

# Reuters

3/10/2022

By: Selena Li and Samuel Shen

## Chinese startups' SPAC listings gather pace as tougher offshore IPO rules loom

Capital-hungry smaller Chinese startups are vying for speedy offshore listings by merging with blank-check firms at a time when Beijing's tighter scrutiny has slowed capital raising via overseas IPOs, company executives and bankers said.

As a string of special purpose acquisition companies (SPACs) hunt for targets to merge with, the startups see an opportunity to raise funds and get listed by cutting the time and regulatory rigour needed for traditional market debuts, they said.

The escalating Ukraine crisis, which has heightened market volatility and dampened investors' risk appetite, however, could cast a shadow over fundraising plans in the near-term.

SPACs are shell firms that raise money from institutional and retail investors via market listings, and put it in a trust for the purpose of merging with a private company and taking it public.

While Wall Street's frenzied blank-check deals have slowed in the past year due to mismatches in valuation expectations and some regulators toughening rules, competition is intensifying in Asia due to a large number of unicorn startups in the region.

"We badly need capital to help us grow," said Tian Rui, general manager of Nongdinghui Technology, which builds online marketplaces connecting farmers and consumers, and is eyeing a Nasdaq-listing this year by merging with a blank-check company.

"A SPAC is a very good tool to help accelerate our expansion," while traditional IPOs take too long, said Tian.

ETAO International Group, a digital healthcare group providing telemedicine, hospital care, pharmacy and health insurance, said in January it's going public on Nasdaq through a merger with a listed SPAC, valuing it at about \$2.5 billion.

Other Chinese companies eyeing a U.S. listing through SPAC merger include solar technology startup Santime Technology and pet entertainment company Ailulu Technology, executives at the two companies told Reuters.

"The potential for it (SPAC) to be faster, and the fact that you have a little more control over the process... might make a difference in this environment," said Lin Xiaoxi, Hong Kong-based partner at law firm Linklaters.

Between 2019 and 2021, 10 Chinese firms raised \$2 billion via mergers with U.S.-listed SPACs, according to SPAC specialist investment bank Chardan.

But last year deals ground to a halt, with only one company closing a SPAC merger as the U.S. regulator tightened scrutiny of Chinese companies' New York listings following Beijing's unprecedented crackdown on technology companies.

Regulatory tightening from both China and the U.S. have deterred some blank-check firms from merging with a Chinese company, but investors are not expected to ignore the opportunities, said Joel A. Gallo, Shanghai-based CFO at ETAO.

"This (SPAC) method of going public was chosen ... due to the ability to accelerate the listing process while reducing the costs associated with going public."

## GROWING INTEREST

Most of the Chinese startups prefer to list in the United States via a SPAC merger due to higher valuation expectations, and more opportunities for such deals in that market. China has not yet created for a framework for onshore SPAC listings.

The growing Chinese interest comes as Hong Kong and Singapore have launched a market for SPAC listings recently, intensifying competition for deals even as Wall Street's craze for such deals is cooling.

Santime founder and CEO Harry Ze said a Nasdaq listing via a SPAC deal would propel its global strategy, while Ailulu executive Ding Jian said such a listing in the U.S. was more practical for his company.

Compared with an IPO, listing via a SPAC is also a more feasible option for a technology company with little business track record, said Zhang Yexuan, founder of a Chinese solar energy vehicle start-up which aims to list on Nasdaq next year.

While the Chinese securities regulator is yet to publish the final rules for raising capital by domestic companies overseas and it's not clear whether SPAC listings would also be subjected to tighter scrutiny, some advisors expect the door to stay open.

Drew Bernstein, U.S.-based co-chairman of Marcum Bernstein & Pinchuk, a China-focused international accounting firm, said he believed small companies were not a target of the new overseas capital raising rules.

"So going after the smaller deals (in China) to be able to get things done seems to make sense," Bernstein said.