

ITEM FOR FINANCE COMMITTEE

**HEAD 55 – GOVERNMENT SECRETARIAT : COMMERCE AND
ECONOMIC DEVELOPMENT BUREAU
(COMMUNICATIONS AND CREATIVE INDUSTRIES
BRANCH)**

**Subhead 700 General non-recurrent
Item 480 Film Development Fund**

Members are invited to approve an increase in the commitment by \$20 million from \$520 million to \$540 million for the Film Development Fund.

PROBLEM

We need to enhance support for Hong Kong-produced Cantonese films to tap into the Mainland market.

PROPOSAL

2. The Secretary for Commerce and Economic Development proposes to increase the current commitment for the Film Development Fund (FDF) by \$20 million from \$520 million to \$540 million.

/JUSTIFICATION

JUSTIFICATION

Opportunities and challenges for Hong Kong movies in the Mainland market

3. The Government is committed to supporting the development of the local film industry. In May 2015, the Government increased the commitment for the FDF by \$200 million. A host of support measures including funding support, talent nurturing, promotion, trade facilitation and audience development have been introduced. One of our policy objectives is to encourage more local film productions and, in this connection, the Film Production Financing Scheme (FPFS)¹ and the Film Production Grant Scheme (FPGS)² under the FDF have been instrumental in providing more filmmaking opportunities for new talents by absorbing part of the risks of undertaking film production projects. In addition, the support for producing feature films for commercial release cannot be complete without the complementary measures to facilitate access to non-local markets.

4. The Mainland is a huge market not only for Hong Kong films, but also productions from different parts of the world are all keen to access the Mainland market. However, Hong Kong films are better placed in terms of access as a result of the introduction of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA). Under the CEPA, Hong Kong-produced Cantonese movies have been allowed since 2006 to be imported into the Mainland on a quota-free basis for distribution in Guangdong, subject to vetting and approval by the Mainland. Since 2014, the dialect version of motion pictures produced by Hong Kong (which is also applicable to Hong Kong-produced Cantonese movies) has been officially allowed for distribution Mainland-wide on a quota-free basis subject to certain conditions. According to unofficial figures³, a total of some 290 Hong Kong films were theatrically released in the Mainland from 2011 to 2015, including Hong Kong-produced films, Hong Kong-Mainland co-productions and Hong Kong-overseas co-productions.

/5.

¹ FPFS provides financing to low-to-medium budget films with production budget not exceeding \$25 million per film. Government's contribution of financing is up to 40% of the approved budget or the actual production cost, whichever is the lower, and capped at \$6 million per movie.

² FPGS provides subsidy to low-budget film productions with production budget not exceeding \$10 million per film. The grant is capped at 20% of the approved production budget or actual production cost, whichever is the lower.

³ Film production companies are not required to report to the Hong Kong Special Administrative Region Government on the film productions released in the Mainland.

5. The populous Cantonese-speaking audiences in the southern region of China form a significant market for our small-to-medium budget films which are normally produced in the Cantonese dialect. In 2014, the Guangdong Province has a population of over 100 million and its cinemas generated box office receipts of RMB 4.15 billion. Since Hong Kong shares a common cultural background and dialect with the Cantonese-speaking region, we foresee significant interest in Hong Kong-produced Cantonese movies in some parts of the Mainland, particularly the Guangdong Province which is our primary market. Local filmmakers are eager to gain access to the Mainland market not only for tapping into the growing market of which the purchasing power is on the rise, but also for increasing their own bargaining power during subsequent stages of negotiations with relevant parties over internet or pay TV royalties.

6. However, the high level of sales and distribution (S&D) expenses in the Mainland has, to some extent, limited the appetite of local filmmakers for distributing Hong Kong-produced Cantonese movies in the Mainland market. According to the trade, distributors in Guangdong would normally require Hong Kong filmmakers to pledge at least RMB 400,000 (about HK\$475,000) as S&D expenses given the relatively high commercial risks of distributing Hong Kong-produced movies vis-à-vis Hong Kong-Mainland co-productions or Mainland domestic productions. Since Hong Kong-produced Cantonese movies are mostly small-to-medium budget projects, some filmmakers have opted not to go for the Mainland market amid cost concerns. We see a need to enhance support for Hong Kong-produced Cantonese movies so as to encourage Hong Kong filmmakers to explore the Mainland and in particular the Guangdong Province market.

Enhanced support for Hong Kong-produced Cantonese movies distributed in the Mainland

7. Create Hong Kong (CreateHK) currently offers cash subsidies under the FDF to cover the S&D expenses incurred by Hong Kong-produced Cantonese movies for distribution in the Mainland⁴, subject to a cap of \$250,000 per movie. Three movies have so far been granted subsidies. The amount of subsidies and the Mainland box office receipts of these three films are set out at Enclosure 1.

Encl. 1

/8.

⁴ The scheme was launched in July 2012 to cover those Hong Kong-produced Cantonese movies distributed in the Guangdong Province and has been expanded in scope since July 2015 to cover those Hong Kong-produced Cantonese movies distributed in the Mainland outside the Guangdong Province.

8. To enhance support for Hong Kong-produced Cantonese movies, we propose increasing the maximum level of subsidy per movie from \$250,000 to \$500,000 having regard to the cost concerns mentioned in paragraph 6 above. We aim at suitably incentivising Hong Kong's filmmakers to explore the Mainland market by lowering the entry threshold of distributing Hong Kong-produced Cantonese movies in the Mainland through sharing out their financial risks and increasing their risk appetite.

9. The enhanced support will also assist the film industry in leveraging the enhanced measures under CEPA to promote Hong Kong-produced Cantonese movies to the Mainland. As far as the Guangdong Province is concerned, given that there are at present about 780 cinemas in the Province and the number is on the rise, we expect that there will be greater demand for Hong Kong-produced Cantonese movies and that such movies should be capable of securing screening slots at more cinemas in Guangdong.

Need for funding injection into the FDF

10. Since 2007⁵, the FDF has supported 34 film production projects under the FPFS, one film production project under the FPGS and 150 film-related projects with total approved funding of \$94.42 million, \$1.96 million and \$244.62 million respectively. A breakdown of these projects is at Enclosure 2.

Encl. 2

11. The uncommitted balance of the FDF, after the injection of \$200 million in May 2015, stood at \$171.9 million as at end April 2016. Having regard to the expected funding requirements arising from those film production projects under the FPFS and FPGS; the film talent nurturing initiative of the First Feature Film Initiative; and those film-related projects which seek to meet various needs of the film sector, including but not limited to promotion of Hong Kong films in the Mainland and overseas, film financing forums, local promotional events, audience development measures, etc., we consider that the requirement of the enhanced support for Hong Kong-produced Cantonese movies cannot be met without crowding out the existing resources already earmarked for the aforementioned equally worthy initiatives. We therefore consider it appropriate to seek an injection of additional \$20 million into the FDF.

/Expected

⁵ In July 2007, the Government increased the commitment of the FDF by \$300 million to \$320 million and expanded the scope of the funding scheme to provide funding support for small-to-medium budget films.

Expected benefits

12. The enhanced level of subsidy is expected to provide more incentives for local filmmakers to tap into the Mainland market. The additional funding of \$20 million may benefit around 40 to 50 movies subject to the exact amount of subsidy granted to individual movies⁶. This will in the long run help promote the brand of “Hong Kong Films” in the Mainland and cultivate interest among the Mainland audiences in Hong Kong movies. The film productions concerned will also create more nurturing opportunities for film talents and production crews as well as post-production practitioners.

13. The enhanced S&D subsidy also ties in with a recent measure under the CEPA to facilitate the distribution of Hong Kong movies in the Mainland. The Agreement on Trade in Services of the CEPA, which was signed in November 2015, has provided for a green passage for importing Hong Kong films into the Mainland with effect from 1 June 2016. Specifically, following the vetting and approval from the Film Import and Export Corporation of the China Film Group Corporation, Hong Kong films may, without any quotas or geographical restrictions, be distributed in the Mainland by those companies which possess an Operation Licence for Film Distribution. This has significantly increased the number of Mainland distributors which can distribute Hong Kong movies from two to over 200 companies. Such market liberalisation measure is expected to help save the time and cost of the Hong Kong film industry in film distribution in the Mainland.

14. With the introduction of the market liberalisation measures which facilitate distribution of Hong Kong-produced movies in the Mainland as mentioned in paragraph 13 above and the expected increase in the number of film productions in Hong Kong in the coming years as a result of the implementation of the FPGS, we envisage that more Hong Kong movies will be marketed in the Mainland. The enhanced support is expected to generate greater interest among the trade in making use of the S&D subsidy and exploring the Mainland market. To build up the momentum, CreateHK will continue to promote Cantonese versions of Hong Kong films in the Guangdong Province by organising Hong Kong Film Exhibitions in Guangzhou⁷. CreateHK will also step up the publicity of the S&D subsidy so as to encourage more filmmakers to make use of it.

/Eligibility

⁶ Whether more Hong Kong-produced Cantonese movies will be screened in the Mainland also depends on a host of commercial considerations, such as the demand of the Mainland for Hong Kong movies, the market positioning of individual films, commercial calculations of Mainland distributors, etc.

⁷ From 2013 to 2015, a total of 14 Hong Kong films in their original Cantonese version were screened in the Hong Kong Film Exhibitions held in Guangzhou.

Eligibility criteria and disbursement of subsidy

15. Under the current mechanism, to be eligible for the S&D subsidy, the movie concerned must be a feature-length Hong Kong-produced⁸ Cantonese movie (excluding Hong Kong-Mainland co-productions) that is suitable for commercial theatrical exhibition. The movie should have been granted a permit of public exhibition by the State Administration of Press, Publication, Radio, Film and TV and has been shown in not less than 50 cinemas in the Guangdong Province. The applicant must be a company/organisation formed under the Companies Ordinance (Cap. 622) or other laws of Hong Kong, and must be the copyright owner or distributor of the movie concerned.

16. To allow flexibility for filmmakers to decide on its strategies of distributing movies in the Mainland, we do not set any limit on where and how the S&D subsidy are spent so long as they are incurred for distribution and publicity conducted in the Mainland. However, since the Guangdong Province is the major market for Cantonese movies in the Mainland, it is our primary requirement that a movie must have been screened in the Guangdong Province in order for it to be eligible for the subsidy. The maximum amount of subsidy granted to each eligible movie will be pegged to the number of cinemas in Guangdong which has screened the film concerned, which serves as a proxy indicator to show the extent of distribution in the Mainland. The sliding scale of maximum grants, which will be extended from that under the current mechanism with the maximum capped at \$250,000 for exhibition in not less than 125 cinemas, is as follows –

Number of cinemas in the Guangdong Province in which the film has been exhibited	Maximum amount of subsidy granted (Hong Kong dollar)
Not less than 50	\$100,000
Not less than 75	\$150,000
Not less than 100	\$200,000
Not less than 125	\$250,000
Not less than 150	\$300,000
Not less than 175	\$350,000
Not less than 200	\$400,000
Not less than 225	\$450,000
Not less than 250	\$500,000

/Control

⁸ A “feature-length Hong Kong-produced” movie refers to a feature film which has a duration of 80 minutes or above and is produced by one or more Hong Kong film companies which together contribute over 50% of the production cost, and in respect of which at least three of the five major creative posts (i.e. film producer, film director, screenwriter, leading actor and leading actress) are filled by permanent residents of Hong Kong.

Control mechanism

17. There will be no change to the existing approval, monitoring and control mechanism. The Permanent Secretary for Commerce and Economic Development (Communications and Creative Industries) as the Controlling Officer of the FDF will continue to decide whether to approve the applications for the S&D subsidy, having regard to the recommendations of the Film Development Council (FDC).

18. Applicants are required to submit documentary proof issued by the Guangdong Motion Picture Industry Association on the number of cinemas in Guangdong Province which have screened the movies concerned, and audited accounts in respect of the expenses incurred for distribution and publicity conducted in the Mainland for vetting by the Fund Vetting Committee of the FDC.

Encl. 3 19. The current membership lists of the FDC are at Enclosure 3. We will closely monitor and review the requirement of the enhanced measure having regard to the actual operational need and industry demand. We will report to the relevant Legislative Council (LegCo) Panel on the progress as appropriate.

FINANCIAL IMPLICATIONS

20. We expect that the demand for funding support will increase with the proposed increase of the subsidy cap from \$250,000 to \$500,000. The proposed injection of \$20 million into the FDF is estimated to sustain the enhanced measure up to around 2019-20. For budgetary purpose, the indicative cashflow requirements of the additional funding support of \$20 million are as follows –

2016-17 (\$'000)	2017-18 (\$'000)	2018-19 (\$'000)	2019-20 (\$'000)	Total (\$'000)
2,000	5,500	6,000	7,000	20,000

The additional workload and cost of administering the FDF arising from the enhanced measure will continue to be absorbed within the existing resources of CreateHK.

/PUBLIC

PUBLIC CONSULTATION

21. We consulted the LegCo Panel on Information Technology and Broadcasting on 14 March 2016 on the proposal to inject an additional \$20 million into the FDF. Members generally supported the proposal.

22. We have also consulted the FDC on the proposal and implementation details. The FDC has endorsed the Government's proposal.

BACKGROUND

23. The FDF was first approved vide FCR(98-99)47 by the Finance Committee (FC) of LegCo in November 1998 for setting up in April 1999 for a period of five years with a commitment of \$100 million to support projects conducive to the long-term development of the film industry of Hong Kong. In January 2003, FC approved vide FCR(2002-03)52 the establishment of the Film Guarantee Fund (FGF) with an initial commitment of \$50 million, which was redeployed from the uncommitted balance of the FDF at that time. In March 2005, FC approved vide FCR(2004-05)48 the revival of the FDF by redeploying \$20 million from the FGF.

24. In July 2007, the Government increased the commitment for FDF by \$300 million and expanded its scope to provide financial support for the production of small-to-medium budget films while continuing to finance film-related projects, which include those promoting Hong Kong films in the Mainland and overseas; training talents in various aspects of film production and distribution; and enhancing the interest and appreciation of Hong Kong films by the local audience.

25. In May 2015, the Government increased the commitment for FDF by another \$200 million and introduced a new FPGS to subsidise small-budget film productions in November 2015.

26. The Financial Secretary announced in the 2016-17 Budget Speech that the Government would inject an additional funding of \$20 million into the FDF to subsidise the expenses incurred by locally-produced Cantonese movies for distribution and publicity conducted in the Mainland.

Amount of Subsidies and the Mainland Box Office Receipts of the Movies Supported by the Film Development Fund for Distribution in the Mainland

Film title	Funding amount (HK\$)	Mainland box office receipts (RMB¥)
Doomsday Party	219,641	688,344 ^{Note 1}
The Way We Dance	250,000	569,056 ^{Note 1}
Grey Met Shrek	250,000	436,842 ^{Note 2}

Note 1 “Doomsday Party” and “The Way We Dance” are movies partly financed by the Film Production Financing Scheme under the Film Development Fund (FDF). The production companies concerned are required under the agreements to submit to the Government sales reports of the films. The Mainland box office receipts provided in the table are the actual Mainland box office receipts provided by the production companies concerned in their sales reports submitted to the Government in May 2015 and June 2015 respectively.

Note 2 “Grey Met Shrek” is not a movie partly financed by the FDF. The production company concerned is not required to provide the Mainland box office receipts of the film to the Government. The Mainland box office receipts provided in the table were provided by the production company concerned when it applied for the sales and distribution subsidy from the FDF. The figure is the box office receipts when the movie was released in the Guangdong Province in January 2015.

Enclosure 2 to FCR(2016-17)39

**Film Projects Supported by the Film Production Financing Scheme of the
Film Development Fund**

Film Title ^{Note}	Government's co-financing support (HK\$ million)
McDull Kungfu Ding Ding Dong *	3.60
Claustrophobia *	1.62
Coweb *	2.99
Strawberry Cliff *	3.02
Give Love *	2.42
Lover's Discourse *	1.86
Echoes of the Rainbow *	3.60
Break Up Club *	1.76
La Comédie humaine *	2.52
37 *	2.84
Beach Spike *	2.80
Lost in Wrestling *	3.75
MicroSex Office *	1.72
The Killer Who Never Kills *	3.00
Love Lifting *	2.71
The Bounty *	2.61
Love Expert *	3.00
Mama Eva #	4.15
The Way We Dance *	2.12
A Complicated Story *	3.01
CJ7 The Cartoon 2 ^	4.21
Bends *	4.00
Doomsday Party *	3.38
The True Love ^	1.60
The Seventh Lie *	1.84
Kick Ass Girls *	2.25
The Midnight After *	5.25
Twilight Online *	1.50
Wonder Mama *	1.59

Film Title ^{Note}	Government's co-financing support (HK\$ million)
The Merger *	1.95
Water Dragonfly	2.59
The Moment	2.76
Love Revolution	3.00
Blossom Afresh	3.40
Total	94.42

^{Note} Those movies marked with an asterisk (*) have already been theatrically released in Hong Kong. Those movies marked with a sign “^” have already been theatrically released in the Mainland, but not yet in Hong Kong. The movie marked with a sign “#” has decided to stop filming and will terminate the financing agreement with the Government.

Film Projects Supported by the Film Production Grant Scheme of the Film Development Fund

Film title	Government's subsidy (HK\$ million)
Dream Has Become A Reality	1.96

Examples of Film-related Projects Supported by the Film Development Fund

	Number of projects supported	Approved funding support (HK\$ million)
<p><i>Promotion of Hong Kong films</i></p> <ul style="list-style-type: none"> ● 70 Hong Kong films nominated to participate in film festivals overseas ● 3 Hong Kong films (Cantonese Version) distributed in Guangdong Province ● 9 editions of Entertainment Expo Hong Kong ● 9 editions of Hong Kong-Asia Film Financing Forum ● 6 editions of Asian Film Awards ● 2 editions of Promotion Zone for Hong Kong Films at Cannes Film Market ● Hong Kong in Focus at the Paris Cinema International Film Festival 2012 ● Production of short film to promote Hong Kong films 	103	107.76
<p><i>Nurturing talents</i></p> <ul style="list-style-type: none"> ● 3 editions of First Feature Film Initiative ● The Hong Kong Filmmakers Code of Practice and Safety Manual ● Provision of filmmaking equipment for the Academy of Film of the Hong Kong Baptist University ● Introducing animation film arts to the new senior secondary curriculum ● Digital Cinema System Training Programme ● Film Professional Training Programme 2010 ● 3 editions of Indie Film Producer Workshop ● 2 editions of Greater China Film Directors' Forum ● Cross-Strait Screenwriters' Summit ● Film appreciation programmes of the Asian Film Awards Academy ● Screenwriting Training Programme ● 2 editions of Film Music Workshop 	22	57.99

	Number of projects supported	Approved funding support (HK\$ million)
<p><i>Enhance audience's interest in and appreciation of films</i></p> <ul style="list-style-type: none"> ● 9 editions of Hong Kong Film Awards Presentation Ceremony ● Documentary on the life of Bruce Lee ● Placement of memorial plaques at six locations with special significance to Bruce Lee's life or film career ● Digital Cinema Exchange Pilot Programme ● Improvement works for the cinema of the Hong Kong Arts Centre ● 2 editions of Hong Kong International Film Festival Society – Cine Fan Programme ● Consultancy study on the cinema facilities of Hong Kong ● The Ultimate Guide to Hong Kong Film Directors ● CNEX Documentary Screening Tour 	19	73.17
<p><i>Other projects conducive to the development of the Hong Kong film industry</i></p> <ul style="list-style-type: none"> ● Hong Kong Motion Picture Post Production Exhibition Pavilion 2010 ● Hong Kong Film Copyright Online Database – Enhancement of Hardware and Software Systems ● Hong Kong Box Office Archive Data ● Full Profile of the Hong Kong Post-production Industry 	6	5.70
Total	150	244.62

Membership of the Film Development Council

Name ^{Note 1}	Profession/Background ^{Note 2}
Hon MA Fung-kwok, S.B.S., J.P. (Chairman)	- Film & television production and distribution
Dr Wilfred WONG Ying-wai, G.B.S., J.P. * (Vice-chairman cum Convenor of the Fund Vetting Committee)	- Business executive
Permanent Secretary for Commerce and Economic Development (Communications & Creative Industries) (Vice-chairman)	- Ex-officio
Mr Enoch CHAN Chi-to	- Post-production services
Prof CHEUK Pak-tong *	- Academic
Ms Amy CHIN Siu-wai *	- Film producer
Mr John CHONG Koon-nam *	- Film producer
Mr CHU Chung-on *	- Film production services
Mr Felix CHONG Man-keung *	- Film director
Mr Samuel CHOY Chung-leung *	- General manager of creative media company
Mr Percy FUNG	- Post-production services
Mr Jason LAM Kee-to *	- Screenwriter
Ms Connie LAM Suk-yee, M.H.	- Executive director of the Hong Kong Arts Centre
Mr Albert LEE *	- Chief executive officer of film company
Mr Maurice LEE Wai-man, B.B.S., J.P.	- Solicitor
Mr Patrick TONG Hing-chi*	- Managing director of film production company
Ms Winnie TSANG Lai-fun, M.H. *	- Managing director of film production company
Ms June WONG Bo-chu	- General manager of cinema company
Mr Adam WONG Sau-ping *	- Film director
Executive Director of the Hong Kong Trade Development Council or her representative	- Ex-officio

Note 1 Members whose names are denoted with an asterisk are also members of the Fund Vetting Committee of the Film Development Council.

Note 2 The information is provided by members of the Film Development Council on a voluntary basis.
