

# ***Analysis of the Reasons for Multiple Rounds of Inquiries of Newlife Company under the Registration System***

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**Abstract:** The article will use Guangzhou Newlife New Material Co, Ltd., as the case study object after four rounds of inquiries. Through reading pertinent literature, compiling Guangzhou Newlife New Material Co, Ltd.,'s four rounds of inquiries letters and its reply information as well as the prospectus, and applying the AMPS model, the article will analyze the reasons for and the impacts of the enterprises' multiple rounds of inquiries. Under the Science and Innovation Board's registration system, some enterprises will be subject to multiple rounds of inquiries in their initial public offerings. The study's findings demonstrate that businesses must fully and completely disclose all relevant information and make sure that it is clear and simple in order to comply with the Science and Technology Board's (STB) audit process. Inquiry is helpful to alleviate information asymmetry and improve the pricing efficiency of initial public offering (IPO). Companies may improve their business plans and increase their competitiveness in the market by using many rounds of inquiry to gain a deeper understanding of their current state of affairs and prospective threats.

**Keywords:** Multiple rounds of inquiries, Registration system, The science and technology Innovation board

## **1. Introduction**

### **1.1. Research Background and Significance**

On November 5, 2018, President Xi Jinping announced that it would set up a science and technology innovation section on the Shanghai Stock Exchange. On June 13, 2019, the science and technology innovation board were officially opened. The registration system of science and technology innovation board aims to provide more convenient and flexible financing channels for science and technology innovative enterprises. In contrast to the traditional audit system, the registration system gives greater consideration to the market performance and growth potential of businesses, better satisfies the financing requirements of innovative science and technology enterprises, and further

fosters innovation in these fields while also boosting the competitiveness and vitality of the capital market, advancing China's industrial upgrading, and giving investors more options.

This research focused on analyzing the causes and effects of multiple audit inquiries by sorting through four rounds of audit inquiries and the information that responded to them, along with the Guangzhou Newlife New Material Co.,Ltd., prospectus. It helps listed enterprises improve their examination rate, stock exchanges promote their supervision mechanism, and investors better understand the supervision process.

## 1.2. Company Profile

Various industries and various kinds of businesses in the registration system receive significantly diverse numbers of audit inquiry rounds during the audit inquiry process. The current research primarily focuses on the internal governance, internal control level, and supervision energy of the organization, in accordance with the influencing elements of the number of inquiry letters received by companies.

Yu Minggui and Bian Shihui found that the higher the quality of internal control, the fewer the number of words and questions received in the inquiry letter, and after excluding the auditor's external supervision of the annual report, the quality of internal control is still negatively correlated with the probability of receiving the annual report inquiry letter [1]. In addition, some scholars have also paid attention to the influence of other factors on the audit inquiry rounds. Lu Guihua, Han Huiyun, & Chen Yunsen found that when accounting firms are subjected to more non-punitive regulatory measures, the IPO companies they serve will be subjected to more stringent audit inquiries [2]. Luo Kun and Li Yachao found that Party organization governance can effectively reduce the probability and number of state-owned enterprises receiving internal governance inquiry letters, mainly through reducing agency costs and improving corporate information transparency [3]. Quan Yi, Zhou Cong & Bao Rongjiang et al. believe that the financial background of directors' secretaries significantly reduces the probability, number of inquiries, word count and probability of delayed reply letters of listed companies [4]. Numerous academics domestically and internationally have already focused on the impact of the audit and enquiry mechanism on the quality of disclosure of the company's information as well as the ensuing economic ramifications, from the perspective of the disclosure of the IPO audit and enquiry system under the Technology Innovation Board (TIB) registration system. Shi Yufeng, Zhang Bingyan, & Zhang Zongxin took the listed companies on the Science and Technology Innovation Board as research objects and used text analysis to construct indicators to analyze various versions of prospectuses, inquiry response documents and other supporting materials, confirming that the review inquiry can improve the information efficiency of the capital market [5]. From the perspective of information disclosure update, Hu Zhiqiang & Wang Yage found that the higher the degree of inquiry of an enterprise, the total amount of information disclosure, readability and richness of its prospectus will be significantly improved; At the same time, as the update level of information disclosure increases, the correlation between audit inquiries and corporate IPO market performance changes from negative to positive [6]. Tong Yan & Li Xin explored the impact of audit inquiries on corporate bond issuance and listing on bond issuance spread, and found that exchange audit inquiries significantly increased bond issuance spread, while high-quality reply letters from issuers could effectively alleviate this impact [7].

Overall, the extant research mostly focuses on registration system regulation of IPO enquiries rather than analyzing individual businesses. In this work, we extend the previous research by examining in detail the causes behind the several rounds of inquiry that Guangzhou Newlife New Material Co., Ltd., underwent and the ensuing effects.

### 1.3. Company Profile

The first one is literature analysis method, which is examine the nature of the study object by reading pertinent literature in order to provide the author's viewpoint. This paper uses the literature analysis approach to investigate pertinent literature about the causes and effects of the company's initial public offering (IPO) audit inquiry. This helps to define the article's research focus.

The second one is case study method, which is using Guangzhou Newlife New Material Co.,Ltd., as the research subject, this paper examines the four audit inquiries and response documents the company encountered following the submission of its initial public offering (IPO) application. It also analyzes the reasons behind the multiple audit inquiries, the caliber of information disclosed both before and after the audit inquiries, as well as the company's financial performance and market performance following its successful IPO.

The third one is AMPS model that is a commonly used data analysis model, through which the research direction and content can be clarified.

The model is divided into four steps. The first step is ask the question. The main topic for data analysis in this research is why an IPO is subject to several rounds of scrutiny and what effect it has. The second step is master the data. This study employs the four rounds of audit inquiries and subsequent prospectuses, as well as the frequency changes of keywords appearing in the inquiry letters, as the source of data for analysis. It masters the overall length and chapter length variations in these documents. The third step is perform the analysis. This paper analyzes the changes of information disclosure quality before and after the inquiry, and mainly analyzes the adequacy, comprehensiveness, rationality, logic and understandability of information disclosure. The forth step is share the story. The data is visualised so that the causes of the problems can be analysed more intuitively.

## 2. Status of SFC Audit Inquiries

In 2023, China's IPO market begins to fully implement the registration system, according to the Table 1 Yidong database shows the audit situation of IPO companies, comparing the data of 2023 with the previous three years, it can be found that the number of audited companies has decreased and the supervision has been tightened.

Table 1: Review of IPO Companies, 2020-2023

Vintages	Number of companies audited	Approval rate
2020	666	95.77%
2021	472	89.86%
2022	556	91.21%
2023	291	88.85%

Data source: Yi Dong database

As the four rounds of Guangzhou Newlife New Material Co., Ltd's inquiries are concentrated in 2021 and 2022, this study focuses on the inquiries under the registration system during these two years: in 2021, the SEC reviewed and inquired about a total of 2,523 letters with 25,796 questions; in 2022, it reviewed and inquired about a total of 2,399 letters with a cumulative total of 24,260 questions.

Under the implementation of the registration system, the audit focuses of the various boards overlap and differ from each other. Table 2 lists the main points of focus that overlap across sectors under the registration system in 2021 and 2022.

Table 2: Key points of concern of the overlap of the registration system sectors

Serial number	2021				2022			
	Points of concern	STB	GEM	NSE	Points of concern	STB	GEM	NSE
1	Risk Warning Related	81.66%	76.29%	90.57%	Risk Warning Related	85.21%	85.40%	97.92%
2	Revenues	80.47%	77.66%	85.85%	Gross margin	85.21%	89.36%	93.23%
3	Gross margin	83.23%	69.76%	89.26%	Core competence	79.88%	83.91%	92.71%

Data source: Yi Dong database

From Table 2 It can be seen that regulators of all boards are more concerned about risk tips and gross profit margins. At the same time, regulators are more concerned about core competitiveness, internal control, major products and services of enterprises declared to be listed on the Science and Technology Innovation Board (STB); and they are more concerned about the going concern ability, verification of affiliation, and verification of capital flow of enterprises declared to be listed on the Growth Enterprise Market (GEM).

### 3. Case Study

#### 3.1. Company Profile

Founded in 1998, Guangzhou Newlife New Material Co., Ltd was listed on the GEM Board of Shenzhen Stock Exchange in June 2023 (stock code: 301323). It is a diversified science and technology development-oriented enterprise, focusing on technology R&D and innovation, with a number of patents and core technologies, specializing in the R&D and production of new functional materials represented by magnetic materials and electronic ceramic materials, and its products are widely used in the fields of automotive electronics, communications, industrial control and so on. As a global leader in wide-format flexible magnet materials, Guangzhou Newlife New Material Co., Ltd is a famous supplier of electronic components for micro-motors, and its related products have the highest market share in the world.

#### 3.2. Questioning Process

Guangzhou Newlife New Material Co., Ltd applied for GEM listing in June 2021 and passed the audit in July 2022 after four rounds of inquiries. In the first round of inquiry, SZSE raised 21 questions, involving controlling shareholders and actual controllers, related parties and related transactions, business and other aspects, such as: "about equity incentives and share-based payment"; in the second round of inquiry, Guangzhou Newlife New Material Co., Ltd received 14 questions, of which more than 90% were related to the reply to the first round of inquiry, and new questions about verification of fund flow were added. In the third and fourth rounds of questioning, the number of questions received by Guangzhou Newlife New Material Co., Ltd decreased to 6 and 4 respectively. In the third round of questioning, the focus was on issues related to Zhengyang Chunuo's shareholding, while in the fourth round of questioning, the focus was on issues related to revenue, gross profit and the acquisition of customer AIC resources.

### 3.3. Analysis of Reasons for Multiple Rounds of Questioning

#### 3.3.1. Significant Changes in the Enterprise Itself

Information disclosure needs to comply with the principle of timeliness, i.e., timely reporting of important facts - when the original information has changed substantially, the responsible party for information disclosure should make timely changes and additions, so that investors can obtain the current true and effective information. For example, in the fourth round of questioning, question 2 requires disclosure of "changes in gross profit margin", the Shenzhen Stock Exchange pointed out that the unit price of raw materials has risen to varying degrees, resulting in a decline in product gross profit margin. Based on this, the Shenzhen Stock Exchange requires it to provide quantitative risk tips and analyze the reasons for gross profit margin changes on "the risk of fluctuations in the prices of upstream raw materials", aiming to protect the legitimate rights and interests of investors and improve the effectiveness and overall efficiency of the market.

#### 3.3.2. The Existence of More Complex Affiliations in the Company and the Resulting Connected Transactions

Guangzhou Newlife New Material Co., Ltd has more complicated related relationships and the resulting related transactions, which are the key direction of the regulator's attention in the four inquiries (Tables 3-4). AICMAGNETICSLTD and Shenzhen Tianxingjun New Material Co., Ltd. controlled by Liu Lei are uniformly referred to as "AIC and related parties", and AIC and related parties have been the number one customer of Guangzhou Newlife New Material Co., Ltd for two consecutive years in 2018 and 2019. However, in 2020, the status of AIC and related parties has dropped sharply, and they are only ranked as the fifth largest customer. AIC and its subsidiaries are mainly engaged in the adsorbent functional materials trading business, in order to control the scale of the related transactions, Guangzhou Newlife New Material Co., Ltd spent 1 million yuan to acquire the customer resources of the AIC related business in August 2019; in October 2020, Guangzhou Newlife New Material Co., Ltd acquired magnetic products related business from the subsidiary of MAGNETLTD which is controlled by Liu Lei with 10 million yuan. 10 million yuan to acquire magnetic products related business. It is worth noting that since the first half of 2021, the transactions between Guangzhou Newlife New Material Co., Ltd and AIC and related parties have been completely severed. In view of the above complicated connected relationship and the numerous connected transactions arising therefrom, there is a suspicion of transfer of benefits.

Table 3: Affiliations of Guangzhou Newlife New Material Co., Ltd

Affiliate relationship	Shareholding
Ningbo Newlife New Material Co. Management Partnership (major shareholder)	45.27%
Wang Xiaoming (de facto controller)	45.82%
Liu Lei (Director)	9.52%

Table 4: AIC and Related Party Transactions

Vintages	AIC and related party transactions
2018	115,236,800
2019	118,480,000
2020	11,282,400

### 3.3.3. Unknown Points of Innovation in the Enterprise

In the first round of Q21, the SZSE pointed out that the issuer's characterization of its own innovation, creation and creativity is relatively simple. Innovation is the core of the enterprise, innovation ability is an important basis for measuring whether the enterprise can survive in the changing market environment. In this regard, the Shenzhen Stock Exchange requires the Guangzhou Newlife New Material Co., Ltd to explain its relative competitors in the industry in a variety of competitive advantages and disadvantages, potential and whether the company belongs to the same industry in the business, technology, mode of innovation in the enterprise, the issuer whether the growth and core competitiveness, whether in line with the positioning of the Growth Enterprise Market, to avoid the lack of differences in the future enterprise weakening the bargaining power, the sustained operating capacity is weakened.

## 4. Analysis of the Impact of Multiple Inquiries on Newlife Company

### 4.1. Changes in Information Disclosure Quality Before and After Inquiry

As the core of the inquiry is information disclosure, this study is divided into three parts based on the requirements for information disclosure in the audit rules issued by the Shenzhen Stock Exchange (Shenzhen Stock Exchange [2020] No. 502). First, full and comprehensive disclosure. Second, information is consistent, reasonable, and inherently logical. Third, clear and easy to understand, making it easy for general investors to read and understand.

#### 4.1.1. Adequacy and Comprehensiveness

During the four rounds of audit inquiry, Newlife Company responded to the questions mentioned in the inquiry letter from the China Securities Regulatory Commission (CSRC) one by one, it also improved and perfected the prospectus. Through the analysis and statistics of the application draft, meeting draft, and registration draft of the prospectus of New Life Company, it can be found from Table 5 that there have been changes in the overall and chapter length of its prospectus.

Table 5: Changes in the length of the prospectus

Number of Manuscripts	Page	Increase
Application Draft	300	-
Conference Draft	304	1.33%
Registration Draft	300	-1.32%

From Table 6, it can be seen that the main chapter changes in the prospectus of Newlife are "Business and Technology". Business and technology reflect the issuer's technical situation and the company's ability to continue operating. These two points are exactly the top ten key points in the review and inquiry of the Science and Technology Innovation Board and the Growth Enterprise Board. After four rounds of inquiries, Newlife Company has improved the industrialization of core technologies in this chapter, the specific usage and effects of core technologies in the process flow, the main barriers to entry into the industry, the main environmental pollutants involved in production and operation, and the treatment situation, and disclosed more fully and comprehensively.

Table 6: Changes in the Length of Each Chapter of the Prospectus

	Contents	Application Draft	Registration Draft	Increase
Chapter 1	Interpretation	4	4	0
Chapter 2	Overview	6	9	3
Chapter 3	Overview of this Issuance	3		-3
Chapter 4	Risk Factors	6	5	-1
Chapter 5	Basic Information of the issuer	42	43	1
Chapter 6	Business and Technology	56	61	5
Chapter 7	Corporate Governance and Independence	20	18	-2
Chapter 8	Financial Accounting Information and Management Analysis	84	79	-5
Chapter 9	Application of Raised Funds and Future Development Planning	18	18	0
Chapter 10	Investor Protection	36	4	-32
Chapter 11	Other Important Matters	4	4	0
Chapter 12	Declaration	10	10	0
Chapter13	Attachment	2	38	36

Although there has been no increase or decrease in the total number of pages in the application and registration drafts of the Newlife prospectus, there have been changes in the allocation of each chapter. It can be seen that during the review and inquiry process, the issuer has reduced unnecessary information disclosure, increased the content of insufficient disclosure in the application draft, and focused on optimizing the quality of information disclosure [8].

#### 4.1.2. Rationality and Logicality

The consistency, reasonableness, and inherent logic of information are reflected in the requirement that the content disclosed in the issuer's prospectus be consistent and logical, including but not limited to the consistency of disclosed financial data with the content of its company's annual report and the consistency of publicly disclosed data in the market [9].

The appearance of words such as "reasonable" in the inquiry indicates that the CSRC requires the issuer to provide reasonable evidence in the response and enhance the rationality of information disclosure. The appearance of words such as "comply" in the inquiry indicates that the relevant content required by the CSRC to be disclosed by the issuer complies with appropriate regulations and industry standards. Therefore, this study compares the frequency changes of the above keywords in the questions listed in the four rounds of audit inquiry letters.

Table 7: Frequency Changes of Related Words in the Prospectus

Keywords	Round 1	Round 2	Round 3	Round 4
"Reasonable"	16	11	4	3
"Compliant"	8	1	1	0

According to the statistics of the four rounds of inquiries from the CSRC, it can be seen that the frequency of keywords related to the rationality and logicity of information disclosure has significantly decreased in the first and non-first rounds, indicating that the rationality of information disclosure by Newlife has gradually improved during the inquiry process. The data evidence tends to be improved (Table 7). At the same time, the frequency of words such as "compliance" and "based on" appearing in the registration draft has increased compared to the application draft in the prospectus, further verifying the rationality and logicity of information disclosure in the review and inquiry of Newlife.

#### 4.1.3. Understandability

The CSRC requires issuers to make information disclosure concise, clear, and easy to understand. From the application draft, listing draft, registration draft, and four rounds of inquiry response reports of the Newlife prospectus, it has been found that most of the data presented is in the form of tables, reducing redundant information and adding necessary information disclosure to facilitate users and investors to browse and compare, thus making rational investment decisions [10].

#### 4.2. Short Term Market Performance of Newlife After Inquiry

This article studies the short-term market response to IPO review inquiries. The stock price of Newlife Company was issued at RMB 39.09 per share on June 6, 2023, and closed at RMB 53.99 per share on the same day, an increase of 38.22%. From Figure 1, it can be seen that the short-term stock market performance of Newlife Company after its listing has shown an overall downward trend.

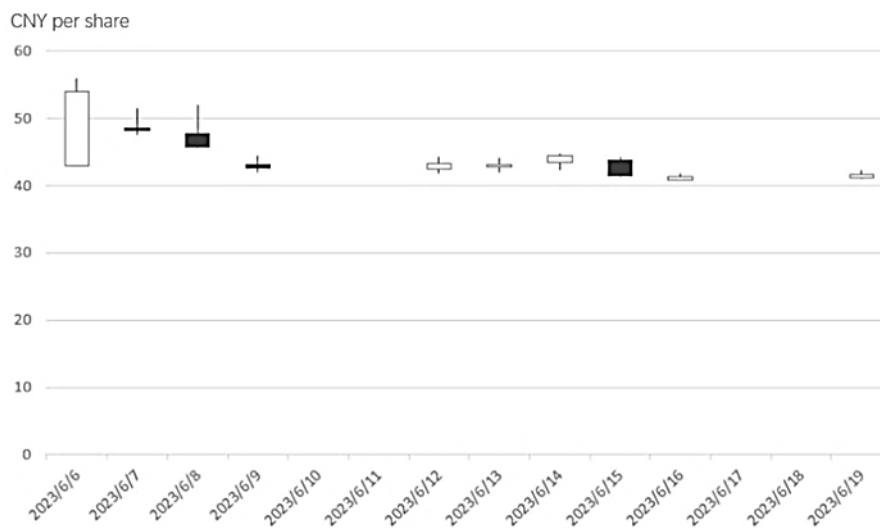


Figure 1: Short term market performance of Newlife Company IPO

This research compares and analyzes four companies in the same industry that have only undergone one or two rounds of audit inquiries. From the market performance and consecutive days of stock price increase on the first day of IPO in Table 8, it can be seen that Newlife did not show significant disadvantages and even outperformed peers in the same industry. From the perspective of short-term returns, this article selects the return rate of the closing price of the first 10 days relative to the initial pricing as the short-term return rate. The calculation shows that the short-term yield of Newlife is 6.42%, which is lower than the short-term yield of the other four companies in the first 10 days. From this, it can be concluded that the higher the quality of the response information to the IPO

review inquiry on the Science and Technology Innovation Board, the higher the efficiency of the initial pricing. However, due to multiple rounds of questioning, investor sentiment may fluctuate and become skeptical, leading to a decline in stock prices.

Table 8: Comparison of short-term market performance between Newlife and peers in the same industry

			Newlife	JddTech	Jiangsu Boiln	Tianqin Equipment	Fuheng New Material
Short Term Market Performance	Market Performance on the First Day of IPO	First Day Yield	38.12%	89.84%	32.59%	132.40%	6.34%
		First Day Turnover Rate	73.89%	75.21%	46.72%	67.40%	65.11%
	Short-term Market Performance of IPO	Stock Price Continuously Rising Days	1	1	2	2	1
		Short-term Yield	6.42%	48.21%	7.91%	179.13%	15.67%

## 5. Suggestion

At first, enterprises that plan to be listed should have a thorough command of the information disclosure requirements of The Science and Technology Innovation Board (STAR Market) to ensure comprehensive, accurate and timely information. Besides, enterprises should actively respond to the stock exchange's inquiries and provide targeted replies to avoid repeated inquiries and improve inquiry efficiency. Improving the incremental information in the reply letter will help enhance the market's recognition of the company's value and reduce the IPO underpricing rate.

Secondly, intermediaries such as underwriters, accounting firms, and law firms should play the role of information certification that ensure information quality, and assist companies in improving information disclosure to enhance market confidence. Regulatory agencies need to sustainably optimize the review mechanism to ensure fairness, transparency and efficiency, and provide training and guidance to help companies understand and comply with relevant regulations and improve the quality of information disclosure. Meanwhile, regulatory agencies need to strengthen market supervision and risk prevention to insure the stable and healthy development of the capital market.

Thirdly, investors ought to fully pay attention to the information disclosure of enterprises and the inquiries of regulatory commission. By analyzing the financial situation and other factors of a company in depth, its value and the risk of the company can be more accurately estimated.

## 6. Conclusion

This research is based on the registration system of the STAR Market, and conducts deep exploration of the four rounds of inquiries that Newlife Company experienced during its IPO process through case analysis and literature analysis methods. First of all, the research indicates that the review mechanism of the Science and Technology Innovation Board has extremely strict requirements for information disclosure, requiring companies to fully and comprehensively disclose information to ensure that the content is reasonable, concise and easy to understand. During the process, the Shenzhen Stock Exchange specially paid attention to items such as the company's legal compliance, capital prices, related party transactions, technology products, and horizontal competition. Furthermore, the effectiveness of inquiries is of great significance for alleviating information asymmetry and promoting IPO pricing efficiency. The lower the similarity of the review inquiry letter, the more incremental information the reply letter provides that the IPO pricing efficiency increases

accordingly. There is a diminishing information effect in reviewing inquiry letters. The first round of inquiries has the widest scope and most information which has the greatest impact on IPO pricing efficiency. Subsequent rounds of inquiries provide incremental information limitedly, and the information utility decreases. As a final point, After Newlife Company went through four rounds of inquiries, its information disclosure quality and financial performance have been significantly improved, while its market performance has been good after its successful listing. Multiple rounds of inquiries are not only a challenge, but also an opportunity for enterprises. It helps enterprises grasp their operating conditions and potential risks more comprehensively, thereby optimizing business strategies and enhancing market competitiveness.

However, this research still has some limitations. First, the range of data sources isn't enough. The research mainly selects data from the past five years, and there is insufficient collection of data from five years ago. The main methods adopted are literature analysis, case study method and AMPS model. Improper data collection methods may lead to one-sided conclusions. The methods and techniques used should be carefully selected and evaluated. Next, relevant literature review in this article is not sufficient. Although the author has tried his best to collect relevant information, due to problems in the research field and the lack of access to undisclosed corporate financial status, it can only be obtained through indirect channels. This data may not be comparable to authoritative data which is a deviation. The third is the research perspective. Based on the IPO inquiry mechanism under the Chinese securities market, the research explores the reasons why Newlife Company conducted four rounds of inquiries. It does not take into account whether there may be omissions in the financial department of the company and the impact of the Chinese securities market mechanism. In order to solve the shortcomings of this study, future development directions are proposed. To start with, expand the scope of data sources, accurate sample research objects, conduct more in-depth research, and maintain the objectivity of the data. In addition, increase the review of relevant literature and expand the sample size so that the research results cover a large time span and have more practical significance. Ultimately, discuss the reasons and significance of multiple rounds of IPO inquiries combined with the existing mechanism of China's securities market and the specific department conditions of the company as variables.

### Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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