The Hollywood Reporter

Chinese Film Fund Bets $100M on Hollywood Directors Amid Fraught U.S. Relations

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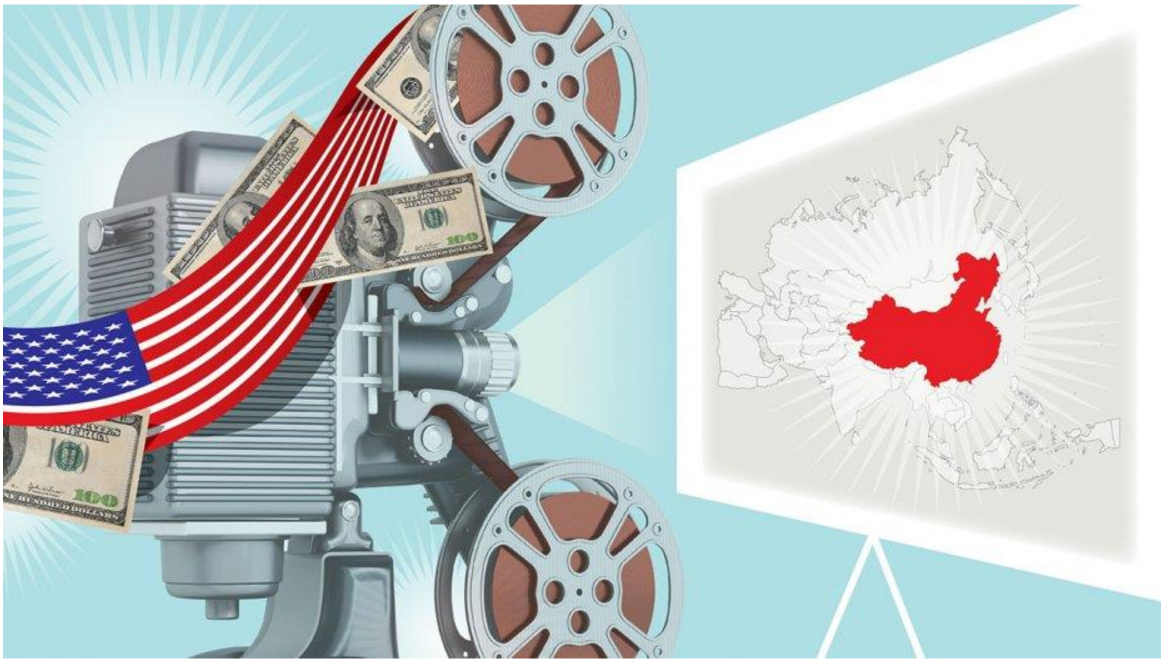

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China might be escalating its crackdown on investment into Hollywood, but at least one bold film company with Middle Kingdom roots is forging ahead undeterred.

Starlight Culture Entertainment Group, a China-backed firm with offices in Hong Kong and Beverly Hills, has launched a $100 million development fund to enlist veteran Hollywood directors. And the company has already discretely done a series of deals with an impressive roster of in-demand filmmakers, including F. Gary Gray (*The Fate of the Furious*, *Straight Outta Compton*), Roland Emmerich (*Independence Day: Resurgence*, *The Day After Tomorrow*) and Jon M. Chu (*Now You See Me 2*, *G.I. Joe Retaliation*).

Starlight says it also is raising a large second fund among Hong Kong and mainland Chinese investors to finance the projects that ultimately emerge from the development tie-ups.

Not unlike Dalian Wanda Group, the once high-flying company that bought AMC Entertainment and Legendary Pictures, Starlight's origins are in Chinese real estate. The company's founder and chairman, Xu Yan, is the primary shareholder of Chengdu Sunny Property Development Co., a real estate company based in China's Sichuan Provence. Via its commercial real estate activities, the company came to own a small cinema network, and sometime in 2013 Yan decided to diversify into international entertainment, setting up Starlight Media in Los Angeles in 2014. The company's first Hollywood deal was a hush-hush $12 million investment into *Marshall*, the upcoming Reginald Hudlin-directed drama that stars Chadwick Boseman as the first African-American Supreme Court Justice. The film is due out Oct. 13 from Open Road.

"In the next three to five years we would like to sign contracts with more of the best talent," Yan tells *THR* by email, adding he hopes to provide the directors with the resources and flexibility they need to generate fully original storytelling and IP. "We think the core and soul of film is not the actors or [studios], but the directors who are capable of writing and molding the story into something magnificent — if left to bring their vision to life."

Starlight made its first public splash in August 2016, announcing that it had signed a development partnership with *Furious 7* filmmaker James Wan. Starlight Media says it is providing development and equity financing to Wan's Atomic Monster label, helping him to expand the company's slate (Wan is currently directing *Aquaman* for Warner Bros., however).

Starlight declined to share the details of its director deals, but disclosures to the Hong Kong stock exchange from Jimei International Entertainment Group, a Hong Kong-listed entity that Yan purchased in April to finance the development fund, shed some light on the partnerships. Both the Emmerich and Gray agreements cover a period of three years and require the directors to put forward three prospective feature film projects for Starlight's consideration. The contracts also preclude the filmmakers from working with other Chinese companies. If Starlight decides to move forward with any of the projects, it will then engage the filmmakers for further negotiations about directing, producing or executive producing the films.

The timing of Starlight's overseas expansion is apt to strike many in the Chinese industry as surprising — if not risky.

Since at least last November, Chinese officials have been cracking down on what they view as "irrational" investments into the international entertainment, sports and hospitality sectors, first by tightening control over capital outflows, then by rebuking some of the country's biggest private conglomerates for their debt-fueled expansion. On Aug. 18, what had been de facto was made de jure: China's State Council issued new rules on overseas investment, laying out three broad categories: banned, restricted and encouraged. Investments in industries of vice, such as gambling and sex, were outlawed, while activity in strategic high-tech sectors was encouraged. Overseas dealmaking related to film, entertainment and sports, meanwhile, was branded "restricted."

What exactly that categorization means in practical terms was left intentionally vague, giving regulators wiggle room. But Chinese companies that choose to test the authorities' red line may do so at their peril.

"The bottom line is that any Chinese company will be very brave to try to acquire any Hollywood studio," says Yanmei Xie, a China policy analyst at Gavekal Dragonomics. "Technically the government has not banned private companies from such acquisitions and private firms don't need the government's pre-approval for most overseas deals, but anyone who thinks they can ignore the government's 'guidelines' only need to look at Wanda as an example."

Just a year ago, Dalian Wanda Group was building the world's biggest film studio in eastern China, along with more than a dozen Disneyland-sized theme parks across the country, while also boasting of plans to invest in several Hollywood studios. Today, most of those plans have evaporated and the conglomerate is in retreat. Wanda announced its last attempt at a large entertainment acquisition — the $1 billion deal to buy Dick Clark Productions, producer of the Golden Globes — in January. But Wanda ultimately abandoned the deal. Soon it became the target of an escalating war on corporate debt, which drove the company to initiate a $9.3 billion fire saleof the bulk of its theme park and hotel holdings (the company is in negotiations over whether it will be able to retain its sprawling Qingdao film studio). Beijing is believed to have prudent financial reasons for pushing Wanda and other conglomerates to de-leverage — it is also thought to have a strong political preference that Wanda's outspoken billionaire chairman, Wang Jianlin, quiet his voice.

Starlight was functionally able to execute its recent Hollywood deals only because its offshore affiliate, Jimei International Entertainment, sits beyond the reach of Beijing regulators. Asked if the company is concerned about regulatory issues, Starlight replies: "Our Hong Kong-listed company is not under the direct control of the mainland China policy."

In April, Starlight's Yan purchased a controlling stake in Jimei for $57 million ($443.17 million) using a holding company named Cosmic Leader, incorporated in the Republic of Seychelles, which is often used as a tax haven. Prior to the buyout, Jimei's principle business activity had been running casino junkets to Macau; but the company has since issued statements saying its new focus is the movie business. It is in the process of legally changing its name to Starlight Culture Entertainment Group. In the ensuing months, Jimei's market cap has risen considerably to about $375 million.

But given the political temperature in Beijing, Starlight is perhaps best viewed as a curious outlier rather than any clear indicator that the deal flow between China and Hollywood has resumed. And for an American film industry grown accustomed to relying on the Middle Kingdom for both burgeoning box-office growth and billions in investment capital, urgent questions remain: What does Beijing's new "restricted" classification entail for the entertainment industry in practical terms? Are there any cracks of light in the new regulatory regime? And what will the next phase of the China-Hollywood relationship look like?

Word within the Chinese industry isn't particularly encouraging. One month before the State Council went public with its guidelines, executives from many, if not all, of China's leading media and entertainment firms are understood to have received direct notifications from regulators, instructing them not to engage in any new outbound entertainment investing, according to several sources with knowledge of the situation. (It's possible local film execs also were instructed not to speak publicly about the new environment. THR reached out to five veteran Chinese film executives to get their views on the current state of the Hollywood-China partnership; all said they couldn't currently discuss it. One CEO's response was simply a text message containing a lone emoji of a face with its mouth taped shut.)

Like Starlight, other major Chinese media companies are known to have Hong Kong entities at their disposal, which could, conceivably, be used to execute offshore acquisitions or slate investments beyond Beijing's reach. Mobile ticketing giant Weying, for example, partnered with boutique bank Lead Capital last December to form the Hong Kong joint venture Weying Galaxy Entertainment — the outfit was set up to invest in Hollywood films. In March, Weying Galaxy took a 10 percent global equity stake in Paramount's Ghost in the Shell, followed by an undisclosed position in the studio's Transformers 5. But the company has since gone quiet. Given the current regulatory climate, few believe Weying, which counts both Tencent and Wanda among its investors, would deem one-off equity investments valuable enough to risk the umbrage that could come with circumventing the authorities' wishes.

Over the long term, some easing should be expected though.

"Ultimately, the government doesn't want to see zero activity in entertainment; they want to see smart, strategic activity," says Bennett Pozil, executive vice president of East West Bank, a lender for some of the earliest and biggest China-Hollywood deals. "There had been some deals that probably weren't valued properly, and that was giving them heartburn."

An exemplary pairing could be the recent minority investment Hollywood agency CAA received from China Media Capital, the Beijing-based venture capital firm run by consummate insider Li Ruigang. As many have noted, the pact came in April — quite late into the current crackdown phase — and it afforded CMC a sizable stake in CAA's local business, as well as giving Li a literal seat at the table in Hollywood — he was named a member of CAA's board. Should regulators eventually ease off the breaks, it's easy to see how a case might be made for a partnership of this kind.

But for now, those close to the market say the local industry has taken the government's cue, with investor sentiment and attention shifting towards local-language content.

"The slate deals of the past — such as Bona's slate financing at 20th Century Fox and Perfect World's investment at Universal Pictures — are probably over for now," says Peter Schloss, CEO at CastleHill Partners, a Beijing-based merchant bank focused on the media and entertainment industries. "Instead, you're going to find the opposite over the next few years, with Hollywood studios coming to China to help co-finance and produce local-language content."

The historic success of Chinese blockbuster Wolf Warrior II, still in release, will probably only hasten that transition. Produced for just $30 million, the patriotic action flick has earned an astonishing $810 million in China since its opening on July 27. Written, directed by and starring Wu Jing, the proudly Chinese film is undeniably a local success, but traces of the U.S. industry's fingerprints can also be found on it. Marvel mainstays Joe and Anthony Russo consulted on the film via their Chinese studio venture Anthem & Song, which has a strategic partnership with Beijing Culture Media, the project's lead local producer. The Russos arranged for their usual stunt team, led by veteran stunt coordinator Sam Hargrave (The Avengers, Suicide Squad, The Hunger Games), to join the project and elevate its action. And it was precisely this combination — patriotic Chinese themes, dressed up convincingly in Hollywood productions values — that many regard as the blockbuster's winning formula.

"The U.S. and China are the two largest entertainment markets, so there are always opportunities — it just comes down to where you choose your focus," Pozil adds. "We go where our clients go and if our clients are investing locally, we try to help them locally. We're just as busy as ever, it's just a different continent we are working on."