



SPACs MARKET

First SPAC Lists on HKEX under New SPAC Listing Regime

The Hong Kong Stock Exchange (**HKEX**) listed the first special purpose acquisition company (**SPAC**) on its Main Board on 18 March 2022 following its introduction of a listing regime for SPACs on 1 January 2022. For details of the HKEX SPAC Listing Regime, please see Charltons' December 2021 newsletter, [Overview of HKEX's New SPAC Listing Regime](#)¹.

The first SPAC to list under the HKEX Listing Rules' new Chapter 18B for SPACs was Aquila Acquisition Corporation (**Aquila**) which reportedly raised HK\$1 billion (US\$127.8 million) on its IPO², this being the minimum amount required under the HKEX Listing Rules, but marginally less than the funds raised by Vertex Technology Acquisition's first SPAC on the Singapore Stock Exchange in January 2022. According to its prospectus, Aquila intends to acquire "technology enabled companies in new economy sectors (such as green energy, life sciences, advanced technology and manufacturing) in Asia, with a focus on China".

However, Aquila's stock price dropped on its first trading day to HK\$9.70 - 3% lower than its HK\$10 offer price and recorded only one live trade during the session.³ Under new [Chapter 18B](#)⁴, only professional investors are allowed to subscribe for and trade SPAC securities before completion of the De-SPAC Transaction - the SPAC's acquisition of or merger with a target operating company or companies which meets the HKEX's requirements for new listing applicants. Retail investors are allowed to subscribe for and trade the shares of the successor company. Market commentators speculated that the muted interest in Aquila's first day trading may have been attributable to the prohibition on retail trades and lack of familiarity with SPACs.⁵ The HKEX rejected calls to allow retail participation in SPAC IPOs from a minority of respondents to its consultation proposals noting recent developments in the US, where concerns on retail participation resulted in the US House Committee on Financial Services passing a proposal in November 2021 to prohibit brokers from facilitating the transaction of, or recommending SPAC securities to, persons other than "accredited investors" (essentially, professional investors), subject to limited exceptions.⁶

Hong Kong SPACs vs Singapore SPACs

Hong Kong and Singapore raced last year to adopt a SPAC listing regime in a bid to replicate New York's success in listing the so-called blank cheque companies and to avoid losing lucrative Asian listings to New York SPACs. Singapore's SPAC listing regime took effect on 3 March 2021, 10 months before HKEX launched its SPAC regime.

Singapore's SPAC listing regime is less restrictive than the Hong Kong regime, particularly in that it allows retail investors to participate in SPAC IPOs. Hong Kong also requires at least one of the SPAC promoters to be an SFC-licensed firm (licensed as a corporate finance adviser (Type 6) or fund manager (Type 9)), while there is no comparable requirement for Singapore SPAC promoters. However, the deadline for completion of a De-SPAC transaction (i.e. the acquisition of a target) in Singapore is tighter at 24 months after the IPO with a possible extension of up to 12 months on meeting prescribed conditions. In Hong Kong, the deadline for completion of the

De-SPAC transaction is 36 months from the SPAC IPO, which may be extended by six months with shareholders' approval. Hong Kong's relatively more stringent regime is aimed at ensuring the listing of quality companies by promoters with experience of Hong Kong's securities market.

There have been three SPAC IPOs on the Singapore Stock Exchange: these all occurred in January 2022 and no further applications to list SPACs have been filed since.⁷

The HKEX has seen just one completed SPAC IPO, but is **reportedly**⁸ seeing considerable interest in the new listing route and had received 10 SPAC listing applications (including Aquila's) as at 17 March 2022.

Despite Hong Kong's more stringent listing regime, analysts are predicting that Hong Kong will be more popular for SPAC listings than Singapore because of its proximity to mainland China and deeper liquidity.⁹ With around 300 private companies valued at over US\$1 billion, more than any other country other than the US, China is seen as offering an ample supply of potential acquisition targets for Hong Kong SPACs.¹⁰

CSRC Bans Chinese Banks Promoting HKEX SPACs

A further indication of the risks associated with SPACs is the China Securities and Regulatory Commission's (**CSRC**) reported ban on Chinese investment banks acting as promoters of Hong Kong SPACs. Reuters reported on 10 March 2022¹¹ that sources familiar with the matter claimed the CSRC notified Chinese investment banks of the ban earlier this year, a move triggered by concerns over SPAC-related risks. However, according to the same sources, Chinese investment banks are allowed to act as advisers on Hong Kong SPACs, while institutions affiliated with Chinese commercial banks which are regulated by the China Banking and Insurance Regulatory Commission are permitted to act as promoters of SPACs listing on the Hong Kong Stock Exchange.

Chinese brokerage firms have also been lobbying the CSRC to revise its rules to allow them to act as promoters, according to one of Reuters sources.

[1] Charltons' Overview of HKEX's New SPAC Listing Regime at <https://www.charltonslaw.com/overview-of-hkex-new-spac-listing-regime/>

[2] Nikkei Asia at <https://asia.nikkei.com/Business/Markets/IPO/Hong-Kong-s-first-SPAC-gets-tepid-welcome-from-investors>

[3] Reuters at <https://www.reuters.com/world/asia-pacific/hong-kongs-first-spac-listing-sees-aquila-shares-slip-2022-03-18/>

[4] HKEX Listing Rules' new Chapter 18B at https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_5770_VER18989.pdf

[5] Reuters at note 3 supra

[6] HKEX Consultation Conclusions on Special Purpose Acquisition Companies at para 18

[7] Financial Times at <https://www.ft.com/content/620945a2-301f-44bc-9096-a8317a4b4a5e>

[8] HKEX Welcomes First SPAC Listing at https://www.hkex.com.hk/News/News-Release/2022/220318news?sc_lang=en

[9] Ibid

[10] Ibid

[11] Reuters at <https://www.reuters.com/markets/us/china-bars-mainland-brokers-promoting-spac-deals-hong-kong-sources-2022-03-10/>

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