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12 December 2012

Miss Mary So
Clerk to the Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Fax: 2840 0716)

Dear Miss So,

Public Accounts Committee
Consideration of Chapter 5 of the Director of Audit's Report No. 59
Government's Financial Support to Film Industry

I refer to your letter dated 29 November 2012 to Head of Create Hong Kong. I set out this Bureau's response to the views raised in relation to Chapter 5 of the Director of Audit's Report No. 59.

- (a) The FDF is intended to assist the film industry in revitalising and developing further, rather than deriving financial return from the funding support given to the industry. When the Finance Committee considered the proposal to increase the commitment of the FDF by \$300 million in July 2007 vide FCR(2007-08)30, the objectives of the Film Development Fund (FDF) as set out in the paper are to provide limited funding support to small-to-medium budget productions, enhance efforts to promote Hong Kong films in the Mainland and overseas, enhance

initiatives to train talents in the various aspects of the film production and distribution, and enhance the interest and appreciation of Hong Kong films by the local audience.

FCR(2007-08)30 also sets out the broad eligibility parameters for the film production projects to be funded under the FDF. These parameters include:

- (i) the films are small-to-medium budget productions;
- (ii) at least 50% of the main cast and film crew are Hong Kong permanent residents;
- (iii) films should be for commercial theatrical release;
- (iv) there will also be assessment in relation to the commercial viability of the project (e.g. at least 50% undertaking of budget by third-party financier(s));
- (v) objective assessment on whether the film is for mass appeal rather than for the niche market only;
- (vi) track-record and aptitude of the applicant; and
- (vii) reasonableness of the proposed budget.

We have all along set out these broad eligibility and assessment parameters in the application forms and relevant documents available on the website of the Film Services Office of Create Hong Kong.

As an ongoing process of improving the operation of the FDF, we will introduce early next year some revisions to the eligibility criteria which cover –

- (i) reasonableness of the production budget;
- (ii) marketability of the film (i.e. commercial viability);
- (iii) creativity of the film; and
- (iv) local production elements of the film.

We will promulgate the aforementioned criteria to the film industry and specify them clearly in the relevant guide and documents concerned.

From the above, it can be seen that how well a proposed film could recover the contributions from the FDF has not been one of the eligibility nor assessment parameters. In fact, for funding the small-to-medium budget film productions, although commercial viability is one of the vetting criteria, the Government did acknowledge in FCR(2007-08)30 that “there is a chance of the Government not recouping all or part of the contribution if the proceeds from all revenues for the Government’s share of contribution cannot cover the contribution.” Given the highly unpredictable market response to a film before its screening, it is not possible for the Government to specify an expected return from its contribution to the film production projects.

In any event, we will conduct an overall review of the FDF in 2013 to consider the way forward, including the need for further funding injection. The review will cover the question of recovery of the Government contribution.

- (b) In conducting the review on the use of the FDF, we will consider the existing practice of using an applicant’s ability to secure third-party financing as a measure of the commercial viability of a film. The FDC and stakeholders will also be consulted.
- (c) As mentioned, we agree with the recommendation of the Director of Audit that a strategic review be conducted on the use of the FDF. We will take into account the views on the financing of film promotion and distribution expenses in the future review.

Yours sincerely,



(Susie HO)

for Secretary for Commerce and Economic Development

c.c. Head of Create Hong Kong (Fax: 3101 0863)