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**Legislative Council**

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**Bills Committee on  
Betting Duty (Amendment) Bill 2006**

**Background brief prepared by the Legislative Council Secretariat  
for the meeting on 11 May 2006**

**Reforms to the betting duty system for horse race betting**

**Purpose**

This paper summarises the deliberations of the Panel on Home Affairs on proposed reforms to the betting duty system for horse race betting.

**Background**

2. Under the existing Betting Duty Ordinance (the Ordinance), the Hong Kong Jockey Club (HKJC) is the only authorised conductor to conduct betting on horse races in Hong Kong. At present, HKJC is conducting horse race betting on a pari-mutuel basis, with the dividends of each pool calculated after deducting the betting duty for the Government and the commission for HKJC from the total betting turnover. These deductions from the betting proceeds are referred to as the “take-out”.

3. The existing take-out rate for “standard” bets (i.e. a win bet, a place bet, a quinella bet, a forecast bet or a quinella place bet as defined in the Ordinance) is 17.5%, comprising betting duty at 12% and commission for HKJC at 5.5% on betting turnover. The take-out rate for any other bet types is 25%, comprising betting duty at 20% and commission for HKJC at 5% of betting turnover. If bets are accepted at an overseas venue authorised by HKJC and approved by the Secretary for Home Affairs (SHA), the bets are subject to betting duty at half of the rates set out above. This duty concession was introduced in 1995 as an incentive for overseas host governments so as to entice them to cooperate with HKJC in making arrangements for bets on HKJC’s horse races to be accepted outside Hong Kong.

4. The turnover on horse race betting conducted by HKJC has been declining in recent years. For instance, the turnover was \$92.4 billion in 1996-97 compared to \$62.7 billion in 2004-05, representing a reduction of about 32%. The Government's revenue from betting duty on horse race betting has correspondingly fallen. The revenue was \$12.3 billion in 1996-97 compared to \$8.4 billion in 2004-05, representing a reduction of 31.7%.

5. According to HKJC, the decline in betting turnover is due only partly to the prolonged economic downturn, but largely to structural factors which have led to the shrinking share of authorised horse race betting in the overall gambling market. HKJC's assessment is that the major structural problem is the growing illegal gambling market based on Hong Kong's horse races. Enforcement statistics from the Police show that the total amount of cash and betting slips seized from illegal bookmakers of horse racing and football betting rose from about \$9.4 million in 2001 to \$19.7 million in 2004. The assessment of HKJC is that the estimated size of the illegal market in horse race betting is about \$50 billion to \$60 billion per year.

6. HKJC also claims that it is facing stiff competition from offshore bookmakers who conduct betting on both Hong Kong and overseas horse races on the Internet, alongside other forms of betting activities. The offshore bookmakers are often able to offer more attractive odds and a wider range of betting products than HKJC due to the lower duty rates in the jurisdictions where they are based.

7. HKJC considers that the existing duty system whereby betting duty is charged on the basis of turnover on standard and other bets provides very little flexibility for it to adjust the take-out rates for different bet types, or adjust the odds in response to the changing market conditions so as to divert bettors to the authorised channels.

### **The proposed reforms**

8. In May 2005, the Administration proposed to reform the betting duty system for horse race betting, as follows –

- (a) betting duty on horse race bets would be converted from turnover-based to a tax on net stake receipts (gross profits). A single set of duty rates would be applied to the net stake receipts irrespective of bet types. A progressive marginal duty system would be adopted, with duty to be charged at 72.5% of the net stake receipts up to \$11 billion, increasing by half of a percentage point for increases of every \$1 billion in the receipts up to \$15 billion, and at 75% for the receipts exceeding \$15 billion;

- (b) a discount would be provided for the betting duty charged on overseas bets designated by SHA (qualified bets). The discount would be no more than 50% of the lowest marginal rate for local bets;
- (c) HKJC would pay a guaranteed amount of betting duty of no less than \$8 billion plus the amount of duty on qualified bets for each of the first four years upon implementation of the reformed betting duty system;
- (d) HKJC would be allowed to extend its annual racing season by five days, and increase the frequency of simulcasting major international races approved by established international racing authorities each year; and
- (e) the regulatory regime of horse race betting would be rationalised to bring it broadly in line with the authorised football betting and lotteries. The proposals included transfer of authority to authorise the conduct of horse race betting from the Chief Secretary for Administration to SHA; implementation of a licensing system for horse race betting; expansion of the functions of the Football Betting and Lotteries Commission to include advising SHA on matters relating to regulation of the conduct of horse race betting; and designation of the Appeal Board under the Ordinance to decide appeals lodged by HKJC.

## **Deliberations of the Panel**

### Meetings

9. The Panel held two meetings on 13 May and 16 June 2005 to discuss the proposed reforms to the betting duty system for horse race betting. Apart from HKJC, 16 organisations and four individuals attended the meeting on 16 June 2005 to present views on the proposed reforms. A list of the organisations which had attended the meeting is in **Appendix I**.

10. Members of the Panel had expressed divergent views on the proposed reforms. Mr CHEUNG Yu-yan had indicated that the Liberal Party was supportive of the proposed reforms. Some members opposed the proposed reforms. The concerns expressed by members are summarised in the following paragraphs.

### Decline in betting turnover

11. Mr Andrew CHENG and Mr James TO considered that the decline in betting turnover on horse racing was due to the authorisation of football betting rather than the structural problems as claimed by HKJC. They pointed out that with the implementation of authorised football betting, the Government's overall revenue from betting duty had not dropped. The total turnover of football betting, horse race betting and lotteries had increased from \$86.52 billion in 2000-01 to \$92.155 billion in 2004-05. They opined that the purpose of introducing the reforms was to increase betting duty revenue.

12. The Administration explained that there might be some switch of betting money from horse racing to football betting. This, however, was not considered to be a major factor, since the turnover of horse race betting had already declined by some 23% in the six years before the authorisation of football betting in 2003. Furthermore, the rate of decline in horse race betting was not notably different since then. The Administration was of the view that the decline in betting turnover was largely due to structural problems. According to HKJC's forecast, if no action was taken to tackle the problems, the betting turnover would decline by a further 30% by 2007-08, and HKJC's present mode of conducting business might not be feasible by then.

### Measures to tackle the decline in betting turnover

13. Mr Andrew CHENG considered that to combat illegal bookmaking, the Administration should step up enforcement actions against these activities instead of enhancing the competitiveness of authorised horse race betting vis-à-vis illegal bookmaking. He and Miss TAM Heung-man were of the view that it should not be the Government's policy to encourage people to gamble. They believed that even with the implementation of the proposed reforms, HKJC could not compete with illegal bookmakers because they could offer credits to bettors.

14. Mr WONG Ting-kwong urged the Administration to strengthen enforcement measures against illegal bookmaking. He suggested that HKJC should explore the feasibility of providing incentives, such as discounts on losing bets and short-term credits, as well as new horse racing products/games to boost betting turnover. Miss CHOY So-yuk suggested that HKJC should explore means to enhance the appeal of its horse racing products.

15. The Administration pointed out that the problem of illegal bookmaking could not be tackled merely by relying on law enforcement. The main attractiveness of the illegal gambling market was the offer of more attractive odds to bettors. The proposed reforms to the betting duty system would provide more flexibility to HKJC to adjust the take-out rates of its betting products in accordance with the changing market conditions. HKJC would

then be able to offer better odds to make the discounts offered by illegal bookmakers less attractive, and hence the incentives for bettors to place bets with illegal bookmakers would reduce.

#### Financial impact of the proposed reforms

16. Ms Emily LAU and Dr Fernando CHEUNG had expressed concern about the impact of the proposed reforms on the Government's revenue from betting duty. Ms LAU noted that the guaranteed amount was less than the betting duty of \$8.78 billion on horse race betting receivable by the Government in 2003-04. Dr Fernando CHEUNG pointed out that if the payout rate was as high as 90% of the dividends under the proposed reforms, the betting turnover would have to increase by 60%, or else the Government could not maintain the present level of revenue from betting duty on horse racing under the revised duty rates.

17. Miss CHOY So-yuk was concerned about the reduced betting duty rates under the proposed system. She considered the guaranteed amount of betting duty of \$8 billion per year too little.

18. The Administration responded that the betting duty receivable by the Government during each of the four years from implementation of the proposed reforms would be no less than \$8 billion plus the amount of duty on overseas bets. Under the existing betting duty system, the Government's estimated revenue from horse race betting was \$7.24 billion and \$6.45 billion in 2005-06 and 2006-07 respectively. The Administration emphasised that if no action was taken to tackle the decline in betting turnover, the betting turnover would drop by a further 30% by 2007-08, and the Government's revenue from betting duty on horse racing would also decrease correspondingly. Should the betting duty system be reformed, HKJC estimated that it would be able to capture around 40% of the existing turnover of the illegal horse race betting market, which was estimated to be about \$50 to \$60 billion. Assuming that the annual betting turnover would increase to \$88 billion and the gross profit margin was 11% to 13%, the annual gross profit would be in the range of \$9.68 billion to \$11.44 billion, and the betting duty revenue for the Government would be \$7.02 billion to \$8.30 billion.

#### Social impact of the proposed reforms

19. Mr Andrew CHENG, Mr James TO and Mr Albert CHAN were concerned that the proposed reforms would increase public participation in gambling and promote a gambling culture. These members considered it necessary to assess the social costs of the proposed reforms, such as increase in family and loan sharking problems.

20. Mr Albert CHAN suggested that to minimise any adverse impact of the proposal to increase five racing days on families, these additional racing days should not fall on Sundays.

21. The Administration responded that the proposed reforms would give rise to a slight increase in public participation in horse racing. The target people of the proposed reforms were those who were all along gamblers but had been placing bets with illegal bookmakers. The Administration explained to members a series of safeguards under the proposed licensing conditions to minimise the negative impact of horse race betting. These would include, among others, prohibiting credit and underage betting, and prohibiting promotional activities or materials targeting at adolescents.

#### Public consultation on the proposed reforms

22. Ms Emily LAU was concerned about inadequate public consultation conducted by the Administration on the proposed reforms. She considered that the Administration should not attempt to push through any legislation to which the society strongly objected.

23. The Administration explained that it had consulted the Football Betting and Lotteries Commission and the Ping Wo Fund Advisory Committee. The Administration had also met with Hong Kong Gambling Watch to discuss the proposed reforms.

24. A list of the questions raised by the deputations/individuals and members at the meeting on 16 June 2005 together with the Administration's response is in **Appendix II**.

#### **The revised reforms**

25. In April 2006, the Administration announced the proposed revised reforms to the betting duty system for horse race betting. The proposals are the same as those set out in paragraph 8 above, except the following –

- (a) the proposal of extending the racing season has been dropped;
- (b) HKJC will be allowed to provide rebates to high-value bettors;  
and
- (c) the period for paying the guaranteed amount of \$8 billion of betting duty per annum to the Government has been reduced from four to three years upon implementation of the reforms.

## **The Betting Duty (Amendment) Bill 2006**

26 The Betting Duty (Amendment) Bill 2006 was introduced into the Council on 26 April 2006. The objectives of the Bill are to give effect to the proposals to reform the betting duty system for horse race betting, and to rationalise the regulatory regime for the conduct of betting on horse races.

### **Relevant papers**

27. A list of the relevant papers on the Legislative Council website is in **Appendix III**.

Council Business Division 2  
Legislative Council Secretariat  
10 May 2006

**List of organisations attending  
the meeting of the Panel on Home Affairs held on 16 June 2005**

1. Christian New Hope Fellowship
2. Community Concern Group of North Point Alliance Church
3. Evangelize China Fellowship Tsim Sha Tsui Canaan Church
4. Hong Kong Christian Service
5. Hong Kong Gambling Watch
6. Hong Kong Joint Union of Workers of the Horse Racing Industry
7. IEF Rehabilitation Centre for Problem Gamblers
8. Kau Yan Church, Tsung Tsin Mission of Hong Kong
9. Min-Nam Chinese Christian Trinity Church
10. Sing Yin Secondary School
11. The Association of Hong Kong Racing Journalists
12. The Association of International Accountants – Hong Kong Branch
13. The Church of Christ in China Heep Woh College
14. The Hong Kong Jockey Club
15. The Hong Kong Racehorse Owners Association LTD
16. The Society for Truth and Light
17. Zion Social Service



**Questions raised by the deputations/individuals and members  
at the meeting of the Panel on Home Affairs on 16 June 2005  
and the Administration's response**

**Decline in betting turnover**

Questions raised by deputations/individuals

Q1. On what information and data the following estimations, made by the Hong Kong Jockey Club (HKJC), are based –

- (a) the existing total turnover of the illegal horse race betting market amounts to about \$50 to \$60 billion a year; and
- (b) the turnover on horse race betting will drop to \$45 billion by 2008-09 if no reforms are introduced to the betting duty system?

What is the method of the study which has come up with the above projections? For example, what is the sampling size?

A1.(a) HKJC has made an assessment of the illegal betting market on the basis of a combination of internal intelligence, consultancy input, commissioned survey and media reports. The analysis is summarized in the following paragraphs.

Illegal operators are increasingly offering a wide range of betting products in the market. In many police raids, the betting slips seized are a mix of bets on football, horse racing and sometimes Mark Six. It is therefore difficult to determine solely from betting slips and bank deposits the total amount of bets involved in a particular type of betting activity.

HKJC considers that the amount of bets seized in police raids fall far short of the actual size of the illegal betting markets. Such seizure figures could be a gross under-estimation, for the following reasons:

- Some raids take place during race time or match time while bookmakers are still taking bets. The amounts seized only reflect a portion of total betting turnover for the day and in some raids, the betting slips were known to have been destroyed.
- The amount seized by police in any particular raid is likely to reflect illegal bets taken on that day only and not illegal bets over the year. It is estimated that illegal bookmakers on average offer betting for some 200 – 250 days in a year;

- The amount seized in raids constitute only a small part of the unexplained deposits in the bank accounts of illegal bookmakers. Given that most illegal bookmakers offer credit betting, the actual betting turnover should be significantly greater than the amounts found in deposits;
- The likelihood of police raids involving football betting is higher as there are more football match days than horse racing days (over 200 vs 78); and
- It has to be assumed that police only successfully raid a proportion of all the illegal bookmakers as detection of such operations is difficult, given the heavy use of advanced communications and technology, especially mobile phones and the Internet, and the tendency for bookmakers to operate on a cross-border basis.

Over the past three years, the cash and betting slips seized by police during raids on illegal bookmakers amount to around \$152 million, which consist of a) horse racing: \$17 million; b) football betting: \$114 million and c) a mixture of both horse racing and football betting: \$21 million. Assuming there are 200 – 250 days of operation a year, this \$152 million in bets seized represent an average annual turnover of \$10 – 13 billion. However, this should reflect only the turnover for those illegal bookmakers actually arrested, and does not take into account the above factors accounting for the under-reporting of the total illegal betting markets.

There is also evidence that those who place bets with illegal bookmakers are more often those who place larger bets. This is illustrated through a police raid in January 2002 in which seizure of 30 betting slips on racing amounted to \$7.4 million. According to a survey commissioned by the Club in January 2005, it was found that 13% of horse race bettors also betted through illegal channels. Those bettors who bet through illegal channels reported betting larger amounts than those who did not.

Media reports from other Asian countries also show that illegal horse race betting in the region is a serious problem. While direct comparison is not possible due to differences in gambling policies and regulatory framework, the figures illustrate the percentage share of illegal horse race betting in the relevant gambling markets in the region:

- Japan: 38% (of the total market size)
- South Korea: 40%
- Singapore: 80%
- Malaysia: 92%

Given the underground and covert nature of illegal gambling, it is not possible to calculate precisely the size of the illegal market. However, taking into account all the above information and observations, the HKJC estimates that the illegal horse race betting market to be around \$50 – 60 billion each year.

- (b) HKJC commissioned an independent economic research consultancy study on projection of the betting turnover and how to tackle the structural problems leading to the decline in betting turnover. The projection that, if these structural factors are not addressed, the turnover of authorized horse race betting would further decline to \$45 billion by 2008-09 is based on two major assumptions: 1) competition from illegal operators will continue to grow and 2), betting turnover would decline at a rate similar to that of the past five years during the next five years.
- Q2. Has the Administration verified the information and data provided by HKJC, including the estimated amount of turnover of the illegal horse race betting market?
- A2. We consider that the analysis provided by the HKJC, which is supported by anecdotal evidence and other survey findings, provided a reasonable estimate of the existing size of illegal gambling markets.
- Q3. Is it appropriate to project the horse race betting turnover for the next five years on the basis of the same turnover in the last five years which have been a period of economic downturn?
- A3. The HKJC's assessment of horse race betting turnover is based on a steady and significant decline starting from 1996-97. Although the economy improved in recent years, horse race betting turnover had not recovered, even in years (such as 2000-01 and 2003-04) which showed positive GDP growth, reflecting a structural decline problem. In this connection, the forecasts for future horse race betting turnover is based on the assumption that if no action is taken to address the structural problems facing horse race betting, the current downward trend will likely continue in the face of the growing challenge from illegal bookmakers.
- Q4. Other than illegal bookmaking activities, are there any other reasons which also account for the decline in betting turnover on horse racing, e.g. loss of attractiveness of horse racing, the economic downturn in the past few years and the legalisation of soccer betting<sup>1</sup>, which in effect has channelled some bets on horse racing to soccer gambling?

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<sup>1</sup> The turnover on soccer betting increased from \$9.6 billion in 2003-04 to \$24.7 billion in 2004-05.

- A4. According to HKJC, while the decline in betting turnover has been the result of a number of factors, it is largely due to certain structural reasons, in particular the growing illegal gambling market, which have led to a shrinking share of authorized horse race betting in the overall gambling market.

The economic downturn in recent years is one factor contributing to the decline in horse race betting turnover. However, even when the economy improved (GDP growth was positive in 2000-01 and 2003-04), horse racing turnover continued to decline. Economic downturn is therefore not considered to be a major factor leading to the decline of betting turnover.

While there might be some switch of betting money from horse racing to authorized football betting, this is not considered to be a major factor leading to the decline in turnover of authorized horse race betting since the betting turnover on horse racing had already declined by some 23% in the six years before the authorization of football betting in 2003. Furthermore, the rate of decline in horse race betting turnover before and after authorization of football betting was not notably different.

- Q5. Why should the proposed reforms be introduced given the increase in the Government's overall revenue from betting duty in recent years?

- A5. The major objective of the betting duty reform to horse race betting is to enhance the competitiveness of the licensed operator vis-à-vis illegal bookmakers so as to combat the illegal gambling activities more effectively. Increasing revenue is not a primary consideration.

#### Questions raised by members

- Q6. The total turnover of football betting, lotteries and horse race betting has increased from \$86.52 billion in 2000-01 to \$92.155 billion in 2004-05. Does the Administration agree that a lot of bets have actually been diverted from horse race betting to football betting, and the reason for the decline in betting turnover has more to do with the authorisation of football betting rather than the structural problems claimed by the Administration and HKJC?

- A6. According to HKJC, while the decline in betting turnover has been the result of a number of factors, it is largely due to certain structural reasons, in particular the growing illegal gambling market, which have led to a shrinking share of authorized horse race betting in the overall gambling market.

While there might be some switch of betting money from horse racing to football betting, this is not considered to be a major factor since the turnover of horse race betting had already declined by some 23% in the six years before the authorization of football betting in 2003. Furthermore, the rate of decline in horse race betting turnover before and after authorization of football betting was not notably different. The major objective of authorized football betting is to combat the growing problem of illegal football betting, its value estimated to be worth \$20-40 billion in the market. We do not consider that the structural decline in horse racing turnover is mainly due to the authorization of football betting.

### **Measures to tackle the decline in betting turnover**

#### Questions raised by deputations/individuals

Q7. What is the Administration's view on a suggestion made by a deputation that it will be more effective to tackle illegal gambling by strengthening law enforcements and publicity of anti-gambling messages than by introducing the proposed reforms?

A7. We are currently combating illegal gambling through three measures—effective anti-gambling legislation, vigorous law enforcement and proper regulation of authorized gambling activities.

The existing betting duty system and regulatory regime on horse race betting which had been in place since the 1970s have become inadequate for the purpose of effectively combating illegal gambling. We consider that the proposed betting duty reform, which provides greater flexibility for the licensed operator to set the take-out rates in respect of its betting products, would enhance its competitiveness vis-à-vis illegal bookmakers.

The proposed reforms to the betting duty system would continue to be supplemented by vigorous law enforcement and effective gambling legislation so as to combat illegal gambling effectively.

Q8. Under the proposed new system, will the Administration relax restrictions, in terms of types of betting forms and promotion of gambling, imposed on HKJC in order to ensure sufficient revenue for HKJC to pay for the \$8 billion guaranteed minimum?

A8. The proposed regulatory regime of horse race betting would be similar to the existing regime for authorized football betting and lotteries. For example, the proposed licensing conditions would prohibit credit and

underage betting, prohibit promotional activities or materials of the licensed operators from targeting adolescents, misleading about the likelihood of winning or suggesting betting as a source of income or a viable way to overcome financial difficulties. We do not propose to relax such restrictions which seek to minimize the negative impact of authorized horse race betting.

Q9. What is the Administration's view on the suggestion that HKJC, instead of resorting to the proposed reforms, should explore room for reducing its administrative costs in order to cope with the decline in horse race betting turnover?

A9. According to the HKJC, it is already one of the world's most efficient racing and betting operations. It has in recent years undertaken a series of strategic improvements and cost management programmes. As a result, its operating costs as a proportion of betting turnover have declined from 3.8% in 2002-2003 to 3.5% in 2003-04 and 3.2% in 2004-05. HKJC operating costs (as a proportion of the total turnover) are among the lowest in the world. Further savings in costs would not be able to address the underlying structural problems causing the continued decline in horse race betting turnover.

Q10. Is it right for the Administration to merely introduce the proposed reforms without tackling existing problems pertaining to the conduct of horse racing in Hong Kong, as elaborated in the submission [LC Paper No. CB(2)1944/04-05(02)] made by Hong Kong Joint Union of Workers of the Horse Racing Industry?

A10. The HKJC, as an operator of authorized horse betting, is required to comply with the relevant legislation and conditions in the betting permit. In addition, the HKJC has its own internal codes of practice which regulate its operations. According to HKJC, it is widely recognized as a world leader in racing and has one of the most professional management teams in world racing. The HKJC is directed by a Board of Stewards, all of whom are elected, who provide their services without remuneration. Stewards are supported by a professional management team in pursuing a consistent policy towards achieving the HKJC's mission and vision. Racing controls are enforced through a team of highly experienced, internationally recognized stipendiary stewards who are among the strictest in the world. To further ensure the fairness and integrity of races, the HKJC operates one of the world's most advanced racing laboratories, applying stringent horse testing standards, and provide veterinary services which set international standards.

Q11. Which party will be held responsible if the financial situation of HKJC still has no improvements even after the proposed reforms have been introduced?

A11. We will conduct a review three years after implementation of the new betting duty system to see if it produces desirable results and whether it should be continued.

Questions raised by members

Q12. How will HKJC be able to compete with illegal bookmakers, given that the latter can always offer more attractive odds to bettors, short-term credit and other incentives?

A12. The illegal bookmakers are aided by low operating cost and improved communications technology. As they are not required to run the horse races or pay betting duty to the Government, they have an inherent advantage over HKJC in offering more attractive odds to bettors, discounts on losing bets, short-term credit and other incentives. The proposed reforms seek to provide more flexibility to the licensed operator to adjust the take-out rates of its betting products in accordance with the changing market conditions. This would enhance HKJC's competitiveness vis-à-vis illegal operators as it would be able to offer better odds to make the discounts offered by the illegal bookmakers less attractive, and so reduce the incentives for bettors to bet through illegal channels. This, together with the integrity of the Club's operations, and public confidence in the HKJC, would divert a significant amount of illegal betting to the authorized channel.

Q13. Are there any measures proposed by HKJC to enhance the quality of horse racing and the monitoring of the conduct of horse races in order to strengthen bettors' confidence in such races?

A13. According to HKJC, it continues to raise the quality of Hong Kong horses and HKJC races are widely recognized as among the best in the world. HKJC accords very high priority to maintaining racing integrity and public confidence in the fairness of its races. The HKJC enforces the racing control through a team of highly experienced, internationally recognized stipendiary stewards who are among the strictest in the world. To further ensure the fairness and integrity of races, the HKJC also operates one of the world's most advanced racing laboratories, applying stringent horse testing standards, and provides veterinary services which sets international standards.

Q14. What payout rates HKJC is going to set for horse racing bets under the new system? In case the illegal bookmakers offer the same or even slightly better payout than that offered by HKJC, how can HKJC compete with the illegal bookmakers?

A14. The betting duty reform proposals will give the HKJC more flexibility in setting the take-out rates for different bet types and adjust the odds in response to changing market conditions. This would enhance its competitiveness vis-à-vis illegal operators as it would be able to offer better odds which make the discounts offered by the illegal bookmakers less attractive, and so reduce the incentives for bettors to bet through illegal channels (the payout rates would vary among different bet types). This, together with the integrity of the Club's operation, and public confidence in the HKJC, would divert a significant amount of illegal bets into the authorized betting channel.

### **Financial impact of the proposed reforms**

#### Questions raised by deputations/individuals

Q15. By how much will the amount of turnover on horse race betting have to increase in order that HKJC can pay for the \$8 billion guaranteed minimum under the new system?

A15. HKJC estimates that if the betting duty structure is reformed, it would be able to capture around 40% of the existing turnover of the illegal horse race betting market (increasingly dominated by illegal bookmakers concurrently offering a variety of other gambling activities), which is estimated to amount to around \$50-60 billion a year. It follows that the annual betting turnover of authorized horse race betting is estimated to gradually increase by around \$20 to 25 billion. Assuming that the annual betting turnover would increase to \$88 billion and the gross profit margin is 11% - 13% (the actual margins would vary among different bet types), the annual gross profit would be in the range of \$9.68 billion to \$11.44 billion, and the betting duty revenue for the Government under the proposed progressive marginal betting duty structure would be \$7.02 billion to \$8.30 billion.

#### Questions raised by members

Q16. Are there any research findings which show that the new betting duty system will bring about a substantial increase in horse race betting turnover, in order to support the argument that the new system will be able to generate a stable income for the Government from betting duty revenue?



- A16. A number of overseas racing jurisdictions, including the UK, Singapore, and Victoria, Queensland, and New South Wales in Australia, levy betting duty on the basis of gross profits. Ireland is also reported to be considering a move to a gross profits tax for betting.

The UK Government changed from a general betting duty of 6.75% applied to all stakes to a gross profits tax of 15% in 2001. The main purpose of the reform was to make it possible for UK bookmakers to develop their domestic and international business from an onshore base, competing from a position of strength in the growing global market for telephone and Internet betting. Reports from the UK show that, following the change to a gross profits tax, general betting turnover increased and general betting duty, despite a decline immediately following the change in tax structure, also subsequently began to increase. UK Customs & Excise reported that the initial decline in revenue was in line with estimates and that betting duty revenue should be back to pre-gross profits tax levels within 2-5 years, depending on the growth in betting turnover. A separate report, from the UK National Audit Office, indicated that the change in tax structure in the UK had also led to a significant reduction in illegal bookmakers.

In the Budget for 2005, the Minister of Finance of Singapore announced the change in horse racing betting duty from 12% on each bet to 25% on gross betting profits. The objective of the reform is to allow the Singapore Turf Club (the only authorized operator of horse race betting) to offer better odds and lower prices to their customers in order to compete more effectively with illegal gambling operators.

- Q17. Is there any feasibility study conducted which shed light on the possible changes in the rate of betting duty on turnover and the corresponding changes in the Government's betting duty revenue for the next five years?

- A17. HKJC estimates that if the betting duty structure is reformed, it would be able to capture around 40% of the existing turnover of the illegal horse race betting market (increasingly dominated by illegal bookmakers concurrently offering a variety of other gambling activities), which is estimated to be about \$50-60 billion a year. The annual betting turnover of authorized horse race betting would increase gradually by around \$20 to 25 billion. Assuming that the annual betting turnover would increase to \$88 billion and the gross profit margin is 11% - 13% (the actual margins would vary among different bet types), the annual gross profit would be in the range of \$9.68 billion to \$11.44 billion, and the betting duty revenue for the Government under the proposed progressive marginal betting duty structure would be \$7.02 billion to \$8.30 billion.

Various scenarios have been developed as a basis for forecasting changes in betting turnover and betting duty revenue. However, there are inevitably many uncertainties involved, making it difficult to estimate accurately the level of betting duty after reform. In recognition of these uncertainties, and the associated risks, the HKJC agreed to make a guaranteed minimum payment to the Government of \$8 billion plus any duty from overseas bets in the first four years of the implementation of the reform. This is intended to ensure stable duty revenue from horse race betting during the initial years.

A review will be conducted three years after implementation to determine if the new duty system is producing desirable results and should be continued.

Q18. What is the percentage of HKJC's charity donations of its total business turnover?

A18. In terms of horse race betting and lottery turnover, approximately 81% is returned as winning dividends to bettors, 13% is paid to government as betting duty and profits tax, and 3% is used to fund the HKJC's operation, with the remainder going to the Lotteries Fund or charity allocations. The amount of charity donations made by HKJC in the last 10 years was about \$12 billion in total.

## **Social impact of the proposed reforms**

### Questions raised by deputations/individuals

Q19. Will the proposed extension of the horse racing season provide additional opportunities for illegal bookmakers to make money by receiving bets on the extra horse races to be conducted? As the additional racing days, if held, will be in the summer vacation, will this facilitate young people participating in betting on the extra races?

A19. Illegal bookmakers and unauthorized offshore gambling operators are already offering betting services on horse racing and other sports throughout the year. Bettors are currently able to place bets on horse races all over the world at different times of a year owing to advances in communications technology and wider use of the Internet. The proposed extension of the racing season mainly seeks to stem the current leakage of betting turnover to illegal and offshore bookmakers during the summer break.

Under the proposed regulatory regime for authorized horse race betting, underage and credit betting would be prohibited; promotional activities and materials of the licensee would not be allowed to target juveniles. The addition of racing days would not facilitate young people's participation in betting on horse races.

Q20. Does the Administration agree that the whole idea behind the proposed reforms was to encourage more people to gamble by offering more attractive odds? Some deputations consider that under the new system, HKJC will inevitably step up publicity in order to compete with the illegal bookmakers and this will give rise to rampant gambling. What is the Administration's view?

A20. The proposed reforms to the betting duty system seek to provide greater flexibility for the licensed operator to set take-out rates in response to changing market conditions. This should enhance HKJC's competitiveness vis-à-vis illegal bookmakers so as to divert the bets from illegal markets into authorized channels. The reform does not seek to encourage more people to gamble. There would be a series of safeguards under the proposed licensing conditions to minimize the negative impact of horse race betting on the community. These include prohibiting credit and underage betting; prohibiting promotional activities or materials of the licensed operators from targetting adolescents, misleading about the likelihood of winning or suggesting betting is a source of income or a viable way to overcome financial difficulties; as well as requiring the licensed operator to display warning messages against excessive gambling in its premises and on its website and provide information to bettors about services for problem and pathological gamblers.

Q21. When will the Administration submit a report on the assessment of the social impact of the authorisation of soccer betting? Will the Administration consider allocating additional resources to prevent and tackle gambling-related problems?

A21. We will conduct a review on the operation of authorized football betting shortly after the results of the study on Hong Kong people's participation in gambling activities are available. In evaluating authorized football betting, we would take into account all relevant factors such as the prevalence of illegal football gambling, the results of police enforcement against illegal football gambling; and the prevalence of problem and pathological gambling.

In September 2003, the Government set up the Ping Wo Fund (the Fund) to finance preventive and remedial measures to address gambling-related problems. The HKJC contributed a total of \$25 million

in the past two years and has undertaken to contribute \$12 – 15 million in the next three years. We would consider requesting HKJC to increase its contributions if there is a proven need to increase resources for the various measures.

Q22. What is the basis of the Administration’s assessment that “it is not likely that the proposed reforms to the betting duty system on horse race betting would give rise to a substantial increase in public participation in horse racing”?

A22. The proposed reforms seek primarily to enhance the competitiveness of the licensed operator vis-à-vis illegal bookmakers so as to combat illegal gambling activities. The increased flexibility in setting the take-out rates for different bet types would mainly serve to divert bets from the illegal gambling market to the authorized channel. The extended racing season seeks mainly to stem the current leakage of betting turnover to illegal or offshore bookmakers during the summer break. We therefore consider that the reform is unlikely to give rise to a substantial increase in public participation in horse race betting.

#### Questions raised by members

Q23. What are the views of the Administration and HKJC on the comments that the proposed reforms will give rise to rampant gambling and a substantial increase in public participation in horse racing, especially among the youth?

A23. As set out in our reply to question 22, we do not consider that the proposed reforms would give rise to a significant increase in the public participation rate in horse race betting. Under the proposed licensing conditions for horse race betting, the licensed operator of horse race betting would not be allowed to accept bets from the underaged, nor would it be permitted to target adolescents in its promotional activities. In this connection, the proposed reforms should not lead to a substantial increase in the participation rate in horse race betting among the underage.

Q24. What is the Administration’s response on the comments made by a member that the Administration should promote a more enriched cultural life and wider public interest in participating in recreation and sports, which, in his view, would be a way to reduce public participation in horse race betting?

A24. The Government is committed to providing a range of cultural and recreational activities to enrich the life of the general public. We would also continue to implement a series of preventive public education and

publicity measures to raise public awareness of, and understanding of the risks and problems relating to gambling. This would help to prevent the public from indulging in gambling activities.

## **Monitoring of horse races**

### Questions raised by deputations/individuals

Q25. Will the Administration consider revamping the composition and operational mode of the Football Betting and Lotteries Commission before it is to assume the role of regulating the conduct of betting on horse racing?

A25. As the licensing authority is vested in SHA, we consider the existing structure whereby the Commission could advise the SHA on the licensing and regulatory issue appropriate. This should also enhance the transparency and enable public participation in the regulation of the all major authorized betting activities.

Q26. Is there adequate monitoring of HKJC's operation and management by the Administration?

A26. Under the proposed regulatory regime for horse race betting, the HKJC, as a licensed operator, shall abide by the licensing conditions and relevant laws. The licensing conditions of horse race betting would include a number of restrictions such as prohibition of underage and credit betting, and the promotional activities or materials should not target at juveniles. The SHA could also issue a code of practice to provide guidance on how the licensing conditions are to be compiled with. The Football Betting and Lotteries Commission (to be renamed after the reform) would be tasked to advise SHA on issues relating to regulation of the conduct of horse race betting, including matters relating to contravention of licensing conditions on the part of the licensed operator. SHA could impose penalties on HKJC if the latter is found to have failed to comply with licensing conditions.

The HKJC shall also compile a return in respect of the calculation of betting duty payable and make duty payment in accordance with the Betting Duty Ordinance.

**Relevant documents on  
Bills Committee on Betting Duty (Amendment) Bill 2006**

<b>Date of meeting</b>	<b>Council/ Panel</b>	<b>Document</b>	<b>Paper No.</b>
6.4.05	Council meeting	Hon Abraham SHEK Lai-him raised a written question on “Dwindling business of the Hong Kong Jockey Club”	<a href="#">Official Record of Proceedings</a> (page 98 – 100)
13.5.05	Panel on Home Affairs	Minutes of meeting	<a href="#">CB(2)1917/04-05</a>
		Administration’s paper on “Proposed Reforms to the Betting Duty System on Horse Race Betting”	<a href="#">CB(2)1520/04-05(02)</a>
16.6.05	Panel on Home Affairs	Minutes of meeting	<a href="#">CB(2)68/05-06</a>
		Administration’s paper on “Supplementary information on reform to betting duty system of horse race betting”	<a href="#">CB(2)1880/04-05(01)</a>
		List of questions raised by deputations and members at the meeting	<a href="#">CB(2)2674/04-05(01)</a>
		The Administration’s response to the questions raised by deputations and members at the meeting	<a href="#">CB(2)2674/04-05(02)</a>