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Panel on Home Affairs

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 10 July 2009**

Hong Kong Jockey Club's proposals on horse racing activities

Purpose

The Administration has proposed to brief the Panel in July 2009 on proposals submitted by the Hong Kong Jockey Club (HKJC) on horse racing related activities, including the introduction of five additional local race days per racing season, the simulcasting of prestigious overseas races on 20 non-local race days per racing season, the revision of the taxation structure to facilitate commingling and the reduction of betting duty rates. The paper provided by the Administration on HKJC's proposals and its position on these proposals was issued to members vide LC Paper No. CB(2)2110/08-09 (01) on 3 July 2009. This paper gives a brief account of discussions held by Legislative Council (LegCo) Members on the monitoring of horse racing activities.

Policy on horse racing

2. The Administration's policy is to restrict gambling activities to a limited number of authorized and regulated outlets only. Under the Betting Duty Ordinance (Cap. 108), HKJC is the only authorised operator of horse racing in Hong Kong. According to figures provided by HKJC, horse racing continues to be the Club's core activity, accounting for well over 60% (\$67.69 billion) of turnover and duty payments (\$8.29 billion) in 2007-2008. Operating on a not-for-profit business model, HKJC donates its surplus to charity. Over the past decade, the Hong Kong Jockey Club Charities Trust donated an average of one billion dollars every year to charities and community projects. The current arrangements of allowing HKJC to operate 78 race days and 10 simulcasts on approved local race days per racing season have been in place for about 10 and 20 years respectively.

Monitoring of horse races

3. The Administration briefed the Panel on the proposed reforms to the betting duty system for horse race bets at its meetings on 13 May and 16 June 2005, and introduced to LegCo the Betting Duty (Amendment) Bill 2006 in April 2006 to enhance the effectiveness of authorised horse race betting in combating illegal gambling and rationalize the regulatory regime for conducting horse race betting to bring it broadly in line with the authorized football betting and lotteries. A Bills Committee was formed on 28 April 2006 to study the Bill, which was subsequently passed by LegCo on 12 July 2006. Main views and concerns raised by members and deputations on issues relating to the monitoring of horse races are set out in the ensuing paragraphs.

Regulatory regime

4. Members and deputations raised concerns about the effectiveness of the regulatory regime for monitoring of horse races. A member considered that LegCo should be involved in regulating the conduct of horse race betting to prevent the licensee from devising measures which might encourage gambling. Other members considered that the Administration should revamp the composition and operational mode of the Betting and Lotteries Commission (the Commission) before it was to assume the role of regulating the conduct of horse race betting. Some deputations expressed concern on the adequacy of the Administration's measures in monitoring HKJC's operation and management.

5. The Administration advised that under the proposed regulatory regime for horse race betting, the HKJC, as a licensed operator, would abide by the licensing conditions and relevant laws. This included a number of restrictions such as prohibition of underage and credit betting, and the distribution of promotional activities or materials targeting at juveniles. The Secretary for Home Affairs (SHA) could also issue a code of practice to provide guidance on how the licensing conditions were to be complied with. The Commission would be tasked to advise SHA on issues relating to regulation of the conduct of horse race betting, including matters such as contravention of licensing conditions on the part of the licensed operator. SHA could impose penalties on HKJC if the latter was found to have failed to comply with licensing conditions. The Administration considered that such a structure should enhance the transparency and enable public participation in the regulation of major authorized betting activities.

6. During the discussion on measures to address gambling-related problems at the Panel meeting on 20 March 2009, members again urged the Administration to reform the appointment mechanism of the Commission to avoid the apparent conflict of interest such as in their deliberations of HKJC's

proposal to increase the number of race days. In response, the Administration agreed to take into account concerns expressed by members and the public in the future appointments of members to the Commission.

Measures to address the social impact of horse race betting

7. Some members considered that the Administration's gambling policy should be geared towards combating illegal gambling by law enforcement, instead of competing with the illegal and offshore bookmakers for a larger share of the gambling market. These members expressed concern that the betting duty reforms would increase public participation in horse racing and promote a gambling culture. They considered it necessary to assess its social costs, such as increase in family and loan sharking problems. Deputations expressed similar concerns and urged the Administration to put in place adequate preventive and remedial measures for the youth alongside the introduction of any reforms to the betting duty system, study the social impact of the proposal, allocate additional resources to deal with gambling-related problems and enhance publicity on the adverse effect of gambling.

8. The Administration responded that the target people of the proposed reform were those who were all along gamblers but had been placing bets with illegal bookmakers. The series of safeguard measures under the regulatory regime stated in paragraph 5 above would help to minimise the negative impact of horse race betting.

Increase of race days

9. When the Administration briefed the Panel on the proposed reforms to betting duty system on horse race bets in 2005, it also sought members' views on the proposals to allow HKJC to extend its annual racing season by five days and increase the frequency of simulcasting major international races each year.

10. A member suggested that to minimise any adverse impact of the proposal to increase five race days on families, these additional race days should not fall on Sundays. Deputations expressed concerns that the proposed extension of the horse racing season would provide additional opportunities for illegal bookmakers to make money by receiving bets on the extra horse races, and for young people to participate in horse race betting as these extra races would be held during the summer vacation.

11. The Administration responded that the proposed extension of the racing season mainly sought to stem the current leakage of betting turnover to illegal and offshore bookmakers during the summer break. Under the regulatory regime as stated in paragraph 5, the addition of race days would not facilitate young people's participation in betting on horse races.

Recent development

12. Members may wish to note that HKJC announced on 28 June 2009 that while the turnover from horse racing business fell about 1 % this year, its surplus has dropped significantly by nearly 80% to around \$700 million in the 2008-2009 financial year due to the global downturn, huge drop in investment returns, rebates for big gamblers introduced since 2006, and the high betting tax rates. (HKJC's press release is in **Appendix I**). The Permanent Secretary for Home Affairs announced on 3 July 2009 that the Executive Council had approved five more local race days, bringing the total to 83 in the next racing season, and a rise in the number of simulcasts of overseas race meetings from 10 to 25.

Relevant papers

13. A list of relevant papers with their hyperlinks at the LegCo website is in the **Appendix II**.

Council Business Division 2
Legislative Council Secretariat
7 July 2009

Falling surplus puts pressure on HKJC's community role, says Club Chairman

28 June 2009

The economic downturn and a number of other adverse factors will mean that The Hong Kong Jockey Club's surplus drops significantly to around HK\$700 million in the soon-to-end 2008/09 financial year, well short of the Club's annual HK\$1 billion plus donations to charitable and community projects, Chairman John Chan told a gathering of some 200 community partners today (28 June).

Despite this, Mr Chan promised guests at the 5th annual Community Day race meeting, the Club's Charities Trust planned to make this year's donations higher than ever before. "We have always stood by the community in times of challenge and we are determined to keep doing so now," he said, explaining that the Trust would correct the imbalance by dipping into its reserves.

"We will do this because we are committed to Hong Kong, and because we know that the community most needs our support at times of downturn," Mr Chan pledged. "But I'm sure you will understand that we can only keep dipping into reserves for a finite period. In the long-term, like any commercial enterprise, we must be allowed fair room for our business to be sustained and develop."

The Club's turnover from its horse racing business would fall about 1% this year which might not seem a lot, he said, but several other factors were contributing to the sharp fall in surpluses. "One is the declining trend in our gross margins from \$3.5 billion in 2003/04 season to \$3.1 billion last year, mainly due to initiatives like Rebate that we've put in place since the 2006 reforms to fight off illegal and offshore operators. Another is the suffocatingly high betting tax rates we pay in Hong Kong -72.5% of gross margin, one of the highest rates in the world, some five times higher than in Britain.

"In addition, this year, in common with all global investors, we've seen a big drop in our return on investments," Mr Chan noted, adding that "we also need to be conscious that the worst may be yet to come, as historically spending patterns tend to lag economic downturn by several months".

Mr Chan said that apart from ensuring its role in supporting the community could be sustained, the Club believed it was important to help maintain a stable workforce. "As one of Hong Kong's biggest employers, we are deeply conscious that nothing matters more to people at a time of downturn than maintaining stable employment, so we are determined to play our part in preserving and creating jobs in the community," he emphasised.

The new Tin Shui Wai Telebet cum Volunteers and Training Centre opened by the Club recently was the result of a conscious decision to bring jobs to a location that would most benefit the community. "We hope to provide even more new jobs if our proposal to offer five more racedays and 20 more simulcast days wins approval," Mr Chan said, noting that "racing is, and always has been, the core activity that sustains our operations and makes our charitable donations possible".

Mr Chan stressed that the Club had no intention of encouraging more gambling in society, nor did it believe that would happen. "We are strongly aware of our social responsibilities as the sole operator of regulated betting services in Hong Kong," he observed. "But the truth is that horse racing is a long-standing part of Hong Kong culture, and betting on races has become a popular form of entertainment among the adult population. This is money that people choose to spend."

The Club, Mr Chan explained, had been entrusted to channel this demand into responsible gambling services and thereby generate money to support charitable and community causes, as well as to sustain employment. "If we do not provide services that meet our customers' needs, they will simply spend it elsewhere. In our view, it is far better to keep this revenue in Hong Kong and direct it through a properly regulated channel than to allow it to go to illegal operators or those interested only in profit."

Mr Chan concluded by emphasising that "ultimately we are all partners, working together for the benefit of Hong Kong and trying to build a better tomorrow."

"I hope we can build even stronger bonds in the year ahead," he said.

Responding, Guest of Honour Matthew Cheung, Secretary for Labour and Welfare, said that job creation and preservation, as well as poverty alleviation and the provision of social welfare services for the needy, were his prime concerns. In that respect, he wished to pay warm tribute to the Club on two counts.

"First, as one of Hong Kong's largest employers with 25,000 full-time and part-time job opportunities for people from all walks of life, the Jockey Club is committed to preserving and creating jobs even when it is seeing a drop in turnover," Mr Cheung said.

"Second, I am most grateful that the Jockey Club has delivered its pledge and opened its Telebet cum Volunteers and Training Centre in Tin Shui Wai two months ago. On full development, this centre will provide a further 2,500 part-time job opportunities. More importantly, this centre will bring various training opportunities to the residents so that they can develop their talents and skills, whilst its volunteers will help promote community bonding and inject vitality and warmth into Tin Shui Wai. In short, the centre will generate multiple benefits and is a creative and all-win formula."

The annual Community Day race meeting was established in 2005 following the generous donation of a historic silver racing trophy by Tobias Brown, in recognition of the Club's long-standing support for the community. *(Please see attachment for further details of the trophy)*

The 150-year-old trophy has since been renamed The Hong Kong Jockey Club Community Trophy and is awarded to the winning owner of the feature race on Community Day. Today's winning horse was Fat Choy Ichiban, ridden by Brett Prebble. Mr Cheung presented the trophy to the representative of Owner Fortuna Syndicate.

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Appendix II

Relevant documents on Hong Kong Jockey Club's proposals on horse racing activities

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
13.5.2005	Panel on Home Affairs	Paper provided by the Administration on "Proposed reforms to the betting duty System on horse race betting"	CB(2)1520/04-05(02) http://www.legco.gov.hk/yr04-05/english/panels/ha/papers/ha0513cb2-1520-2e.pdf
		Minutes of meeting	CB(2)1917/04-05 http://www.legco.gov.hk/yr04-05/english/panels/ha/minutes/ha050513.pdf
16.6.2005	Panel on Home Affairs	Supplementary information provided by the Administration on reform to betting duty system of horse race betting	CB(2)1880/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/ha/papers/ha0513cb2-1880-1e.pdf
		List of questions raised by deputations and members at the special meeting held on 16 June 2005	CB(2)2674/04-05(01) http://www.legco.gov.hk/yr04-05/english/panels/ha/papers/ha0616cb2-2674-1e.pdf
		Administration's response to list of questions raised by deputations and members at the special meeting held on 16 June 2005	CB(2)2674/04-05(02) http://www.legco.gov.hk/yr04-05/english/panels/ha/papers/ha0616cb2-2674-2e.pdf
		Minutes of meeting	CB(2)68/05-06 http://www.legco.gov.hk/yr04-05/english/panels/ha/minutes/ha050616.pdf

12.7.2006	Council meeting	Report of the Bills Committee on Betting Duty (Amendment) Bill 2006	CB(2)2622/05-06 http://www.legco.gov.hk/yr05-06/english/bc/bc53/reports/bc53cb2-2622e.pdf
		Official record of proceedings	http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0712ti-confirm-c.pdf (Pages 112 - 206)
20.3.2009	Panel on Home Affairs	Paper provided by the Administration on "Implementation of measures to address gambling-related problems"	CB(2)1090/08-09(02) http://www.legco.gov.hk/yr08-09/english/panels/ha/papers/ha0320cb2-1090-2-e.pdf
		Background brief on "Measures to address gambling-related problems"	CB(2)1090/08-09(03) http://www.legco.gov.hk/yr08-09/english/panels/ha/papers/ha0320cb2-1090-3-e.pdf
		Referral from the Complaints Division regarding the measures to address gambling-related problems (Chinese version only)	CB(2)394/08-09(01) http://www.legco.gov.hk/yr08-09/chinese/panels/ha/papers/hacb2-394-1-c.pdf
		Response from the Administration in relation to a referral from the Complaints Division of the Legislative Council Secretariat on measures to address gambling-related problems	CB(2)597/08-09(01) http://www.legco.gov.hk/yr08-09/chinese/panels/ha/papers/hacb2-597-1-ec.pdf
		Minutes of meeting	CB(2)1462/08-09 http://www.legco.gov.hk/yr08-09/english/panels/ha/minutes/ha20090320.pdf