepened supplement to the first round of questioning, and HyperStrong made a more comprehensive disclosure in this regard. In respect of business operation, the Exchange requested the Company to explain the independent research and development of its core technology and its technological competitiveness, to disclose further the measures to reduce the risk of supply chain shortage through the multi-supplier route, to explain the reasons for the high concentration of the top five customers, and to explain the progress of market expansion and the market strategy of its core products. For further review of corporate governance, the Exchange inquired about the reasonableness of the transfer of subsidiaries and whether it involved the transfer of benefits and requested it to explain whether the decentralized shareholding structure of the Company is potentially risky and whether there is any hidden risk of control by persons acting in concert, as well as to review the compliance of the flow of funds from the transfer of its shareholdings and the impact of the pending litigation on the Company. When inquiring about the information related to financial indicators, the Exchange noted why the proportion of R&D expenses continued to decrease and the purchase price of battery cells was lower than the market price and further inquired about the risks of a high debt ratio and high receivables. HyperStrong has fully supplemented the unclear information and improved the quality of its disclosure. After completing the second IPO question on the SSE STAR Market, HyperStrong has successfully passed the audit.

4. Analysis of the impact of regulatory inquiries on the quality of HyperStrong's IPO disclosure

4.1. Impact on the adequacy of IPO disclosure

After two rounds of inquiries from the SSE, HyperStrong responded to the inquiries and provided additional explanations and interpretations in the registration draft and the draft for the meeting. In order to study the changes in the adequacy of the prospectus before and after the inquiries, this paper provides statistics on the length of the prospectus and changes in the various chapters. According to Table 1, the length of the filing draft was 482 pages, the meeting draft was 570 pages, an increase of 18.3%, and after two rounds of hearing, the final submission of the registration statement was expanded to 574 pages, an increase of 19.1% compared to the initial filing.

Table 1: Changes in prospectus length by edition

IPO version	pagination	increase in the number of pages	amplification
Filing Draft	482	—	—
Listing Committee Draft	570	88	18.3%
Registration Draft	574	4	0.01%
The final range of change	—	—	19.1%

Source from: SSE official website HyperStrong prospectus disclosure information

The data in Tables 1 and 2 shows that the length of the registration statement after two rounds of questioning has increased by nearly 20% compared with that of the initial filing, and the length of the contents of ten chapters has been increased. Among the changes, the content of basic information of the issuer, business and technology, financial and accounting information, and management analysis has been expanded the most, which is the same as the categories of the SSE's concerns about equity changes, supplier dependence, technology, and product competitiveness, etc. Accordingly, regulatory inquiries have a more positive impact on the adequacy of information disclosure.

The prospectus has expanded and explained the key accounting policies and accounting estimates in the Financial and Accounting Information and Management's Analysis with the most significant increase in the number of items, further clarifying the specific point of time for revenue recognition of the sales of energy storage systems, the revenue recognition of the leasing business of new energy vehicles and the accounting treatment of changes in leases, etc., supplemented the specific application of the expected credit loss model, such as the assessment of credit risk, and clarified the capitalization stage of research and development expenditures and the basis for determining the subsequent amortization method and amortization period. It also details the pricing mechanism regarding related party purchases and sales, as well as the continuity and significance of their transactions. It refines the treatment of minority interests in subsidiaries and accounts for changes in the scope of consolidation. The case firm realizes the improvement of disclosure quality by enhancing the adequacy of disclosure.

Table 2: Changes in sections of the prospectus filing-registration draft (unit: pages)

Title of the chapters	Filing Draft	Registration Draft	Increased length
Interpretation	10	11	1
Overview	11	16	5

Table 2: (continued)

Risk factor	7	12	5
Basic information about the issuer	58	70	12
Business and Technology	77	87	10
Financial accounting information and management analysis	135	149	14
Utilization of Proceeds and Future Development Planning	11	11	0
Corporate governance and independence	43	49	6
Investor protection	5	9	4
Other important matters	11	14	3
Herald	11	11	0
Annexes	76	98	22

Source from: SSE official website HyperStrong prospectus disclosure information

4.2. Impact on the consistency of IPO disclosure

The consistency of corporate disclosure is positively related to the authenticity and comparability of financial disclosure and presents a unity of information logic. Differences with market information need to be explained to maintain market trust and ensure the compliance of its information [7]. When “peer industry” appears, it means that the data are compared horizontally; when “match” appears, it means that the information disclosed by the enterprise in different periods has a certain degree of consistency when explaining the differences with the market information, special terms such as “differences” will be used. When explaining the differences in market information, special terms such as “discrepancy” are used [8]. Research consistency indicator terms can effectively reflect the consistency of information disclosure. Therefore, this paper chooses to study “peer industry,” “comply with,” “discrepancy,” “match,” “concordance,” and “account” of the six extraordinary vocabulary changes to analyze the consistency of disclosure of HyperStrong.

Table 3: Changes in the vocabulary of prospectus consistency indicators by version (unit: count)

Glossary of indicators	Filing Draft	Listing Committee Draft	Registration Draft
Peer industry	52	55	58
Comply with	88	93	93
Discrepancy	50	72	75
Match	13	13	13
Concordance	50	60	60
Account	37	36	36

Source from: SSE official website HyperStrong prospectus disclosure information

Table 3 shows that after two rounds of regulatory inquiries, most of the consistency indicators vocabulary was increased in the final submission of the registration draft, with a total increase of 13.2%. The second round of regulatory inquiries on the SSE's concern about market competition in disclosing information in the draft registration has been further supplemented from the content. HyperStrong compared the product with the products of companies in the same industry, an increase in the market and the range of customers to elaborate, emphasizing the technological advantages of

the competition in the market, so it can be seen that the regulatory inquiries to urge the issuer to improve consistency of disclosure and enhance the quality of the disclosure of information.

4.3. Impact on the comprehensibility of IPO disclosure

The comprehensibility of information disclosed in the prospectus has become a key regulatory requirement because it is a matter of investor interest and helps investors access information more effectively. After two rounds of questioning by the SSE, HyperStrong's comprehensibility regarding information disclosure has significantly improved. The number of chapters focusing on investors has been increased, as shown in Table 2, in which the length of three chapters relating to the financial and accounting information and management analysis, the basic information of the issuer, and the business and technology has been expanded, which is conducive to a better assessment of the value of the enterprise by the investor, and helps the investor to make a better investment decision.

In addition, from the filing draft to the registration draft, the charts in many chapters were changed from combination charts to single charts, which facilitates investors to understand the changes in data more efficiently and avoid information overload. For example, in the Business and Technology chapter, charts such as “China's Cumulative Installed Capacity of Commissioned New Energy Storage” and “China's Cumulative Installed Scale of Wind Power and Photovoltaic from 2018-2023” are changed from a combination of line and bar chart to a more single and concise Bar chart. This change will enable investors to grasp the core data more quickly, reduce the difficulty of understanding the information, improve the efficiency of information communication, and better meet the regulatory requirements for clear and understandable disclosure of information. In summary, HyperStrong has improved the comprehensibility of disclosure and optimized the quality of disclosure through regulatory inquiries.

5. Conclusion

This paper examines the IPO regulatory inquiries of Beijing HyperStrong Technology Co., Ltd. and introduces the background and significance of the study. By analyzing the changes in the length of the prospectus, the vocabulary of indicators, and other data, it was found that HyperStrong passed the audit after two rounds of questioning, and the issuer responded well to the questions asked by the Exchange. In it, the issuer's basic information, business and technology, financial and accounting information, and management analysis of the enterprise were responded explicitly to, and by improving the adequacy, consistency, and comprehensibility of the disclosure of information, investors can more fully understand the information and narrow the information asymmetry. The above practices reflect that regulatory inquiries improve the quality of information disclosure during IPOs.

For companies preparing for listing, they should actively respond to the questions asked by the Exchange promptly, provide objective and reasonable explanations, supplement the content of the disclosure is not detailed, maintain the consistency of the information disclosure, comprehensively consider the risk factors, strengthen the readability of the information disclosure, optimize the quality of the information disclosure, which can enhance the trust between the enterprise and the investor, and reduce the number of questions asked and the number of times in the questioning stage of the IPO.

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