



Jack Ma Teams With Arch-Foe Tencent on China, Hollywood Films

By Shai Oster

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Tencent Holdings Ltd., e-commerce billionaire Jack Ma and movie studio Huayi Brothers Media Corp. will pool their assets and create a Hong Kong-listed company to develop films and entertainment for China and abroad.

Tencent, Huayi and Ma's Yunfeng Capital have made a HK\$547 million (\$70.6 million) offer to buy a controlling stake in a shell company called China Jiu hao Health Industry Corp., the companies announced Thursday. If successful, they intend to use the shares of what has been a retirement-home developer to create a media and "cultural" business and produce original content. First up is a slate of 10 live-action films and three animated features to be created in conjunction with unidentified U.S. production houses, they said.

The deal marks another rare alliance between the co-founder of Alibaba Group Holding Ltd. and Tencent founder Pony Ma, whose rivalry spans a decade. It comes as Chinese companies expand aggressively into online services to stream video games, TV and movies and court Hollywood studios.

“In China, content is definitely king,” said Peter Schloss, managing partner of CastleHill Partners LLC, a Beijing-based advisory and investment company. “Everyone’s trying to differentiate not through tech but through the content they have.”

Investors including Yunfeng, a fund co-founded by Jack Ma, said Thursday they had agreed to buy 6.84 billion shares of Jiu hao at HK\$0.08 apiece, a more-than-90 percent discount to its closing price. The bidders said in the statement that they had taken into account a drop in Jiu hao’s net assets in relation to an unrelated deal.

Shares in Jiu hao dived 22 percent on Friday, the steepest fall in about three months. Under the deal, which needs shareholder approval, Huayi will hold 18.17 percent of Jiu hao, Tencent will own 15.68 percent and Yunfeng’s Confidex will hold 5.12 percent.

The business is going public through a shell company instead of a traditional initial public offering because of restrictions in China’s finance industry. The government has only recently restarted the IPO process after a five-month suspension, during which companies found alternative ways to get publicly traded equity.

An Alliance

This isn’t Tencent’s first acquisition of a Hong Kong shell company. In July, it said it would join a group buying Mascotte Holdings Ltd., and turn the maker of camera cases into an Internet community service platform.

The listed company they’re acquiring this time recorded a net income excluding one-time items of HK\$21 million on HK\$61 million in revenue in the first half. Tencent and Huayi did not respond to e-mails seeking comment.

Jiuhao already invests in the production of TV shows and movies, according to Tencent.

Jack and Pony Ma have teamed up several times in the past year, seeking to pool resources, cut down on costs and create dominant industry players. Alibaba-backed Meituan.com and Tencent-backed Dianping.com merged this year, creating a leader in online group-buying.

Their companies have ramped up spending on content to drive online video services and foster a nascent movie-making business. Alibaba Pictures signed with Paramount Pictures to produce “Mission: Impossible - Rogue Nation,” the latest installment in the Tom Cruise franchise. And Tencent’s record third-quarter profit owed much to the popularity of its online games and streaming HBO shows.

In Huayi, the Internet tycoons have found an experienced partner. The film studio and distributor has produced a string of hits including Stephen Chow’s “Journey to the West,” which brought in 1.2 billion yuan in box-office sales. Alibaba, Tencent and Jack Ma already control a combined stake of more than 11 percent of Huayi Brothers Shenzhen listed company.

“The investment in China Jiuhao Health extends our strategic relationship with Huayi Brothers,” Tencent said in an e-mailed statement.