

The Audit Commission ("Audit") conducted a review of the Government's financial support to film industry.

2. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses to its enquiries.

3. Regarding the funding of film production projects under the Film Development Fund ("FDF"), the Committee considered that the principle(s) and objective(s) of the FDF should be made clear, and how well a proposed film could recover the contributions from the FDF should not be one of the considerations in deciding whether or not a funding application under the FDF should be approved.

4. In his letter of 12 December 2012 (in *Appendix 37*), the **Secretary for Commerce and Economic Development** replied that:

- the FDF was intended to assist the film industry in revitalizing and developing further, rather than deriving financial return from the funding support given to the industry. Hence, how well a proposed film could recover the contributions from the FDF had not been one of the eligibility nor assessment parameters;
- as an ongoing process of improving the operation of the FDF, some revisions to the eligibility criteria would be introduced early next year covering the following:
  - (a) reasonableness of the production budget;
  - (b) marketability of the film (i.e. commercial viability);
  - (c) creativity of the film; and
  - (d) local production elements of the film;
- the aforementioned criteria would be promulgated to the film industry and specified clearly in the relevant guide and documents concerned; and

- an overall review of the FDF would be conducted in 2013 to consider the way forward, including the need for further funding injection. The review would cover the question of recovery of the Government contribution.

5. The Committee noted from paragraph 3.2(e) of the Director of Audit's Report that one of the major requirements for FDF funding was that the project was shown to be commercially viable. A project was regarded as commercially viable if the applicant had secured third-party financing to the satisfaction of the Government. The Committee considered that there was a need for the Administration to review the existing practice of using the applicant's ability to secure third-party financing as a measure of the commercial viability of a film.

6. The **Secretary for Commerce and Economic Development** replied in the same letter that in conducting the review on the use of the FDF, the Administration would 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 Film Development Council and stakeholders would also be consulted.

7. On the suggestion of establishing a separate fund to finance film promotion and distribution expenses, the **Secretary for Commerce and Economic Development** stated in his letter that the Administration agreed with the recommendation of the Director of Audit that a strategic review be conducted on the use of the FDF. The Administration would take into account the views on the financing of film promotion and distribution expenses in the future review.

8. The Committee notes the above replies of the Secretary for Commerce and Economic Development and wishes to be kept informed of the progress of the review of the FDF to be conducted in 2013.