

An Analysis on Multiple Rounds of Questioning Under the Registration System: Taking Hitake as an Example

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Abstract. The traditional approval system has in the past suffered from low approval efficiency and inadequate information disclosure, and was prone to market speculation and information asymmetry. In order to improve market transparency and standardization, the China Securities Regulatory Commission (CSRC) formally implemented a registration system for stock issuance in 2019 and is gradually promoting related reforms. Under the registration system, if the regulator still has questions about a company's response or needs further information, it may ask additional questions and request more information and explanations from the company. At this point, the company will face multiple rounds of questioning. Through the multiple rounds of questioning procedures, the regulator can gain an in-depth understanding of the situation of the proposed listed company, ask questions and request additional information, so as to better protect the rights and interests of investors and the stable operation of the market. This paper analyzes Hitake as an example of a company, and studies the reasons why Hitake experienced multiple rounds of questioning as well as the economic results of multiple rounds of questioning from both financial and non-financial perspectives. The significance of this paper is that by analyzing the multiple rounds of inquiries under the registration system of Hitake, it reflects the impact of the multiple rounds of inquiries, thus reflecting the far-reaching role of the registration system in today's market as well as the revelation.

1 Introduction

The traditional approval-based issuance system suffered from long approval cycles and cumbersome procedures, which limited market development and innovation. On February 1, 2023, the reform of the full implementation of the registration system for issuance of shares was officially launched. On February 17, 2023, to improve market transparency and standardization, the China Securities Regulatory Commission (CSRC) issued the rules of the system related to the full implementation of the registration system for issuance of shares, which came into effect on the date of its announcement. The CSRC also issued the rules of the system related to the registration system for issuance of shares, which came into effect on the date of its announcement. The introduction of the registration system simplifies the issuance process, improves market efficiency, and promotes the development and activation of the market [1]. The implementation of the registration system can enhance corporate governance and protect the legitimate rights and interests of investors through information disclosure and market supervision [2]. The implementation of the registration system can provide more convenient and flexible financing opportunities for innovative and growth-oriented enterprises, promote economic transformation and upgrading, and cultivate new economic growth points. It also shows that China's capital market is becoming more and more mature. In

addition, the example of Hitake provided in this paper is one of the Growth Enterprises Market (GEM). GEM is a stock exchange market established to support the development of innovative and growth-oriented enterprises. The main aspects of GEM companies applying for listing include the following: first, government support. Secondly, the demand of the capital market. GEM provides a platform specialized in providing financing and growth opportunities for such enterprises. Next, innovation ability and growth potential. GEM companies usually have strong innovation ability and growth potential, possess independent intellectual property rights and core technologies, and have market competitiveness and sustainable development ability. Further, financing needs: GEM provides more convenient and flexible financing opportunities. Finally, market opportunity, after listing, it is expected to gain more market attention and investment opportunities.

The research methods adopted in this paper are mainly literature review and case study. By collecting and analyzing relevant literature, it explores the reasons for multiple rounds of inquiries under the registration system as well as the economic results. At the same time, the conclusions and insights brought by the case of this paper are explored through logical analysis. This paper will explore the reasons and results from the case study, with relevant illustrations to assist the analysis. The significance of this paper lies in the in-depth exploration of the causes and results of multiple rounds of

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questioning under the registration system, with the aim of analyzing the economic results brought about by multiple rounds of questioning.

2 Related concepts

2.1 Conceptual basis of the registration system

The registration system for the issuance of shares mainly means that when an issuer applies for the issuance of shares, it must, in accordance with the law, completely and accurately declare all kinds of publicly available information to the securities regulator. The role of the securities regulator is to conduct a formal review of the comprehensiveness, accuracy, truthfulness and timeliness of the filings, and to leave it to the market to decide whether the issuer's stock is good or bad, without conducting a substantive review of the issuer's qualifications or making value judgments. Under the registration system, companies are required to submit detailed disclosure materials and are subject to multiple rounds of inquiries and audits by regulators. The overall goal of the registration system is to create a capital market that is standardized, transparent, open, dynamic and resilient. "Generally speaking, international mature capital market markets tend to implement the registration system [3]. The essence of the reform gives the choice to the market, strengthens market constraints and rule of law constraints, and adjusts the relationship between the government and the market.

2.2 Registration system audit process

After this registration system reform, the main body of the audit is transferred from the Securities and Futures Commission to the Exchange, which then conducts the audit [4]. The audit process of the registration system begins with the company submitting the listing application to the regulator, including the company's registration documents, prospectus, financial statements and other related materials (corrective materials need to be submitted within 30 days). The application will be accepted by the regulator within five working days. The regulator will conduct a preliminary review of the submitted application materials, including the completeness and compliance of the materials. Within the next twenty business days, the company will have its first round of inquiries. Based on the results of the initial review, the regulator sends a letter of inquiry to the company requesting further information and explanations. The letter of inquiry usually includes questions about the company's basic situation, financial condition, risk disclosure, governance structure, and so on [5]. When a company receives an inquiry letter, it is required to respond to the inquiry: the company responds to the inquiry letter in a timely manner and provides detailed information and explanations as required by the regulator. The materials for the response usually include supplementary materials, statements, legal opinions and so on. The regulator reviews and evaluates the company's response and materials provided, including a

comprehensive assessment of the company's financial position, risk disclosure, and governance structure. Some companies need to ask additional questions: If the regulator still has questions about the company's response or needs further information, it may ask additional questions and request more information and explanations from the company. Finally, based on the results of the review, the regulator decides whether to approve the company for listing. If the audit is passed, the regulator will issue an announcement approving the listing. If the audit is not passed, the regulator will issue a notice of non-approval to the company with reasons. If the company is approved for listing, the company needs to complete pre-listing preparations, including signing a listing agreement with the stock exchange, conducting share registration, and conducting investor education. After the company completes the preparation for listing, it begins to be listed and traded on the stock exchange, and the company's shares are officially traded to the public.

3 Case analysis using Hitake as an example

Founded in 2003, Qingdao Hitake Mould & Plastic Technology Co., Ltd. has long been committed to the research and development, design, manufacture, sales and project management services of automotive injection molds and plastic parts [6]. The company continuously improves the automation and intelligence level of mold manufacturing, contributing to the modern manufacturing industry. Hitake currently has two subsidiaries, Hitake Mould was established on January 7, 2004, and is mainly engaged in the research and development, design, manufacturing and sales of injection molds and plastic parts. Hitake Thailand was established on July 8, 2019, and mainly undertakes the Company's production and operation business in Thailand, with the main production products being plastic parts and mold repair services. Hitake applied for listing on the GEM in July 2020 and the registration became effective on June 2, 2021. In close to a year's time, Hitake has gone through four questioning sessions. In the first round of questioning, Hitake was asked a total of thirty questions. The questions covered the issuer's basic information, corporate governance, business and technology, financial and accounting information and management information. In the second round of questioning, Hitake was asked seven questions. This time the questions were more targeted, covering both financial accounting information and management information as well as business and technology. These were additional disclosures to the first round of questioning. In the third round of questioning, Hitake was asked five questions, including financial and management information and corporate governance. In the last round of questioning, Hitake was asked seven questions. The questions were about financial and management information, corporate governance and basic information about the issuer. As shown in Figure 1 below, Hitake was asked a total of 49 questions, of

which thirty were about financial accounting and management information. This shows that there are still

some problems with Hitake's financial accounting and management.

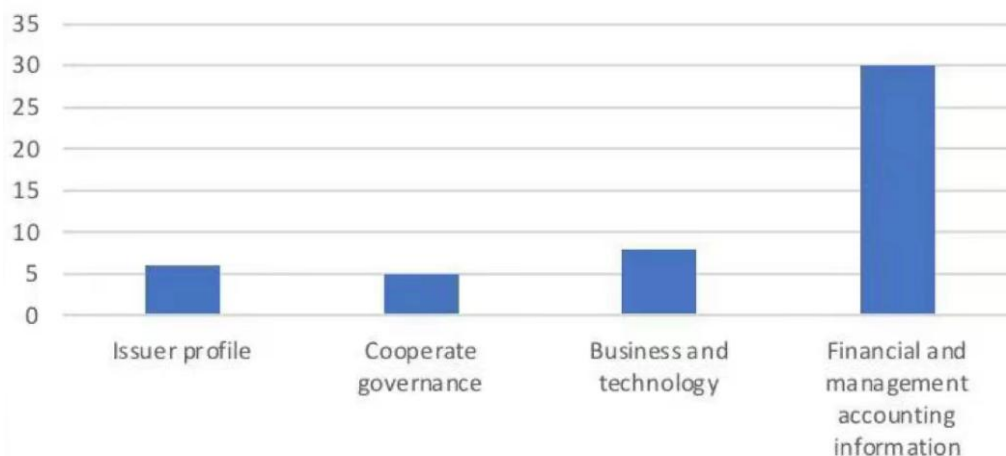


Fig. 1. The number of questions in the four rounds of Hitake's inquiries (Photo/Picture credit: Original).

4 Analysis of the reasons why Hitake experienced multiple rounds of questioning

4.1 Inadequate disclosure of information

A quantitative analysis of the Corporate social responsibility disclosure level of three hundred enterprises in 2011 showed that with a full score of 100, the average score of the enterprises was 19.7 points. This shows the low level of overall disclosure. For example, in the prospectus, on the issue of financial internal control irregularities, it was pointed out that the issuer was requested to make additional disclosure on the background reasons for Qingdao New Material's disbursement of funds to Hitake Mould. Subsequently, the issuer has made additional disclosure. Qingdao New Material, as a municipal-level business incubator in Qingdao, provides entrepreneurial services to technology-based enterprises, and therefore endorsed its outstanding notes receivable to Hitake and provided guarantees in order to provide corresponding financial support to Hitake.

In the comments of the issuer and the sponsor of Hitake in response to the fourth round of audit inquiries, it was pointed out that the issuer's responses to the third round of audit inquiries were insufficient and incomplete, and it was requested that the issuer provide a complete response to the question of "the periodical expense ratio and the net profit margin". According to this request, Hitake revised and supplemented the relevant questions. First of all, Hitake has supplemented the analysis of the reasons why the period expense rate is lower than the comparable companies in the same industry, secondly, it has supplemented the sales profit margin, return on net assets with the comparable companies in the same industry, then it has supplemented the fluctuation of the detailed costs of management expenses, the reasons for it and the comparison with the same industry, and then it has supplemented the reasons for the reason and the

reasonableness of the financial expense rate being lower than the same companies in the same industry, and finally, it has supplemented the verification opinions of intermediary institutions. Supplementary disclosure of the issuer's organizational structure, management system, number of subsidiaries of the issuer, etc., the composition of staff remuneration included in management expenses and their respective numbers and average remuneration, analysis of the reasons for and reasonableness of the staff remuneration in management expenses being lower than that of the comparable companies in the same industry, the specific accrual criteria and changes in management expenses such as depreciation and amortization expenses, office expenses and business hospitality, etc., and in connection with the aforesaid matters Further analyze and disclose the reasons for and reasonableness of the management expense ratio being lower than that of comparable companies in the same industry, whether there is any compression of fee parks or advancement of costs and expenses outside the Company, and whether the lower expense ratio is sustainable.

4.2 Information asymmetry

Information asymmetry is a phenomenon due to the theory of information asymmetry [7]. In the market, everyone seeks information symmetry, but in fact, information is always asymmetric. For example, fees, costs, etc. In Hitake's fourth round of audit inquiry reply comments, it is proposed to re-verify the authenticity and completeness of the issuer's operating costs. According to this requirement, Hitake firstly gave the production process, costing methods; and extracted the company's product costing table, checking the accuracy and reasonableness of the company's costing; then obtained a series of further proofs such as details of raw materials in and out of storage to ensure the authenticity and completeness of the operating costs; and then obtained the project budgets and bill of materials lists, and finally gave the main business cost schedule, personnel change

table, etc. to verify the authenticity and completeness of the operating costs. Finally, it also gives the detailed list of main business cost, personnel change table, etc. to make additional disclosure on the existence of doubts.

In the third round of Hitake audit in response to the letter of inquiry, on the fifth question "overlapping suppliers" in the reporting period, the issuer pointed out that the issuer and the related party Qingdao Changxinyuan, Hitake mold within the Sea Meijia mold, Qingdao Chang Yong solid there are overlapping customers and suppliers. The purchase amount of the suppliers were 5.6374 million yuan, 9.6515 million yuan, 15.7923 million yuan and 9.753 million yuan, accounting for 4.21%, 4.79%, 7.12% and 7.97% of the total purchase amount of the issuer in the respective period; the sales amount of the issuer to the above overlapping customers were 7.270 million yuan, 909,900 yuan, 4.630 million yuan and 51,600 yuan, accounting for 5.6% of the total sales of the issuer in the respective period. The amount of sales made by the Issuer to the above overlapping customers was RMB7.2770 million, RMB909 million, RMB4.6030 million and RMB5.16 million respectively, which accounted for 3.28%, 0.03%, 1.35% and 0.03% of the Issuer's operating revenue in each of the periods. In light of this, the issuer was requested to continue to make additional disclosures. In accordance with this request, the Issuer made additional disclosure on whether there are more differences between the overlapping and non-overlapping with the abovementioned related parties in various aspects and the reasons for such differences. The explanations were made in the form of a table, which was very convincing.

5 Economic results of multiple rounds of questioning

5.1 Financial perspective

Through the Hitake initial public offering prospectus can be seen in the company there are still many problems. Through the Hitake initial public offering prospectus can be seen in the company also has a lot of problems. (1) The enterprise scale is generally small, the vast majority of mold enterprises with annual revenues of less than 100 million yuan, mold industry competitiveness is small. (2) New energy automobile market changes, the company will face the risk of declining market share. (3) The U.S.-China trade friction on the company's business development and profitability growth adversely affected. (4) Raw material price fluctuations affect profitability levels. (5) Rising human resource costs affect

profitability. (6) There are many uncertainties affecting the international, and there are operational risks in the Thai subsidiaries. (7) The company's technology needs to be further upgraded. (8) There is a lack of perfection in the introduction of talent, cultivation, and incentive system. (9) The company's outsourcing suppliers are relatively more dispersed, and there are many processing projects and processes. (10) The company's current fund-raising There is a risk that the company's fund-raising investment projects will not realize the expected returns. (11) There is a risk that the company's return on net assets will decline after issuance. For example, in the response to the first inquiry, the issuer was asked to make additional disclosure on the specific impact of the trade friction between China and the United States on its production and operation as well as the reasons for the change in sales revenue to U.S. customers. The company then responded to the question by listing the products on the tariff increase list and related measurements, etc. After verification, it was considered reasonable. Thereafter, in the third inquiry response showed the specific data given in the previous period, this time the issuer was asked to continue to disclose the specific types of tariff increases, revenue share and actual impact, and further disclosure of friction risk. According to this request, the issuer has further analyzed the financial statements, orders and other explanations. The relevant data in the financial statements belong to the basic data for the implementation of the financial management of the enterprise [8, 9]. For this time disclosure, it is considered that the issuer has taken active measures to minimize its impact. Its overseas sales revenue continues to grow steadily. It can be seen that after many rounds of questioning, Hitake has solved some of the initial problems of the company, thus optimizing its corporate financial performance. And it can be seen that the traditional financial performance system is more and more difficult to meet the demand in the development, and it is necessary to carry out the digital strategic transformation of the enterprise to adapt to the changing market environment [10].

In addition, through the multi-theory questioning, Hitake is gradually making relevant improvements for the problems, so as to successfully pass the audit and successfully go public. As shown in Table 1 and Table 2, firstly, it can be clearly seen that Hitake's net assets per share have increased significantly after the issuance, indicating that the company's economic strength is increasing. Secondly, the gearing ratio of Hitake after the issuance is also significantly reduced, indicating that the solvency of Hitake is getting stronger and stronger.

Table 1. Comparison of net assets per share before and after Hitake's IPO.

Net assets per share before issue (Yuan)	7.26	Net assets per share after issue(Yuan)	12.52
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Table 2. Comparison of Hitake's gearing ratio before and after issuance.

particular year	Pre-issue gearing ratio (%)	particular year	Pre-issue gearing ratio (%)
2017	74.11	2022	32.28
2018	57.68	2023 . 3.31	35.43
2019	53.87	2023.6.30	36.38
2020	53.53	2023.9.30	43.71

5.2 Non-financial perspective

The above tells us that although the first prospectus raised problems, the transparency, accuracy and truthfulness of the information disclosure were improved through repeated inquiries and additional disclosures, which greatly improved the quality of the information disclosure. What it should know is that information disclosure is the main way for listed companies to transmit effective information to the outside world, and it is also the main factor determining the stock price and market value of listed companies. For example, the issue of interest rate was mentioned in the prospectus. In the first reply to the comments, the issuer was requested to make additional disclosure on the nature of after-sales service fees, the ratio of the amount of expenses incurred to the size of revenue, etc. In turn, in the third reply to the comments, the issuer was requested to continue to disclose the gross profit margin in comparison with companies in the same industry and other contents. In the last round of questioning, the third round of inadequate and incomplete responses were requested to continue to make additional disclosures. Hitake, after four rounds of layers of supplementation and disclosure, after verification, that the issuer's management expense ratio is lower than the average level of comparable companies in the industry, in line with the issuer's products and organizational structure characteristics, with reasonableness. It can be seen that the following conclusions can be drawn from the multiple rounds of questioning: 1. Securities regulators may be concerned about the governance structure and operation of the company, and they may ask whether the company has sufficient independent directors and an independent audit committee, as well as whether there is any risk of potential conflict of interest or misconduct on the part of the company. 2. Securities regulators may be concerned about the risk management capabilities and measures of the company, and they may ask whether the company has a sound risk management system and process, and whether the company is able to identify and respond to potential risks in a timely manner. 3. Securities regulators may inquire about the company's strategic planning and competitive advantages in order to understand the company's positioning in the marketplace and its prospects for development. 4. Securities regulators may pay attention to a company's intellectual property rights (IPR) protection, including patents, trademarks, copyrights, and other aspects of IPR protection. For example, they may ask whether the

company has effective IP protection strategies and measures, and whether the company is at risk of IP disputes or infringement. 5. Securities regulators may also pay attention to the company's sustainability strategy and environmental, social, and governance (ESG) performance. They may ask about the company's practices and achievements in environmental protection, social responsibility, and employee welfare in order to assess the company's sustainability and social responsibility. Institutional inquiries about corporate governance, risk management, strategy and competitive advantage, intellectual property protection, and sustainable development can ameliorate the risk of potential conflicts of interest or misconduct in Hitake, and can protect the interests of investors and the stable operation of the market. Hitake has proved the reasonableness of its explanation during the questioning process. At the same time, through multiple rounds of questioning also see the development of Hitake still has a large range of room for improvement.

6 Conclusion

Some conclusions and recommendations can be drawn based on Hitake's registration inquiry. The company disclosed the first quarterly report shows: 2023Q1 realized revenue of 104 million yuan, +15.60% year-on-year; net operating cash flow +72.95% year-on-year. As a segment with strong competitive advantage, high brand awareness of listed companies, Hitake's medium- and long-term development is worth paying attention to, the company is expected to 2023, 2024, 2025 EPS were 1.02, 1.21, 1.44 yuan, corresponding to the PE were 29.98, 25.20, 21.17 times, give recommended rating. From the perspective of the secondary market investment transactions, taking into account the current macro situation at home and abroad, in the low valuation of the position or more medium-term margin of safety. This is all thanks to Hitake in the process of registration system inquiries, according to the questions raised by the continuous supplemental disclosure and improvement. Hitake in the questioning process to supplement the disclosure of information and issues related to financial accounting, so as to more accurately understand its true financial position, operating conditions and risk profile. This shows that the company should be fully prepared: the company should be fully prepared to answer all kinds of questions in the inquiry, including financial status, business model, market competition and other aspects. Adequate preparation by the company can improve the

accuracy and professionalism of answering questions and increase investors' confidence. The company should ensure the transparency and accuracy of information disclosure. During the questioning process, the company should provide sufficient information, including financial statements, operating conditions, risk factors, etc., so that investors can make informed investment decisions. The questioning process may involve the internal control of the company. At this time, the company should strengthen the internal control system to ensure the accuracy and compliance of the financial statements. The company should maintain good communication with the regulator and respond to inquiries and answer questions in a timely manner. Positive interaction with regulators can enhance the company's reputation and trust. The inquiry process may involve the company's business model, market competition and other issues. GEM companies should improve their business capabilities and enhance their market analysis and competitiveness analysis in order to better answer these questions.

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