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**Panel on Information Technology and Broadcasting**

**Meeting on 4 February 2005**

**Background brief on Film Guarantee Fund**

**Introduction**

In October 2002, the Administration announced that it proposed to set up a Film Guarantee Fund (FGF) to provide loan guarantees to participating lending institutions (PLIs) which would offer loan facilities for film production with the support of film completion arrangement.

2. Hong Kong has been recognized as a major film production centre in the world. However, the industry has faced new challenges and difficulties since the late 1990s. The number of film productions dropped significantly due to the Asian financial crisis and the downturn of the local economy. A decrease in the number of investors led to the tightening of the traditional source of financing for film companies which had hitherto relied mainly on distributor financing or equity financing.

3. To address these concerns, the Administration commissioned a consultant in 2000 to study appropriate means to improve the opportunities of film financing having regard to prevailing overseas practice. The consultancy report recommended, inter alia, the wider use of lender financing as a major source for funding local film production. Nevertheless, due to a lack of knowledge and experience in assessing film financing proposals, local banks had considerable concerns about providing loans for film production. Meanwhile, local film companies might not be able to offer sufficient collateral to underwrite the lenders' risks.

4. When the Government announced the proposed FGF scheme in 2002, it made it clear that it had no intention to invest or take part in film production and that the FGF was meant to help promote a film financing infrastructure in Hong

Kong. The Administration published a consultation paper on 17 October 2002 to solicit views of the film industry, the banking sector and the public. Having considered the comments received, the Administration introduced certain modifications, such as relaxing the eligibility criteria to apply for the loan guarantee and the budget ceiling for each film, and submitted the revised proposals for Members' consideration.

### **Film Guarantee Fund**

5. The Administration proposed to set aside \$50 million from the Film Development Fund for the establishment of the FGF. The funding proposal was considered and approved by the Finance Committee (FC) on 24 January 2003. The FGF came into operation in April 2003 on a pilot basis for two years.

6. According to the information released by the Administration on 14 December 2004, the FGF has approved seven applications since its launch in April 2003. One of the approved applications decided not to receive the loan facility as it had obtained financial support from another source. The total amount of loan guarantee committed for the other six applications is about \$14 million, while the total production cost of the films amounted to about \$78 million. The salient features of the FGF are highlighted below :

(a) Eligibility of film production companies

The applicant company or the producer or director of the film in question should have produced or directed at least three films in the 10 years from 1992 to 2001 for commercial theatrical release in Hong Kong. At least 50% of the major cast and film crew must be Hong Kong permanent residents.

(b) Maximum amount of loan guarantee for each film

The film production company must have secured a film completion arrangement for the film prior to applying for the loan guarantee. The scheme provides a 50% guarantee to a maximum of \$5.25 million out of the loan offered by a PLI. In other words, the maximum amount of loan guarantee for each film is \$2.625 million.

(c) Interest rate of the loan

The interest rate of the loan is to be decided between the film production company and the PLI concerned.

(d) Fund guarantee period

The guarantee may be offered for a term loan or in the form of a new credit line for a maximum period of two years.

(e) Repayment method

The PLI should exercise due diligence in securing repayment of the loan although it may exercise some flexibility in the repayment method.

(f) Default cases

Should a film production company fail to repay the principal of the loan 60 days after the payment due date, the PLI concerned may deem a default case constituted. In case of default, any amount eventually recovered from the film and the film production company, less the administrative cost incurred, will be shared between the FGF and the PLI according to the risk-sharing ratio. The FGF will share the administrative costs incurred by the PLI in securing repayment of the loan according to the risk-sharing ratio, subject to the amount as guaranteed by the FGF.<sup>1</sup>

(g) Theme or content of the film

The FGF will provide the loan guarantee if the criteria are met. The Government will not look into the theme or content of the film, which will eventually have to be classified under the three-tier film classification system.

## **Members' concerns**

7. In December 2002, prior to FC's consideration of the relevant financial proposal, the Panel on Information Technology and Broadcasting had met with deputations, mostly from the film industry, and noted that they welcomed the proposed establishment of the FGF as one of the policy initiatives to help boost the development of the local film industry. There was however concern that it might be necessary to enhance the understanding of the local banking sector about the film production process in order to strengthen their capability in media financing. To address this concern, the Administration invited the film industry to draw up a list of advisers that could offer advice to PLIs on various aspects of film production. The list has been posted on the website of the Television and

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<sup>1</sup> According to the consultation paper and the Administration's paper submitted to FC (FCR(2002-03)52), the arrangement was that in case of default, the PLI and the Government would co-own the copyright of the film in question until the film production company repaid all of the outstanding loan under the conditions set by the PLI, or the copyright of the film was publicly auctioned.

Entertainment Licensing Authority.

8. In following up the various initiatives to facilitate the development of the local film industry at the meeting held in March 2004, Panel members were concerned about the Administration's future plan for the FGF upon expiry of its two-year pilot period in April 2005, and noted that the Administration would conduct a review on the scheme to decide on the future arrangements.

### **The way forward**

9. As the Administration has undertaken at the FC and the Panel, it would conduct a review on the operation of the FGF some 18 months after its implementation. Having completed the study, the Administration will revert to the Panel in February 2005 on its recommendations and consult the Panel before submitting the relevant funding proposal to FC for consideration.

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