

## Statement in Support of TELA Loan Guarantee Proposal

Hong Kong has always held a pre eminent position as the major film production center in Asia. It has always played the leading role in the creation of entertainment for Asian markets.

More recently the Hong Kong cinema has broken through to more main stream commercial audiences in the rest of the world and has proven that it holds its place as a center of creative talent- of filmmakers, actors, writers and producers. Film's like "Crouching Tiger, Hidden Dragon", "Hero", "Highlanders", and "The Touch", show that there is no dearth of creative talent available in Hong Kong. All of these films took advantage of international co-financing, outside the traditional HK model which involved collateral based lending based on international distribution contracts, and bank financing.

But these films, which collectively represent over \$100,000,000 USD of budgeted production costs were all financed by non-HK based banks. All this local business was passed to banks outside the local community. To insure the survival of the local industry and to allow it to grow and compete internationally, local banks and financiers need to begin to participate in this sector of the media lending business, which unfortunately is active outside Hong Kong primarily with European and American banks.

The Hong Kong industry needs to build the financial infrastructure, based on this financing model which has been used consistently in the US and in Europe for the last 50 years. The Hong Kong banks must develop expertise in this area to be able to support the local industry and nurture its international growth. This financing model can help invigorate the local industry by making new financing available and should significantly encourage new productions which will allow Hong Kong cinema to continue to compete on the world stage.

The TELA loan guarantee proposal allows local lenders to experience these transactions with a reasonable entry level risk profile, to gain transactional experience and to encourage local filmmakers to reach out for financial partners and international funding sources.

There is a real need to develop local financing expertise if the industry is to survive in the future.

We are one of three companies worldwide that supply Completion Guarantees for film and television production and we are backed by Lloyd's of London. We very much believe in and support Hong Kong as a center for film production activity in Asia, and one year ago established an office here to base all our Asian operations.

To explain: We issue a completion guaranty to guarantee that a motion picture (or television production) will be completed and delivered to a distributor within budget, in accordance with the script, and on schedule. In essence the guaranty is a surety bond and provides that if the project runs into problems, the guarantor will either advance funds to the producer in order to finish the film; take over the project and complete the film itself; or abandon the film and repay the financier the production financing it may have advanced.

The guaranty operates to protect the financier from issues raised by over-budget costs, misapplication of the production financing and various other problems that may arise through production and post production of the motion picture.

In motion picture financing, the Completion Guarantee is an especially valuable aspect of the financier's collateral package. It provides the bank with the necessary comfort that the motion picture will be completed and delivered or alternatively, that the bank will be repaid directly by the Completion Guarantor for its exposure.

We provide such a level of security, so that banks are only assuming a credit risk, which is an area they know. We provide the expertise and security on the film production side, with local production support. This transaction is very similar to construction financing, which is a business that the Hong Kong banks know very well, and we are consciously trying to draw the parallels

As such, we provide security for banks and other financiers to participate in a film's financing by assuming an area of risk in which they feel they have little expertise, the actual production of the film itself. The TELA loan guaranty proposal would further enhance this opportunity by mitigating a portion of the bank's loan risk on any film project. Hopefully, this will encourage the Hong Kong banks to become active as lenders.

We support the TELA proposal as a realistic and reasonable step in developing local expertise and in encouraging local bank participation with local film production. This will promote the local banks participation in developing a stable financial infrastructure for the motion picture and television business for which Hong Kong producers up to now have had to look to the US and Europe to provide and will allow the industry to expand and thrive in the future. It is crucial that such a local infrastructure be developed if Hong Kong is to support the extraordinary local talent base and not have them need to look for financing and opportunity elsewhere for their projects.