



18 May 2009

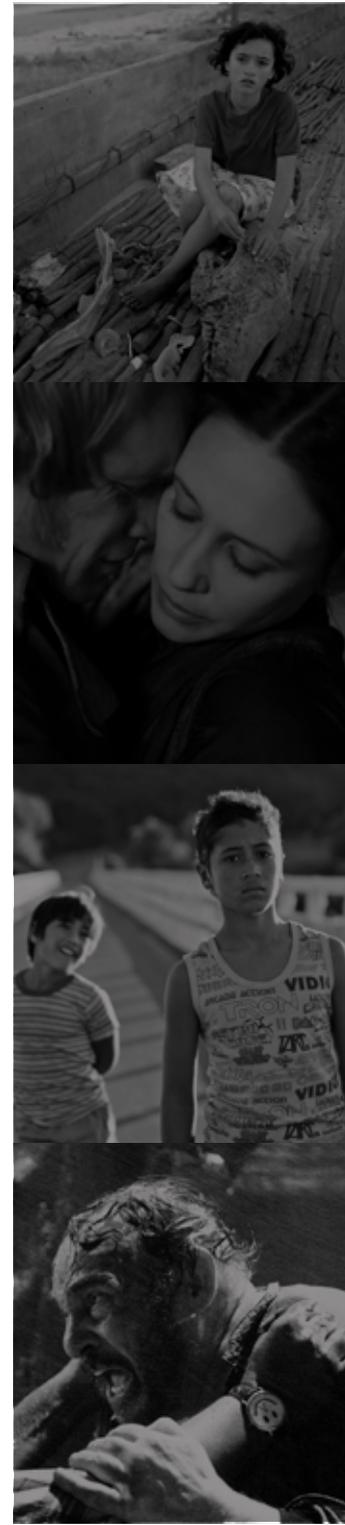
Dear Reader,

An Interim Report on the activities and performance of the New Zealand Film Production Fund Trust (or Film Fund 1, as it is more commonly known) is attached.

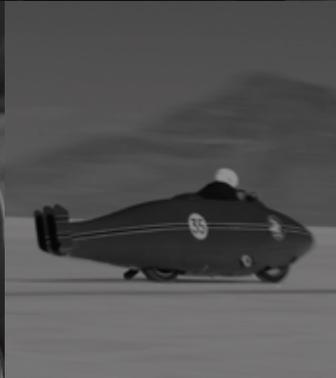
If you should have any questions to ask, or comments to offer, you will find contact details at the end of the report.

*David Gascoigne*

David Gascoigne  
Chair of Trustees



# Interim Report May 2009



film fund  
New Zealand Film Production Fund

# Interim Report From Film Fund 1

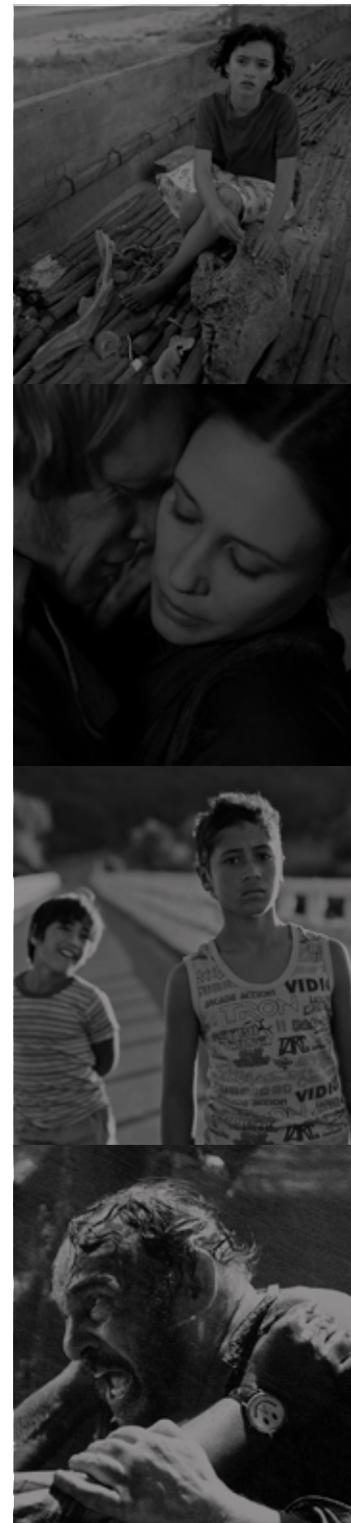
*This is an interim report from the Trustees of the New Zealand Film Production Fund Trust – commonly known as Film Fund 1 or FF1.*

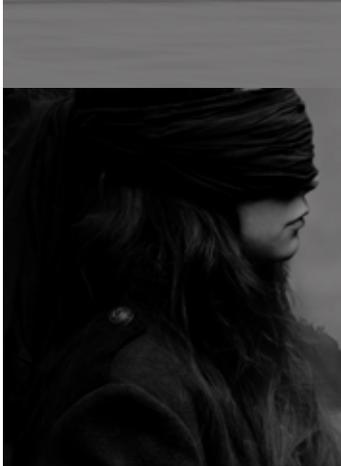
FF1 is a specialised, separate entity. It is a charitable trust with a limited, active life span. That active period will soon be over. The Trustees will be providing at least one further report on how it has invested the public funds entrusted to it, and how those investments have fared.

Many film producers are, with good reason, cautious about allowing the publication of financial details of their film projects. But we believe it is appropriate that the Trustees of FF1 should now provide the present interim report on what has happened so far.

The producers of the films in which FF1 has invested have agreed that we may release certain details for the information of the industry and of the general public. But many have made the point, forcefully, that the figures do not tell the full story. They can, on their own, be misconstrued. So they need to be put in context. Hence we give this caution:

- *the figures given in respect of each film must be read and considered along with: the general explanation set out on page 3 and:*
- *especially, the note about each film set out on pages 8 to 11.*





## **A bit about Film Fund 1:**

FF1 was established in June 2000. It was an initiative of the then Government, and formed a part of its Arts Recovery Package.

FF1 was, as the Government required, set up as a separately constituted charitable trust. It was not to form part of the Crown estate or its asset base.

FF1's constitution set out the governance structure. There are to be five trustees. Three of them are to be independent people. Two of them are to be nominated by the New Zealand Film Commission (**NZFC**).

On day one of its existence, FF1 was paid the sum of \$22 million. The net amount available, after allowing for GST, was approximately \$19.5 million.

FF1's authority and mandate were governed by a contract with NZFC. The terms of the contract were approved by the Government. In short, FF1's role has been to invest in larger-budget New Zealand films, with more complex financing structures. Its purpose has been to help get such films made, but in doing so, it has something of a commercial remit too. FF1 has tried to hold a balance between those two potentially (and often actually) conflicting aims:

- *trying to assist promising feature films towards completion;*
- *trying to secure reasonable commercial terms for the investment.*



## **Projects Considered:**

FF1 has, since its inception, considered requests for investment in 22 separate projects. (It also received a number of raw or barely cooked proposals which did not merit serious consideration.)

**Of those 22 projects**, FF1 made provisional and conditional commitments to invest in 14 of them.

**Of those 14 projects**, five did not go into production (usually because of an inability to raise all the finance required to complete the film).

### **Of the remaining nine projects:**

- *six films have been completed and released;*
- *one film is nearing completion and release;*
- *one film is now in production;*
- *one project has been given a conditional offer of funding. It is not yet clear whether that project will proceed with FFI assistance.*

### Some context: inescapable uncertainty:

- *William Goldman, the renowned script-writer and film commentator, once famously said: “No one knows anything”. What he meant was that before a film is released, no one can predict with any certainty whether it will succeed or fail at the box office and in other markets.*
- *Some films that look promising fail to deliver on expectations. Some films with modest prospects succeed beyond expectations. You never can tell, for sure. That needs to be borne in mind, when reflecting, after the event, on a decision to invest in a film.*

### More context: it’s not only about the money:

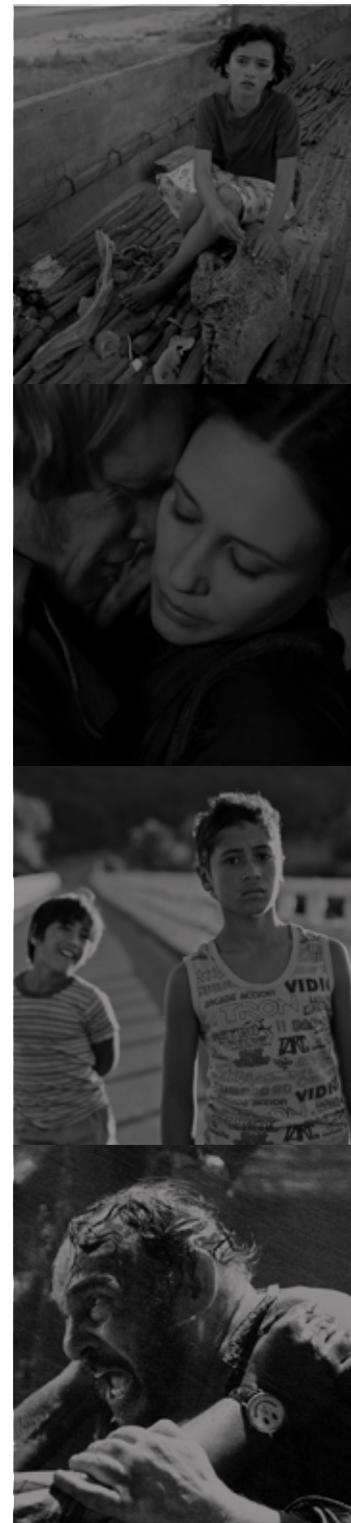
- *A more important observation is this: a film should **not** be judged on its initial financial results alone.*



Illustrious Energy

### There are these things to consider:

- *Films earn their money over time. A film with modest initial results may deliver good results over a long period of time. (Pleasing results from re-releases and continuing DVD sales are examples of why this can be so.)*
- *In any case, a film should not be seen simply as a financial instrument. Films have other values, other justifications. Some films which live in the memory may not have enjoyed much in the way of recoupment, but they (along with more financially successful films) can, and often do, add significantly to the nation’s film experience. They may bring enjoyment and enrichment, and may illuminate aspects of our national character and our place in the world. They can be distinctive and valuable additions to our cultural heritage. (A fine example of this – from an earlier era – is **Illustrious Energy**, a film with a small box office, but with a large and continuing reputation as a film that is important for other reasons.)*
- *Even if a film is not initially financially successful, it will have provided employment for many people. And those people will have learned from their experiences. If they are able to help make other films, that experience will be of value to their respective careers – and to those future films. And it will have helped to sustain an industry. Mature and successful enterprises are built on accumulated experience.*



**The films: The films in which Film Fund 1 has so far invested are listed below:**

***WHALE RIDER***

**Producers:**

John Barnett  
Tim Sanders  
Frank Hubner

**Director:**

Niki Caro



***PERFECT STRANGERS***

**Producers:**

Robin Laing  
Gaylene Preston  
Jay Cassells

**Director:**

Gaylene Preston



***RIVER QUEEN***

**Producers:**

Don Reynolds  
Chris Auty  
Richard Fletcher  
Tainui Stephens  
Geoff Dixon

**Director:**

Vincent Ward



***PERFECT CREATURE***

**Producers:**

Tim Sanders  
Russell Fischer  
Haneet Vaswai

**Director:**

Glenn Standring



***THE WORLD'S  
FASTEST INDIAN***

**Producers:**

Roger Donaldson  
Gary Hannam

**Director:**

Roger Donaldson



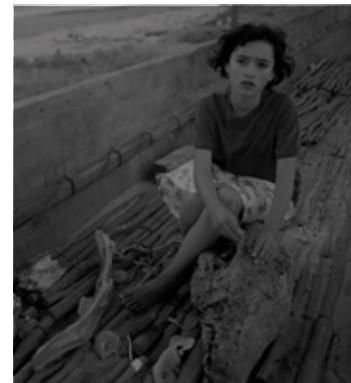
***THE FERRYMAN***

**Producers:**

Matthew Metcalfe  
Alan Harris  
Richard Fletcher

**Director:**

Chris Graham



***THE VINTNER'S  
LUCK***

**Producers:**

Robin Laing  
Pascal Judelewicz  
Ludi Boeken  
Laurie Parker  
Niki Caro

**Director:**

Niki Caro



***THE VOLCANO***

**Producers:**

Ainsley Gardiner  
Cliff Curtis

**Director:**

Taika Waititi





## Some financial data:

*The following Table 1 on page 7 sets out some data for the eight films in which Film Fund 1 has so far made an investment.*

**CAUTION:** It is important **not** to read the figures in isolation. As noted at the foot of Table 1, a commentary on each film – and the figures relating to it – is set out on pages 8 to 11. Please consider that additional information alongside Table 1.

**Table 1 shows , in respect of each film:**

- a. *the total budget;*
- b. *the amount of FFI's investment;*
- c. *the amount spent in New Zealand;*
- d. *the number of countries to which each film has so far been sold;*
- e. *the estimated returns available to FFI from contracted sales for the film to 31 March 2009;*
- f. *the returns actually received by FFI from sales for the film to 31 March 2009.*

**There are also some totals shown:**

- a. *the total budget for those eight films to date: \$102,793,000;*
- b. *the total invested in those films by FFI: \$27,176,000;*
- c. *the amount of the total budgets which has been spent in New Zealand: \$63,485,000;*
- d. *the estimated returns to FFI from contracted sales effected by 31 March 2009: \$7,624,000 (this is, to date, 35.2% of the amount invested by FFI in films that have been released);*
- e. *the actual returns to FFI from sales, as at 31 March 2009: \$7,555,000 (this is, to date, 34.9% of the amount invested by FFI in films that have been released).*



**Two other relevant ratios emerge:**

- a. *overall, FFI's investments make up 26.4% of the total budgets;*
- b. *overall, the amount spent in New Zealand represents 61.8% of the total budgets.*

**To put that another way:**

- a. *the leverage ratio achieved is about 1 to 3: that is, \$1.00 from FFI is matched by about \$3.00 from other sources (largely off-shore money);*
- b. *about 62% of the total budgets has been spent in New Zealand;*
- c. *every \$1.00 from FFI helps to generate about \$2.33 expenditure in New Zealand.*

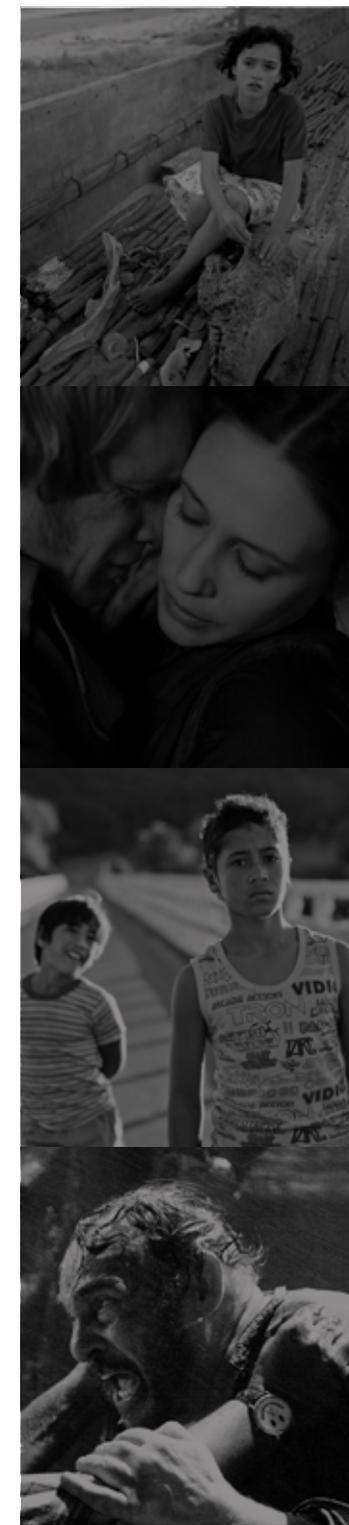
**And another way:**

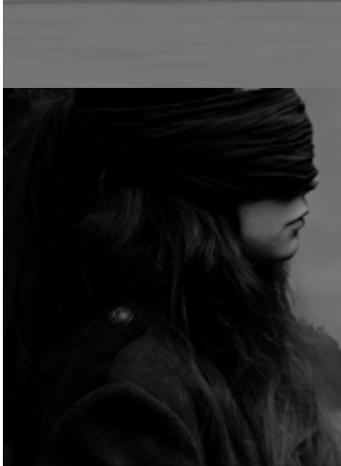
- a. *FFI initially received funding of about \$19.5 million (after allowing for GST);*
- b. *It has so far invested about \$27.2 million in eight feature films and has about \$2.5 million yet to be finally committed. That is a total, to date, of \$29.7 million for investment in feature films;*
- c. *That last figure is an increase of \$10.2 million (or about 52%) over the original amount of \$19.5 million. That increase was due, significantly, to the fact that FFI had a commercial remit, as well as a cultural one;*
- d. *The amount of that increase should prove to be understated, as two of the films so far funded have yet to be released, and thus begin earning. And there is the scope for at least one further film to get underway. So there is still further potential.*

**TABLE 1: NEW ZEALAND FILM PRODUCTION FUND TRUST ("Film Fund 1")**  
Interim Investment and Performance Summary to 31 March 2009

	Total Budget	FF1 Invest	NZ Expend	Countries Sold	Est. FF1 returns from contracted Sales (to 31 March 2009)		Actual FF1 returns received from Sales (to 31 March 2009)	
	\$000s	\$000s	\$000s		\$000s	%	\$000s	%
1. WHALE RIDER	9,235	2,500	7,568	96	2,865	114.6%	2,865	114.6%
2. PERFECT STRANGERS	5,700	2,500	5,700	40	84	3.4%	84	3.4%
3. RIVER QUEEN	24,030	4,500	17,094	26	-	0.0%	-	0.0%
4. PERFECT CREATURE	17,009	4,400	9,746	120	1,425	32.4%	1,425	32.4%
5. THE WORLD'S FASTEST INDIAN	18,029	4,500	7,758	120	3,250	72.2%	3,181	70.7%
6. THE FERRYMAN	6,413	3,250	4,226	37	-	0.0%	-	0.0%
<b>SUBTOTAL (1 to 6)</b>	<b>80,416</b>	<b>21,650</b>	<b>52,092</b>		7,624	35.2%	7,555	34.9%
7. THE VINTNER'S LUCK	16,700	3,000	6,000	6	N.A.	-	N.A.	-
8. THE VOLCANO	5,677	2,526	5,393	0	N.A.	-	N.A.	-
<b>GRAND TOTAL (1 to 8)</b>	<b>102,793</b>	<b>27,176</b>	<b>63,485</b>					
<b>AS PERCENTAGE OF TOTAL BUDGET (Films 1 to 8)</b>		<b>26.4%</b>	<b>61.8%</b>					

**NOTE: These figures must NOT be read in isolation. See the notes for each film as set out on pages 8 to 11.**





**Pages 8 to 11 are intended to put the figures in Table 1 into context.**

In that regard, the factors set out on page three should also be kept in mind. They are important considerations.

In some of the comments about individual films, a figure for total global sales or global box office is shown. Some producers have agreed that we may show such a figure to demonstrate how the film has fared, so far, in the wider world. Other producers did not make such a figure available:

- a. *in some cases, they have been unable to obtain the figures from some distributors;*
- b. *in other cases, they were legally constrained from providing the information publicly.*

We have thus treated the issue of disclosing total global sales or total box office as being discretionary. It is for each producer to decide; no adverse conclusion should be drawn from non-disclosure.

**About each film:**

**WHALE RIDER**

Prior to the New Zealand release of this film – and before anyone had any clear idea of how it would do here or internationally – the production company, South Pacific Pictures (SPP), asked FF1 if it would consider allowing the company to purchase FF1's equity investment. Similar offers were also made to NZFC and to New Zealand On Air (NZOA).

FF1's initial view was that it did not wish to agree to that, as it would deny it the opportunity of sharing in any future returns. But upon reflection FF1 changed its mind. For one thing, the level of other



sales (and thus receipts) was still uncertain. For another, if FF1 received the money back, then that could be invested again, in support of another film project.

So a deal was struck. SPP repaid FF1's equity contribution (\$2.5 million) plus an additional sum (\$365,000) as some recompense to FF1 for the loss of possible future earnings. NZFC and NZOA also did comparable deals.

Thus the figures for returns for **Whale Rider** in Table 1 show the position up to and including the date that the deal was done with SPP. The Table does not show any returns beyond that date, as FF1 had no further equity interest in the film.

SPP reports that worldwide box office receipts for **Whale Rider** were US\$45 million. But while that figure can be verified, it considers that speculation as to individual territorial DVD sales and TV receipts tends to be subjective. In some of those latter cases, the figures were part of advances, but SPP says that overages do still accrue from a number of major territories.

In 2003, **Whale Rider** was the second most successful independent film in the world by box office.



Perfect Strangers

### **PERFECT STRANGERS**

The producers of this film point out that the level of return, to date, to FF1 should not necessarily be taken to reflect the position of other investors. Thus, by being willing to accept a somewhat lower recoupment position (in order to enable the film to proceed), FF1's level of return may be less favourable than that of other investors.

### **RIVER QUEEN**

The difficulties encountered during the production of this film have been the subject of a good deal of publicity. We will not comment upon them here.

But the producers have agreed that we may say that the figure shown in Table 1 as the total budget (\$24.03 million) does include additional finance provided by the completion bond company, but excludes insurance money (reimbursement for expenses incurred as a result of inclement weather and other acts of God). That seems to FF1 to be logical.

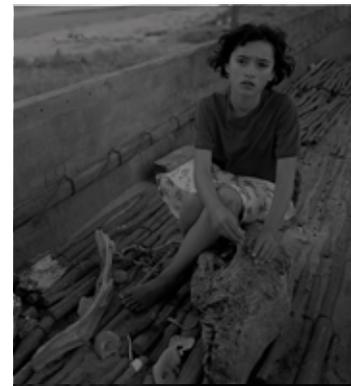
The producers point out that the trouble that befell the production led to the late injection of new, private equity money, and to emergency funding by the completion bond company. Those factors have pushed FF1's prospects for recoupment down the line.

The producers also make the point that film should not be judged on its financial performance alone. This film has its own important and distinctive qualities. It deals with the themes of conflict, identity and loyalty in troubled times in the 19th century. In many respects, the film makes a significant contribution to this country's film heritage.

The producers are not in a position to obtain, much less to authorise, the release of, global sales or box office figures.



River Queen





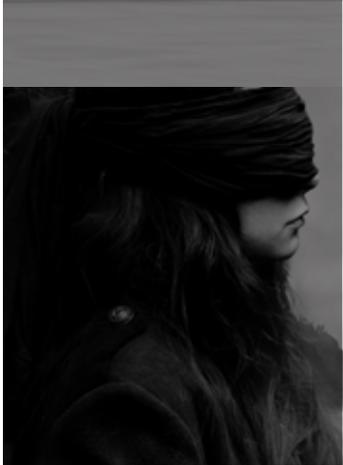
### ***PERFECT CREATURE***

The principal producer of this film agrees that a figure may be made available for the total global sales of this film. That figure, provided by the collection agency for the film, is US\$9,195,000.

The producer notes that while FF1 has so far received back about a third of its investment, that is partly due to the complexity of the recoupment arrangements. Some investors routinely are recorded a high priority (such as banks, gap funders, sales advance funders, and others). FF1 has sought to negotiate a high priority for itself, but sometimes – as here – other investors customarily take priority.

In addition, the producer points out that if the exchange rate at the time finance was closed had remained the same until sales were made, then the film – and the investors – would now be significantly in profit. But as the rate went from 0.43 at closing to 0.75 during the sales period, all investors ended up by getting less than they might otherwise have done.

Nonetheless, overall this film has enjoyed a reasonable level of financial success. And it still has some prospect of future earnings for equity investors, such as FF1.



### ***THE WORLD'S FASTEST INDIAN***

The producers report that the confirmed total for global sales and overages, to date, is US\$10.1 million. That does not take account of one major territory for which the distributor concerned has not yet provided adequate sales information, despite repeated requests. The producers estimate a figure of around US\$2.0 million for sales in that territory, making a total of around US\$12.1 million.

The producers also note that the budget was US\$13.41 million, and that sales revenue in the US territory – where the investors, including FF1, have a gross participation – continues to improve the overall return.





**THE FERRYMAN**

FF1 decided to invest in this project as it had a reasonable prospect of becoming a commercially successful, New Zealand-based thriller. In that regard, the points made on page 3 should be borne in mind.

The producers confirm that the film has been sold in 37 countries, that international theatrical receipts and other global sales to date stand at US\$870,250, and that in the USA alone more than 200,000 DVDs have been sold.

The distributor for New Zealand decided to release the film directly to DVD. That was despite wide agreement by the New Zealand theatrical circuit to take the film. The distributor has since been put into voluntary management, and prior to that had been blocked by its owners from releasing any films theatrically.

The basis for recoupment, as between various investors, is always a crucial factor. In this case, a gap financier and those who had made sales advances (including NZFC) stand ahead of FF1 in priority, as is customary.

It is in the nature of the creative process that some films succeed better than others. But it is also an educative process, and each film should help a filmmaker to build upon his or her experience, to help improve future projects. There is evidence of that having happened for several of the participants in this film.



**THE VINTNER'S LUCK**

This film is virtually completed. (Nonetheless, until the final position is clear, it is possible that some of the figures shown in Table 1 may change – though any change is likely to be minor)

The marketing and sales plan for the film is on the point of being rolled out. It is expected to have its first international screening mid-2009, and this will be followed by a New Zealand release.

This has been a very complex co-production, involving participants from several countries. The financial contribution by FF1, as an equity investor, is roughly proportionate to (though less than) the level of expenditure that has taken place in New Zealand.

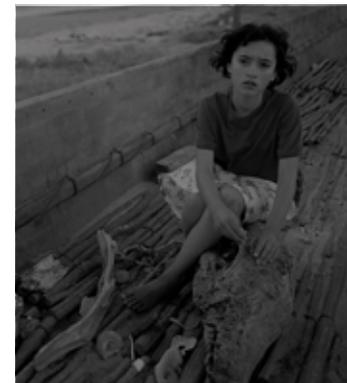
Only six countries have so far been pre-sold for distribution. That has been a deliberate strategy, to allow significant territories to remain unsold, and thus be more readily available for recoupment by investors such as FF1.

**THE VOLCANO**

This film is still in the course of production on the East Cape of New Zealand.

The producers have agreed that FF1 may show the three figures relating to it, as set out in Table 1. The third figure (New Zealand expenditure) is the producers' current estimate, and is 95% of total budget.

All three monetary figures shown (except that for FF1's investment level) may be subject to minor change.



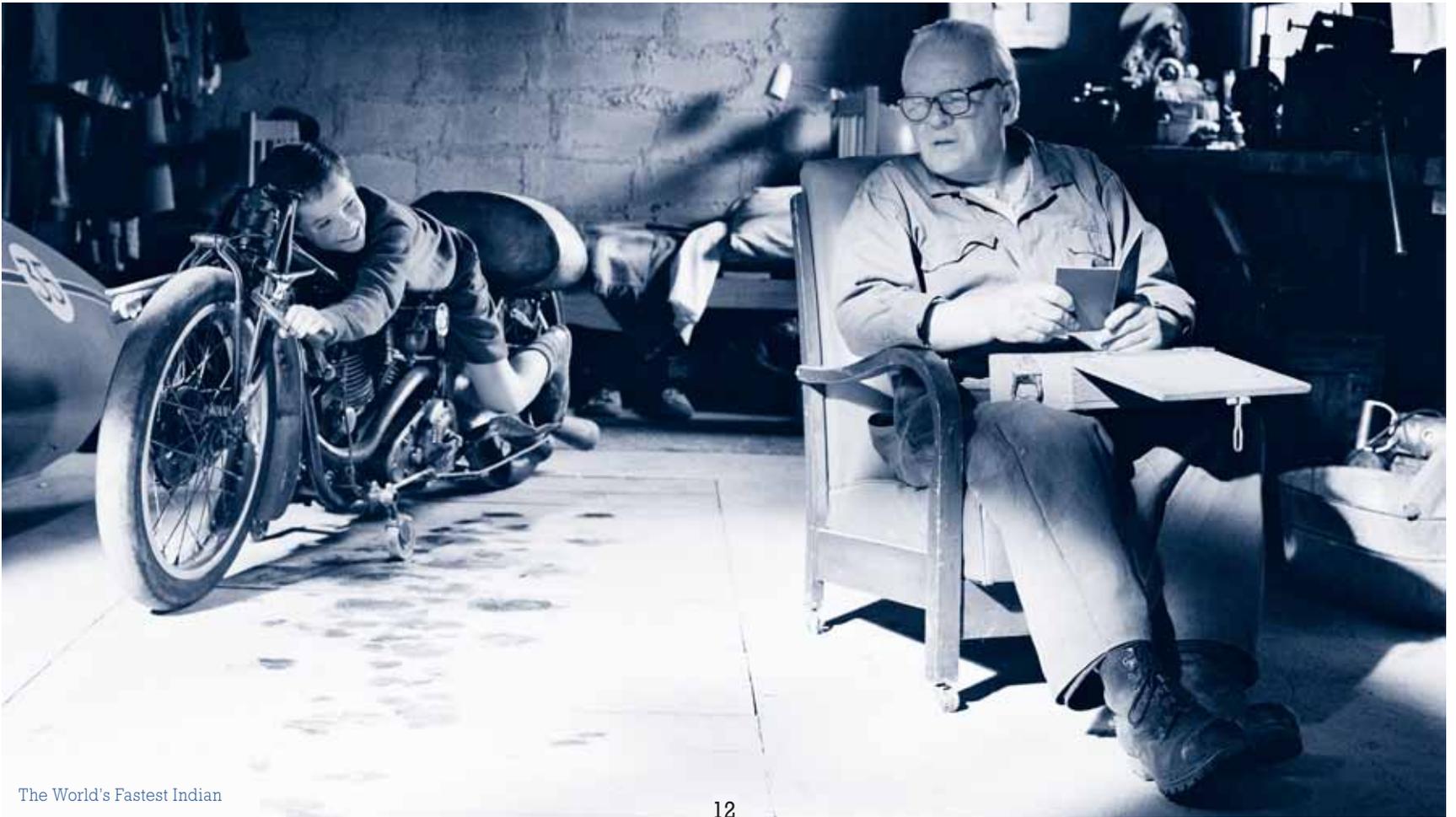


### **Future Transactions:**

FF1 has made one further provisional commitment to a film project. The amount is \$300,000. That commitment is subject to a number of conditions. It is not yet clear whether those conditions can be met by the producers, within the time-limit that has been set.

Once the outcome for the project referred to the above is known, the Board of FF1 will consider how best to deal with the funds then available.

Apart from that, FF1 has a little over \$2.2 million available and uncommitted.



The World's Fastest Indian

## Personnel:

The Board of FF1 consists of five Trustees holding office for the time being. There are to be two **A Trustees** (appointed by NZFC) and three **B Trustees** (independent persons). The **Chair** is to be a **B Trustee**.

### **The current five Trustees of FF1 are:**

1. **David Gascoigne**  
*(Chair) B Trustee*
2. **David Cullwick**  
*A Trustee*
3. **Barrie Everard**  
*B Trustee*  
*(previously A Trustee)*
4. **Wendy Palmer**  
*A Trustee*  
*(previously B Trustee)*
5. **Chris Prowse**  
*B Trustee*

### **Former Trustees are:**

1. **Alan Sorrell**  
*A Trustee*
2. **Ruth Harley**  
*A Trustee*



As an independent entity, FF1 may seek advice and assistance from whoever it wishes. Thus it appoints its own auditor and lawyers. For general administrative services, however, FF1 decided it would, generally, be most efficient to use the qualified staff of NZFC. There is a non-exclusive contract for services between FF1 and NZFC for the purpose. By agreement, a senior staff person at NZFC has been allocated to be the principal person assisting with FF1's administration.

There have been three such people who have held that position, in succession:

1. **Richard Fletcher**
2. **Lloyd Meiklejohn**
3. **Sarah Cull**  
*(the current incumbent)*

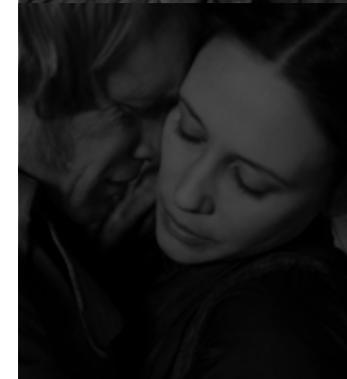
## Next Report:

FF1 will be issuing at least one further progress report which, like this one, will be made public. The timing of the next report is not yet clear. It will depend upon there being a sufficient body of new developments and figures to report upon. But, indicatively, there should be such a report in about 12 months time.

May 2009

**For NEW ZEALAND FILM PRODUCTION FUND TRUST**

**David Gascoigne**  
*Chair.*





## **Contacts:**

For further information or clarification the following people will be available:

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