

**Response from the Administration to the questions raised by
Members at the Bills Committee meeting on 24 May 2006**

Question (a)

Address some members' concern that under the proposed reformed betting duty system, the betting duty receivable by the Government after the guaranteed period may be less than the present level of betting duty revenue.

Answer (a)

The \$8 billion guaranteed amount per year is worked out by reference to the betting duty collected in recent years, and the estimate of duty from horse race betting in 2005-06 is expected to be slightly less than \$8 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 make a precise estimation of the level of betting duty after reform. In recognition of these uncertainties and the associated risks, the Hong Kong Jockey Club (HKJC) has agreed to make a guaranteed minimum payment to the Government of \$8 billion plus any duty from overseas bets in each of the first three 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 two years after implementation.

Question (b)

Comment on a member's concern that the provision of rebates to high-value bets would adversely affect dividends payable to small-value bettors and Government revenue from betting duty.

Answer (b)

Under the new system, the betting duty will be based on net stake receipts (or gross profits, i.e. betting turnover minus payout which comprises dividends and rebates on bets that are paid or payable). A single set of tiered marginal duty rates will be applied to the net stake receipts irrespective of bet types. The payout rates for winning bets will be set by HKJC before the calculation of net stake receipts. Winning dividends will be paid regardless of the amount of bets and will not be affected by the provision of rebates.

As the amendment Bill will provide flexibility to HKJC to set and adjust pay-out rates for different bet types (including dividends and rebates), it is expected that this, together with the provision of rebates, would bring about the effect of diverting illegal bets to authorized betting channels. The turnover on horse race betting conducted by HKJC and consequently the betting duty revenue to the Government would increase. On balance, the provision of rebates would not affect dividends payable to small-value bettors or Government revenue.

Question (c)

Comment on the concern of some deputations that should the proposed reforms be implemented, the HKJC staff will be encouraged or even required to strengthen its effort to promote horse race betting.

Answer (c)

As a caring and good employer, HKJC needs to strike a balance between the conduct of business on the one hand and its social responsibility on the other hand. As an authorized horse race betting conductor, HKJC will be required to conduct responsible promotional activities and take appropriate measures to prevent pathological gambling, primarily to prevent underage/excessive gambling and minimize the negative impact of authorized horse race betting.

The staff employed by the authorized horse race betting conductor would also be required not to exaggerate the likelihood of winning to the customers entering the off-course betting branches, nor should they expressly or impliedly suggest that betting on horse races is a source of income or a viable way to overcome financial difficulties. The future

Betting and Lotteries Commission may also advise the Government further in this aspect.

Question (d)

Provide a consolidated reply to the views and concerns expressed by the deputations.

Answer (d)

The Administration would like to thank the deputations for their constructive views, and would like to provide a consolidated response as follows –

The existing betting duty system and regulatory regime on horse race betting, which had been in place since the 1970s, has become inadequate for the purpose of effectively combating illegal gambling. Specifically, the betting duty system whereby betting duty is charged on the basis of turnover on “standard” and other bets provides very little flexibility for HKJC 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 authorized channels.

The turnover on horse race betting conducted by the HKJC has been declining steadily and significantly in recent years. The Government’s revenue from betting duty on horse race betting has correspondingly fallen. The Administration considers that there is an urgent need to introduce the reforms to the duty system on horse race betting, as the decline in betting turnover is largely due to structural reasons which have led to a shrinking of the share of authorized horse race betting in the overall gambling market. If no timely action were taken to tackle the problem, the betting turnover would further decline, and the HKJC’s present mode of conducting business might not even be viable in the not too distant future.

The Government’s gambling policy is to restrict gambling opportunities to a limited number of authorized and regulated outlets only. The purpose of the reform is to rationalize the regulatory system for horse

race betting, and to better equip the HKJC to combat the increasingly rampant illegal gambling on horse races. The proposed reforms to the duty system for horse race betting would therefore not affect the existing gambling policy.

Needless to say, illegal gambling is invariably associated with other illegal activities such as loan sharking and debt collection. It is also one of the major sources of funding for organized and serious criminal activities. The proposed reform could help to combat illegal horse race betting and stem the source of income to members of triad societies, thereby alleviating the law and order problem caused by illegal horse race betting.

The reform would not encourage gambling, particularly amongst the young people as HKJC is prohibited from taking bets from under-age persons and offering any credit for betting, and from paying dividends or rebates on bets to juveniles. HKJC is also required to conduct responsible promotional activities and take appropriate measures to prevent pathological gambling.

We believe that our reform proposals would be able to strike a balance between the need to combat illegal horse race betting effectively, and the need to address public concerns about the negative social impact of gambling. We will continue to implement measures to address gambling-related problems, including public education, prevention, counselling and treatment as well as other remedial services for problem and pathological gamblers. The estimated expenditure will be \$12 to \$15 million to be financed by the Ping Wo Fund. We will continue to enhance public understanding of the nature and risks of gambling activities and to increase public awareness of gambling-related problems, particularly amongst young people in the run-up to the World Cup 2006. We are planning to commission organizations with experience in conducting school and youth education programmes to launch youth education campaigns in schools and districts to drive home the message of the adverse consequences of excessive gambling to young people.

We note the request from some deputations for the allocation of Government resources for the prevention, counselling and treatment of

problem gambling. We will carefully consider such requests in the light of the findings of the review of the effectiveness of the existing two gambling counselling and treatment centres.

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