DEALS & DEAL MAKERS

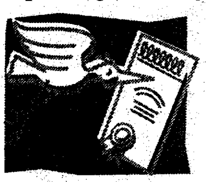
Chinese IPOs Stick Close to Home

Not Many Firms Make Debut In U.S. Amid Lawsuit Fears, Costs, Strict Regulations

By MICHELLE TSAI And LYNN COWAN

The world's biggest initial public offering of stock and the U.S.'s best IPO debut last year came from two different companies with one thing in common: China.

But even as investors watch China's expanding economy with interest, they aren't seeing many new Chinese stocks listing on U.S. exchanges, and the ones that do are small fry compared with what trades in Hong Kong.



IPO OUTLOOK

Since Beijing Internet-search engine **Baidu.com** Inc. went public on the Nasdaq Stock Market in August, gaining 354% on its first day, four Chinese companies have listed their stocks on American exchanges, according to market tracker Dealogic.

The largest global IPO last year was **China Construction Bank** Corp.'s $9.2 billion deal in October, listed in Hong Kong. The largest U.S. listing, for containership owner **Seaspan** Corp., raised $600 million.

Since 2004, when 10 U.S.-listed Chinese IPOs raised a total of $3.93 billion, both the number and size of listings have declined, according to Dealogic. The downturn comes despite solid trading gains for several Chinese companies that had their debuts in the U.S., including **Suntech Power Holdings** Co. Ltd. and **Focus Media Holding** Ltd., both of which have at least doubled from their offer prices.

A number of factors make Chinese companies favor Hong Kong over the U.S. The U.S. requirements are considered more onerous, and the threat of investor litigation higher. The cost of complying with Sarbanes-Oxley financial-reporting standards—easily $1.5 million to $2 million a year—also stands out, said David Liu, managing director at Jefferies Broadview.

Hong Kong presents an easier transition for Chinese founders who worry about communicating with investors and regulators in a foreign language. "They understand Hong Kong may not be the best market in terms of valuation, but at least it's a market they understand," said Vincent Chan, managing director of venture-capital firm Jafco Investment (Asia Pacific) Ltd.

Asia-based investors often can best appreciate investment theses for localized industries such as manufacturing, shipping and retail, according to Peter Tsou, vice chairman of Asia at Deutsche Bank AG.

Chinese companies listed on U.S. exchanges can struggle for research coverage because their market capitalizations are often less than $500 million. Investment banks usually cover companies whose offerings they underwrite, but foreign issuers tend to have greater difficulties.

"You're listing in a completely different country that has nothing to do with your business or your customers or your home market," said Vince Feng, managing director of private-equity firm General Atlantic LLC.

Elsewhere in the IPO market:

■ On deck for this week is the IPO of coffee-and-doughnut chain **Tim Hortons** Inc., which is as ubiquitous in Canada as **Starbucks** Corp. is in the U.S. Restaurant IPOs have performed well this year, and Tim Hortons has strong same-store sales and restaurant growth, so bankers are expecting a good debut on the New York Stock Exchange.