

NOTE FOR FINANCE COMMITTEE

Report on the Review of the Operation of the Film Development Fund Scheme

PURPOSE

This paper informs Members on the review of the operation of the Film Development Fund (FDF) Scheme and the measures to improve the operation of the Scheme in response to the needs of the local film industry.

BACKGROUND

2. At the meeting on 6 July 2007, the Finance Committee (FC) of the Legislative Council (LegCo) approved the Government's proposal to inject \$300 million into the FDF with an expanded 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.

3. The funding support from the Government for film production aims to encourage more commercial investment in film productions, create a larger mass of film activities, more employment opportunities, and assist the film industry to revitalize and develop further. The existing eligibility and criteria for financing film production under the FDF are set out in Enclosure 1. When seeking funding approval from FC in July 2007, the Government undertook 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.

Encl. 1

4. Under the film production financing scheme (the Scheme), the Government will decide whether applications are approved on the basis of the recommendations of the Fund Vetting Committee (FVC) set up under the Film Development Council (FDC) to examine the merits of the FDF applications. The FVC is assisted by a Panel of Examiners consisting of professionals with experience in film production, sales and distribution of movies. Each film project will be assessed by six independent Examiners with regard to its commercial viability and reasonableness of the budget. The FVC will consider the Examiners' assessment before putting forward their recommendation to the Government.

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5. Since October 2007 (when the FDF started to receive applications for financing film productions) up to 31 October 2009, a total of 22 applications have been received. Of these, 14 have been approved at a total approved funding of \$38.8 million. The 14 approved films have employed six new Hong Kong directors and five new film producers directing or producing commercial films for the first time. This is in line with the objective that the FDF is to help the industry to train new talent. Ten of the 14 approved applications were submitted by small-scale film production companies (i.e. independent companies which do not have their own distribution network). Again, this is consistent with the FDF objective to provide financial assistance to the small-scale film production companies for film production, thereby creating a larger mass of film activities for the local film industry.

6. Of the 14 approved films, four have been theatrically released in Hong Kong and the Mainland starting earlier in 2009. The total box office receipts of the four films is about \$117 million, compared to the total production budget of these films is \$35.4 million. One of the approved films, which was directed by a first time director, has won a number of awards in international film festivals. This shows that the FDF has played a positive role in nurturing film talent, strengthening Hong Kong's film industry and raising its standard.

7. As regards other film-related projects which are beneficial to the healthy and long term development of the film industry, a total of 35 applications have been approved since July 2007 up to 31 October 2009, with a total approved funding at \$52.4 million. The projects include mega promotional events for films, funding support for the industry to attend overseas film festivals, the production of an industry handbook and a teaching kit, etc.

8. As at 31 October 2009, the uncommitted balance of the FDF is \$213.9 million.

REVIEW OF THE FDF AND IMPROVEMENT MEASURES

9. We conducted a review of the Scheme from March to June 2009. A working group, consisting of industry members, was formed to collect and assess feedback from the film industry. The review covers a number of areas, including the user-friendliness of the application forms, the terms and conditions of Government's funding for film productions, and the effectiveness of the FDF in promoting the long-term, sustainable development of the industry. The operation of the FDF for financing other film-related projects was not included in the scope of the review.

10. During the review, we conducted a number of consultation sessions with stakeholders including the Panel of Examiners, applicants and various film associations and trade organizations. Based on the feedback received, we submitted the review findings to the FDC for consideration. After considering the review findings, the FDC recommended that the operation of the Scheme should be improved in the following aspects –

- (i) to raise the upper limit of the production budget of a film project supported by the FDF from \$12 million to \$15 million;
- (ii) to raise the upper limit of Government's contribution per approved film project from 30% to 40%; and
- (iii) to remove the 10 years' time-limit for relevant film-making experience in respect of the applicant, the film director or producer.

The FDC also proposed that given the present proposal to raise the upper limit of the production budget of a film project, which will in turn lead to an increase in the amount of Government's contribution per approved film project, it would be reasonable if the Government's contribution per approved film project be capped at 35% of the production budget under normal circumstances. Only under very special circumstances and after careful examination of the exceptional merits of the case would the FVC recommend to the Government to make a contribution of up to 40%.

Encl. 2 11. The revised eligibility and financing criteria in respect of the Scheme as recommended by the FDC is at Enclosure 2. The proposed improvement measures to the Scheme are in line with the ambit and objectives of the expanded scope of the FDF approved by FC vide FCR(2007-08)30.

12. The film industry considers, and the Government agrees, that the proposed improvements will better meet the needs of the industry and are in line with the objectives of the FDF. The increase in financial support will facilitate the industry, particularly small-scale film producers producing small-to-medium film of acceptable quality. The removal of the 10 years' time-limit for relevant film-making experience in respect of the applicant, the director or the producer will allow filmmakers with relevant past experience to contribute their valuable experience to produce films under the Scheme. In addition, procedures will be promulgated for selling back the copyright of the film to the applicant five years after the film has been theatrically released. We will also improve the layout of the application forms; provide bilingual texts for all contract documents and samples; and arrange briefing sessions and seminars for film practitioners to explain to them the relevant application rules and procedures, etc.

CONSULTATION

13. We consulted the LegCo Panel on Information Technology and Broadcasting on 14 December 2009 on the review of the FDF. The Panel supported the proposed improvement measures.

FINANCIAL IMPLICATIONS

14. Based on the existing rate of utilization of the FDF at around \$19.4 million per annum, the additional financial provision that will be required to increase the Government's contribution by 5% (from 30% to 35%) is about \$3.2 million per annum. Additionally, it is expected that the raising of the production budget ceiling from \$12 million to \$15 million may attract some applicants which were previously not eligible for financial support under the Scheme to apply for financing. In this connection, we estimate that this may incur an additional financial provision of 10%, or \$2.3 million, per annum. Therefore, the total additional financial provision for implementing the improvement measures set out in paragraph 10 is estimated at \$5.5 million per annum. This is a matter of cashflow; the size of the funding commitment for FDF as approved by FC will remain unchanged.

WAY FORWARD

15. We will implement the improvement measures in paragraph 10 with effect from the first quarter of 2010. Members are invited to note the review of the FDF as set out in this paper.

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

The eligibility and financing criteria for financing the production of film projects under the Film Development Fund (FDF) are –

- (a) The applicant should be a company formed and registered under the Companies Ordinance (Cap. 32);
- (b) The applicant, or the film producer, or the film director should have produced at least two completed films in the past 10 years for commercial theatrical release in Hong Kong;
- (c) The applicant may only receive the Government financial support under the FDF for up to two approved film projects at any one time;
- (d) The film project must –
 - (i) have a production budget of not more than \$12 million;
 - (ii) be in the form of a full script to produce a feature film intended for commercial theatrical exhibition in Hong Kong;
 - (iii) be identifiable as commercially viable and have secured some form of third-party financing of, for example, 50% of production budget; and
 - (iv) constitute at least 50% of the main cast and film crew with Hong Kong permanent residents.
- (e) The Government will contribute up to 30% of the production budget of the film project under the FDF, i.e. a maximum of \$3.6 million per film project.

**Revised Eligibility and Financing Criteria for Financing Film Productions
under the Film Development Fund**

The revised eligibility and financing criteria for financing the production of film projects under the Film Development Fund (FDF) as recommended by the Film Development Council are –

- (a) The applicant should be a company formed and registered under the Companies Ordinance (Cap. 32);
- (b) The applicant, or the film producer, or the film director should have produced at least two completed films for commercial theatrical release in Hong Kong;
- (c) The applicant may only receive the Government financial support under the FDF for up to two approved film projects at any one time;
- (d) The film project must –
 - (i) have a production budget of not more than \$15 million;
 - (ii) be in the form of a full script to produce a feature film intended for commercial theatrical exhibition in Hong Kong;
 - (iii) be identifiable as commercially viable and have secured some form of third-party financing of, for example, 50% of production budget; and
 - (iv) constitute at least 50% of the main cast and film crew with Hong Kong permanent residents.
- (e) The Government will contribute up to 40% of the production budget of the film project under the FDF, i.e. a maximum of \$6 million per film project.
