

**For discussion
on 14 April 2008**

**Legislative Council Panel on
Information Technology and Broadcasting**

**Progress Report on the Implementation of the
Film Development Fund**

PURPOSE

This paper provides an update on the progress of the implementation of the Film Development Fund (FDF) following the injection of \$300 million into the FDF as approved by the Finance Committee of the Legislative Council on 6 July 2007.

BACKGROUND

2. The film industry is the flagship of the creative industries in Hong Kong. It contributes significantly to the development of our services industries as well as tourism, and enhances the international and cultural image of Hong Kong. However, there has been a substantial decrease in the number of film productions, particularly small-to-medium budget films, as well as box office revenues in recent years. With a shrinking film market and decreasing number of local productions, the film industry is facing a difficult time, plagued with talent drought.

3. The Government is committed to providing a favourable environment conducive to the long-term and healthy development of the Hong Kong film industry. We established the new high-level Hong Kong Film Development Council (FDC) in April 2007 to replace the Film Development Committee. Mainly comprising members from the film industry, the FDC is responsible for advising the Secretary for Commerce and Economic Development (SCED) on the policy, strategy and institutional arrangement for the promotion and development of the film industry. We also obtained the Finance Committee's approval to inject \$300 million into the FDF and expand its scope to assist in the sustainable development of the film industry.

PROGRESS OF IMPLEMENTATION OF THE FDF

Enlarging the Scope of the FDF

4. The Government first established the FDF for a tenure of five years in April 1999 with an approved commitment of \$100 million to primarily finance projects conducive to the long-term development of the film industry, such as providing training for film workers, overseas promotion of local films, etc. The use of FDF from April 1999 to July 2007 is set out in **Enclosure 1**. At the meeting on 6 July 2007, the Finance Committee approved our proposal to increase the commitment of the FDF by \$300 million to expand its scope to provide financial support for the production of small-to-medium budget films, and to continue to finance projects which are beneficial to the long-term and healthy development of the film industry. The approved funding support for film productions focuses on small-to-medium budget films with production cost up to \$12 million to help generate more film productions as well as job opportunities for film talents. As approved by the Finance Committee, the Government's contribution is capped at 30% of the production budget, while the remaining 70% is expected to be funded by private investors.

5. Following the injection of \$300 million and the expansion of scope, the FDF aims to fund projects and activities which contribute towards the development of the Hong Kong film industry, including -

- (a) providing funding support for small-to-medium budget film productions;
- (b) enhancing efforts to promote Hong Kong films in the Mainland and overseas;
- (c) enhancing initiatives to train talents in the various aspects of the film production and distribution work; and
- (d) enhancing the interest and appreciation of the local audience in respect of Hong Kong films.

Assessment Criteria

6. The broad parameters approved by the Finance Committee for supporting film productions are that only small-to-medium budget productions employing a number of Hong Kong talents should be funded, and

the proposed film production should reach the standard for commercial theatrical release. There is also assessment in relation to the commercial viability of the film project (e.g. undertaking of 50% of the budget by third-party financier(s), objective assessment on whether the film is for mass appeal rather than only for niche market), the soundness of the applicant (i.e. a registered company in Hong Kong with proven track record) and the reasonableness of the proposed budget, etc. There is no vetting for the content of the scripts of the film productions. The broad parameters approved by the Finance Committee are set out in **Enclosure 2**.

Encl.2

7. To enable the film industry to clearly understand the eligibility and assessment criteria and to facilitate the evaluation work, the FDC has elaborated the broad parameters approved by the Finance Committee where appropriate. For example, the FDC has prescribed more clearly the requirement of employing a number of Hong Kong talents in the film production; it has imposed the requirement that the applicant has to register the proposed script with the Federation of Hong Kong Filmmakers before submission of the application to the FDC; and favourable consideration will be given to applications which have more production components (including post-production works) to be carried out in Hong Kong.

8. As to other types of projects under paragraph 5(b) to (d) above, the FDC has agreed to continue to adopt the eligibility and assessment criteria which have been in use before July 2007 (**Enclosure 3**).

Encl.3

Controlling Mechanism

9. The Commissioner for Television and Entertainment Licensing (CTEL) is the controlling officer of the FDF, with the Secretariat of the FDC administering the Fund. The CTEL will decide whether the applications would be approved, and would disburse funds to approved FDF projects. The FDC has set up the following mechanism to assist the CTEL in dealing with the applications -

(a) Setting up a Fund Vetting Committee (FVC) :

The FVC is set up under the FDC, comprising 11 FDC members. It is responsible for examining the merits of the FDF funding applications and would make recommendations to the CTEL.

(b) Setting up a Panel of Examiners :

The FVC is assisted by a Panel of Examiners who are professionals with experience in film production, sales and distribution work. They would provide views on the commercial viability and reasonableness of the budget of the funding applications for film productions. For each eligible application, six Examiners will be drawn from the Panel for assessment and the FVC will consider the Examiners' assessment before putting forward their recommendation to the CTEL. As at end March 2008, a total of 32 film professionals serve on the Panel of Examiners.

(c) Declaration of Interests :

To avoid any possible or perceived conflict of interests, the FDC has set up a mechanism on the basis of the guidelines issued by the Home Affairs Bureau for members of the FDC and FVC as well as the Panel Examiners for declaration of interests. Detailed procedures for selection of Examiners to assess an application are also drawn up to avoid any possible conflict of interests.

Production Finance Agreement

10. Providing funding support for film productions through the FDF is an investment venture for the Government and a new funding source and experience for the industry. TELA has worked closely with the Department of Justice and the FDC to draw up a Production Finance Agreement (the Agreement) which sets out the detailed terms and conditions for funding support for small-to-medium budget film productions. During this process, we have looked into the experiences of the operation of similar government funds overseas as well as the international standard of film production. The terms and conditions in the Agreement seek to strike a balance between the protection of public coffer and allowing an appropriate degree of flexibility for the industry to produce films in line with market practices. All the measures in respect of fund disbursement, cost recouping and profit sharing as approved by the Finance Committee in July 2007 have been incorporated in the Agreement. We have also taken the opportunity to introduce provisions which encourage small-to-medium film makers to adopt better management and accounting measures in line with the international best practices, including, for example, the requirement of insurance coverage for film workers, the preparation of audited reports and regular reports on progress of film production. The FDC considers that this approach will help bring the local industry closer to international practices, which will enhance

the chance of the industry to seek commercial financing in the long run.

11. Upon completion of the preparation of the Agreement, the FDC announced in October 2007 that it would start to receive applications for the FDF in respect of film productions. Six briefing sessions were held between October 2007 to February 2008 to explain to the film industry players the eligibility and assessment criteria, as well as the terms and conditions in the Agreement. We have also pledged that upon receipt of all required information for an application, we will complete processing a funding application for film production within a month.

Applications

12. Prospective applicants have to work out the script for the proposed film productions before submitting the funding applications to the FDF. The first application for funding support for film productions was received in November 2007. Up to March 2008, a total of six applications have been received. Of these, two have been approved while two are being processed. Two have been withdrawn by the applicants. The total amount of funding approved for the two applications is \$5.2 million. Details of the two approved cases are at **Enclosure 4**.

13. As regards other projects which are beneficial to the healthy and long term development of the film industry, a total of nine were approved from August 2007 to March 2008. These include -

- (a) Entertainment Expo Hong Kong 2008;
- (b) Hong Kong-Asia Film Financing Forum 2008;
- (c) Asian Film Awards 2008;
- (d) The 27th Hong Kong Film Awards Presentation Ceremony;
- (e) Sponsoring four local films to participate in overseas film festivals; and
- (f) Production of a short film to promote Hong Kong films.

Projects (a) to (d) are events of the Entertainment Expo Hong Kong 2008 (the Expo) co-ordinated by the Trade Development Council and held by different local film-related organizations. Over the years, the Expo has successfully built up an effective commercial platform for exchanges between local entertainment industry and their counterparts from all over the world. The local film industry attaches great importance to this annual Expo as it amalgamates a rich array of major film and entertainment events for synergy effect, showcasing the accomplishments of the local film industry as well as bringing in business opportunities. As to projects under (e), the FDC considers it important to encourage Hong Kong filmmakers to participate in overseas film festivals to showcase the quality of Hong Kong films internationally. The total amount of funds granted to the nine projects is \$15.2 million. Details of these projects are at **Enclosure 5**.

Encl.5

WAY FORWARD

14. The film industry welcomes the Government's initiatives to support the industry, and has responded positively to the implementation of the expanded FDF. The expanded FDF only started to invite applications for financing small-to-medium budget film productions in October 2007. Up to March 2008, six applications have been received, of which two have already been approved. With about 50-60 local films produced each year and taking into account the lead time for preparation of script, we consider the initial response satisfactory. With the enhanced secretariat support for the FDC, continued efforts will be made to further promote and publicize the FDF and to encourage the film industry to make full use of the FDF.

15. The Administration has undertaken to review the FDF in consultation with the film industry two years after the injection of \$300 million and expansion of the scope of the FDF. We will assess the effectiveness of the expanded FDF in generating a larger mass of film production activities, increasing employment opportunities in the industry, nurturing film talents and enhancing Hong Kong's overall image internationally, etc. in the review.

Communications and Technology Branch,
Commerce and Economic Development Bureau
Television and Entertainment Licensing Authority
April 2008

Enclosure 1

Use of FDF from April 1999 to July 2007

- ✧ The Government set up the FDF for a tenure of five years in April 1999 with an approved commitment of \$100 million.
- ✧ Recognising that the film industry had difficulties in obtaining loans from lending institutions to finance film production, the Finance Committee approved in 2003 to deploy \$50 million from the FDF to launch the Film Guarantee Fund.
- ✧ Up to March 2004, a total of 72 projects at cost of about \$49 million were approved under the FDF.
- ✧ In March 2005, the Finance Committee approved to redeploy \$20 million from the Film Guarantee Fund to revive the FDF so as to sustain the momentum of promoting the film industry.
- ✧ From 2005 to July 2007, about \$15 million was granted to support 13 projects under the reactivated FDF.
- ✧ As at July 2007, before the injection of \$300 million into the FDF, the remaining balance of the FDF stood at about \$5 million

Enclosure 2

Eligibility and Assessment Criteria for Financing Film Productions under the Expanded Film Development Fund

The Film Development Fund with an expanded scope will adopt the following eligibility and assessment criteria for financing film productions –

- (a) The applicant should be a film production company formed and registered under the Companies Ordinance (Cap. 32) that should normally have produced at least two films in the past ten years for commercial theatrical release in Hong Kong. For companies without such track record, the producer or director of the film project in question should normally have produced or directed at least two films in the past ten years for commercial theatrical release in Hong Kong;
- (b) Generally, an applicant is allowed to receive funding for not more than two film projects at any one time. For this purpose, if a producer is currently involved in two approved film projects which are under production, any applications involving this producer will not be considered. However, if a film director is currently involved in one approved film project which is under production, any applications involving this director will not be considered;
- (c) The film project must –
 - (i) be in the form of a full script to produce a feature film intended for commercial theatrical exhibition in Hong Kong with a production budget of not more than \$12 million;
 - (ii) be identifiable as commercially viable and have secured some form of third-party financing of, for example, 50% of production budget; and
 - (iii) constitute at least 50% of the main cast and film crew with Hong Kong permanent residents.

Enclosure 3

Eligibility and Assessment Criteria for Funding Film-related Projects under the Expanded Film Development Fund

The Film Development Fund with an expanded scope will adopt the following eligibility and assessment criteria for funding film-related projects other than film productions –

- (a) An applicant should normally be a locally registered institution/organisation engaged in film business or a related body. The Secretariat of the Film Development Council can also apply for funding;
- (b) Projects under application must be beneficial to the overall development of the local film industry, such as enhancing the competitiveness of the local film industry;
- (c) Benefits accrued from the projects must serve the interests of the entire film industry, and not just an individual private company or a consortium of private companies;
- (d) Projects should mainly be non-profit making by nature. Special consideration could be given for projects that can ultimately be self-financing;
- (e) In general, funds approved can only be used for non-recurrent expenditure;
- (f) Funds approved cannot be used to create any civil service posts;
- (g) In examining an application, the following must be taken into consideration –
 - (i) the benefits that a project may bring to the local film industry;
 - (ii) the need for such a project;
 - (iii) the technical and project management capabilities of the applicant institution/organisation;

- (iv) whether the implementation schedule of the proposed project is well planned and whether the time required for implementation is reasonable;
 - (v) whether the proposed budget is reasonable and realistic;
 - (vi) whether there is/will be any duplication in terms of the work carried out by other institutions; and
 - (vii) for a project involving recurrent expenditures (such as salaries and other administrative expenses), the period required for such expenditures and whether the project can be self-financing after a certain period of time.
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Enclosure 4

**Approved Applications in respect of Film Production Financing
(Position as at 31.3.2008)**

No.	Production Company	Project Title	Production Budget	Approved Fund
1	Bliss Pictures Limited	McDull Wudang (麥兜 武當)	\$11,996,000	\$3,598,800
2	Runaway Films Production Limited	Claustrophobia (花非花)	\$5,394,186	\$1,618,256
	Total:			\$5,217,056

**Other Film-related Projects Approved under the FDF
(Position as at 31.3.2008)**

Project Title		Organizer	Approved Fund	Remarks
1	Entertainment Expo Hong Kong 2008	Hong Kong Trade Development Council	\$1,470,000	Since its inaugural launch in March 2005, Entertainment Expo (EE) has been the mega event of the Hong Kong entertainment industry. EE amalgamates nine events, mostly film related, to achieve synergy effect and to showcase the accomplishments of the Hong Kong film industry. It improves business matching opportunities for Hong Kong's film and entertainment industries by drawing international film talents and filmmakers to Hong Kong.
2	Hong Kong – Asia Film Financing Forum 2008	Hong Kong International Film Festival Society Limited	\$3,356,400	The Hong Kong-Asian Film Financing Forum (HAF) aims at facilitating co-financing and co-production of Asian films. Taking place during the EE, HAF is a venue for international financiers, producers, bankers, distributors, buyers and film funding bodies to discover and invest in Asian talents. It helps develop Hong Kong into a regional centre for film financing and co-production.

Project Title		Organizer	Approved Fund	Remarks
3	Asian Film Awards 2008	Hong Kong International Film Festival Society Limited	\$6,300,925	The Asian Film Awards (AFA) is an annual event to honour Asian filmmakers with outstanding achievements. Eminent filmmakers and representatives from around the world are invited to bestow awards upon outstanding individuals in 12 categories. As a part of the EE, AFA helps make Hong Kong a hub of Asian films which is conducive to the long-term development of the local film industry.
4	The 27 th Hong Kong Film Awards Presentation Ceremony	Hong Kong Film Awards Association Limited	\$3,008,200	The HK Film Awards Presentation Ceremony (HKFA) had been held annually since 1982. The purpose of the event is to honor local film workers for their outstanding achievements and thereby encouraging the production of high quality films. The HKFA is an important annual event in the entertainment field, and the telecast of the ceremony receives wide viewership and helps promote Hong Kong films locally and overseas.

Project Title		Organizer	Approved Fund	Remarks
5	Sponsorship of “Triangle” (鐵三角) to participate in the 2007 Cannes Film Festival (Out of Competition Section)	Milkyway Image (Hong Kong) Limited	\$80,000	Sponsorship for the nominated film to participate in the film festival is to promote Hong Kong film overseas and to encourage local filmmakers to produce high quality films.
6	Sponsorship of “Mad Detective” (神探) to participate in the 2007 Venice Film Festival (In Competition Section)	One Hundred Years of Film Company Limited	\$300,000	Same as above.
7	Sponsorship of “Exodus” (出埃及記) to participate in the 2007 Toronto Film Festival	Filmko Entertainment Limited	\$80,000	Same as above.
8	Sponsorship of “The Sun Also Rises” (太陽照常升起) to participate in the 2007 Venice Film Festival (In Competition Section)	Emperor Motion Picture (International) Limited	\$300,000	Same as above.

Project Title		Organizer	Approved Fund	Remarks
9	Production of a Short Film to Promote Hong Kong Films	Hong Kong Film Development Council Secretariat	\$400,000	The Film Development Council has proposed to produce a short film to promote Hong Kong films. The short film would be shown in local and overseas film events and other film-related activities, with a view to promoting Hong Kong films internationally as well as locally, and boosting the Hong Kong film industry.
	Total:		\$15,295,525	