



香港賽馬會  
The Hong Kong Jockey Club

13 May 2013

Legislative Council Secretariat  
Council Business Division 2  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
Attn: Ms Alice Leung  
(Fax: 2509 9055)

Dear Ms Leung,

**Bills Committee on Betting Duty (Amendment) Bill 2013**

**Meeting on 15 May 2013**

I refer to your letter dated 10 May 2013. The Hong Kong Jockey Club (HKJC)'s responses are set out below and these are numbered in accordance with the numbering in your letter.

1. Simulcast races, long established, cover mainly major international events important for Hong Kong as an international city and equine capital. Under the pari-mutuel betting system, commingled pool will result in a larger and more stable pool; but ultimately the overall dividend payment will be shared by more people from the participating jurisdictions. On average, the payout would remain largely the same. If the odds of a particular horse increase, the odds of the other horses will drop.

While important to tourists as well as locals who are familiar with international sporting events, simulcast races represent only 2% of HKJC's total racing turnover. We expect that the implementation of two-way commingling, which is a standard international practice, would not attract more local people to place bets on non-local races, owing to various factors including language barrier and time difference.

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- 2.(a) Currently, due to the inconsistency between the practices of Hong Kong and overseas jurisdictions in respect of the betting duty regime on commingling, Hong Kong bets on important overseas races are currently conducted by the HKJC in a separate pool. This has led to odds difference for the same horse in the same race (on the same bet) between the betting pools of the HKJC and the host country, inadvertently providing risk free opportunities for illegal and offshore bookmakers to take advantage of the odds difference for arbitrage using modern technology. Once the pools are commingled for the purpose of odds calculation, all of the participating jurisdictions will adopt the same odds and dividend distribution rates for the bet types concerned. Commingling is an effective means to reduce the possibility of illegal bookmaking activities taking advantage of arbitrage of odds differences given the existence of multiple separate pools in various jurisdictions, and as a result this could help protect core betting revenue (and hence tax revenue for the Government) from being leaked to offshore and illegal bookmakers. This is because once a bettor has taken advantage of the odds difference by placing bets with illegal and offshore bookmakers, the bettor tends to continue placing bets with such illegal channels, resulting in a high risk of credit betting and other possible problems (such as loan sharking, fraud, etc).
- 2.(b) The odds difference for the same horse (of the same bet type) in the same race could be substantial. There are also offshore and illegal websites which allow individuals to easily arbitrage and even bet a horse to lose. There are plenty of examples of odds differences:

Horse Name (Raceday)	HKJC's odds	Overseas odds
King Mufhasa (New Zealand horse, Champions Mile Race, 5 May 2013)	35.0 (Win)	4.8 (Win) (Australia)
Alcopop (Australian horse,	21.0 (Win)	3.6 (Win) (Australia)

Longines HK Cup, 9 December 2012)		
Animal Kingdom (US horse, Dubai World Cup Day, March 2013)	11.35 (Win)	3.7 (Win) (South Africa)  6.2 (Win) (Singapore)
Red Cadeaux (HK owner, Dubai World Cup Day, March 2013)	4.7 (Place)	11.7 (Place) (South Africa)  10.8 (Place) (Singapore)
Ambitious Dragon (HK horse, HK International Races Dec 2012)	4.1 (Win)	5.4 (Win) (Australia)
Lucky Nine (HK horse, HK International Races Dec 2011)	4.3 (Win)	7.8 (Win) (France)

- 2.(c) Non-local bets on Hong Kong races, conducted as isolated separate pools, have been declining in the last few years, with the turnover dropping from \$3.6 billion a year in 2009/10 to \$3.1 billion in 2012/13. This decline is partly attributed to the leakage of bets to illegal channels. As the size of the illegal pools increases, their capacity to accept larger bets also increases. With the removal of double taxation for non-local bets on Hong Kong races in a commingled pool (i.e. inbound commingling), the leakage of such non-local bets to illegal bookmakers will be contained and some of the leaked bets (as shown in the declining figures above) may be diverted back to the regulated HKJC pool. As explained in 2(a) above, commingling will also help protect core betting revenue in Hong Kong (and hence tax revenue for Government) because

of the inclination of a bettor to get hooked with illegal betting channels due to illegal credit and other incentives.

2.(d)(e) To be provided by the Administration.

2.(f) Annual turnover and net stake receipts for local bets on non-local races (in HK\$ million):

	2006/07	2007/08	2008/09	2009/10*	2010/11	2011/12
Turnover	141	121	130	849	1,357	1,621
Net Stake Receipts	25	22	23	157	251	302

*\* In the fixtures since 2009/10, there are 15 simulcast days each season. Previously, there were only 10 non-local races during local race days for each season.*

2.(g) Like other parts of the world, the trend in Australia is moving towards commingling of pools but some individual operators might not be ready yet. There are also historical reasons and business considerations on why some operators (say at the provincial level) might not be ready yet to conduct commingling with its counterparts of the same jurisdiction. Moreover, since the pool size of some of the operators in Australia is relatively small, they might have difficulties in investing in the technical systems to enable two-way commingling.

New South Wales, for example, is already discussing with HKJC on a new commingling arrangement, subject to the passage of the proposed legislative amendments. In the United States, all horse race wagering is conducted through commingled pools for over two decades.

3.(a)&(b) Currently, royalty fees paid by HKJC to overseas operators to bring overseas races to Hong Kong amounted to an average of \$19 million a year over the past three years, representing about 1.5% of the corresponding \$1.3 billion local turnover on such races. It is, however, a global trend to increase product fees to about 3% on local turnover. The growing product fees

in the global market, coupled with exceptionally high betting duty rates in Hong Kong, would render it economically unviable for HKJC to conclude simulcast arrangements with overseas operators, resulting in potential revenue loss to the Hong Kong Government. Under the proposed tax structure for two-way commingling, any product/royalty fees up to 1.5% of local turnover would continue to be paid by HKJC. Increases, if any, in product fees over and above the level of 1.5% of local turnover will be tax deductible, which would help sustain the current simulcast service to the public as well as revenue to the Government. Subject to the changes in the global market and future negotiations between HKJC and its overseas partners, the \$12 million is an initial estimate of the potential relief for increase in product/royalty fees needed to secure the existing Government tax receipts.

Yours sincerely,



Kim Mak  
Executive Director, Corporate Affairs

c.c. Hon Tommy CHEUNG Yu-yan, SBS, JP

Secretary for Home Affairs  
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