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Chinese Companies Hope SPACs Lead to U.S. Listings

From Phil Wahba, Reuters · 2008-6-2

Goldman Sachs' failure to launch a "blank-check" company this week doesn't mean they are all out of favor.

The cold shoulder that Goldman's Liberty Lane got from hedge funds and other investors this week is seen as a blow to the concept of selling shares in a company before it has bought any businesses.

But special purpose acquisition companies (SPACs) focusing on China are a different story.

Only last week, Heckmann Corp became the first SPAC to list on the New York Stock Exchange, moving over from the American Stock Exchange, and may be blazing a trail for other companies planning on buying assets in China.

Heckmann said it would use about \$170 million of the money it raised during its initial public offering in November to buy a Chinese bottled water company for \$625 million, paying the rest in common stock to the Chinese company's shareholders.

Heckmann shares have risen 19 percent since going public.

Developments in China and the United States are helping Heckmann and other companies focusing on China.

Chinese companies are finding it more and more difficult to list on the domestic exchanges amid tightening regulations, even as listing-hungry U.S. exchanges begin to embrace SPACs.

"It's a way for Chinese companies to get a listing," said Dennis Galgano, a managing director with investment bank Morgan Joseph, of Chinese companies' interest in being purchased by U.S.-based SPACs.

Morgan Joseph estimates that of the 65 SPACs seeking acquisitions, 14 are targeting Chinese companies and have raised a total of \$1 billion.

For instance, ChinaGrowth North Acquisition Corp announced on Tuesday it is buying China's third-largest insurance broker for up to \$164 million in a reverse merger, if it meets certain performance requirements. The combined company is expected to file to switch over to list on Nasdaq, pending shareholder approval of the acquisition.

Part of the draw of a U.S. listing for Chinese companies is how difficult it is becoming to list at home.

Galgano believes Chinese exchanges can only handle between 150 and 200 IPOs per year because of the country's nascent commercial and regulatory infrastructure, though as many as 1,500 companies may want to.

Chinese media reported on Thursday that Chinese regulators were tightening listing rules, requiring that companies having received a major asset injection wait one year before going public. A company would also be barred from going public if it has changed its core business in the past three years.

SOME WARY BUT U.S. EXCHANGES RECEPTIVE

For all the enthusiasm for China, there are no guarantees these SPACs will lead to successful IPOs, said Scott Sweet, of IPO Boutique, a Florida-based advisory service.

"SPACs have saturated the market, whether Chinese or U.S.-based," said Sweet. "So one would look at Chinese SPACs with even more fear and scrutiny."

Investors should be wary of Chinese companies because of questions around the reliability of their accounting figures and the challenge of monitoring them, he added.



And, if Goldman Sachs can't get its first SPAC to stand, that bodes very poorly for the market, Sweet said.

But major exchanges, struggling to woo new listings in a slow IPO market, are embracing SPACs after long being skeptical.

"The quality of sponsors and underwriters has gotten better," said NYSE Euronext's Robin Weiss, who is responsible for recruiting IPOs. "They are a vehicle of sufficient quality."

The New York Stock Exchange began considering listing SPACs back in 2006 and has developed specific standards for SPACs.

For instance, NYSE requires SPACs to have market capitalization of at least \$250 million and have shares priced at at least \$4 at the time of initial listing.

NYSE Euronext, the parent company of the New York Stock Exchange, is expected by year end to close its purchase of the American Stock Exchange, which lists 75 SPACs, including four that own a Chinese company.

The NYSE, which currently lists 54 companies from greater China, including Hong Kong, and is reportedly mulling its own listing on the Shanghai Stock Exchange, is open to other SPACs. "There is a pipeline" said Weiss.

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