



香港賽馬會
The Hong Kong Jockey Club

23 May 2013

Legislative Council Secretariat
Council Business Division 2
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
Attn: Ms Alice Leung
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公司事務執行總監
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Dear Ms Leung,

Bills Committee on Betting Duty (Amendment) Bill 2013

List of follow-up actions

I refer to your letter dated 20 May 2013. The Hong Kong Jockey Club (HKJC)'s responses are set out below and these are numbered in accordance with the numbering in the Annex of your letter.

1. The net stake receipts on simulcast races (at \$0.2 billion on average during the last three years) are estimated to remain in the foreseeable future well below the first tax band under the progressive betting duty regime, which is \$11 billion. Accurate forecasts of future net stake receipts would be difficult but it will be nowhere near this threshold because the introduction of commingling will only bring about a moderate increase in turnover. Furthermore, the 72.5% flat rate adopted is already the highest in the world. Any further increment would be impractical.
2. Whereas a review on the tax guarantee before the expiry of the three-year period has been suggested for consideration by the Government, the HKJC wishes to stress that the current selection of simulcast programmes is based on sporting criteria and services to the public that are in keeping with Hong Kong as an international city (i.e. rather than being

driven just by revenue). The existing Hong Kong betting duty provision on non-local races is inconsistent with the international standard practice of commingling, and is therefore no longer sustainable in an environment where mobile and internet connectivity is common. The three-year guarantee has already provided a reasonable period for the inevitable transition.

3. (a) To be answered by the Administration

(b) The provision to allow product fees in the global market to become betting duty deductible above the current level of 1.5% of turnover is not a financial relief that would benefit HKJC. The Government imposes 72.5% betting duty rate on the net stake receipts (“turnover minus dividend”) for bets on both local races and non-local races. However, local bets on local races are different from local bets on non-local races in that HKJC incurs product fees payable to overseas operators (i.e. not available to Hong Kong) in the latter case. Therefore, the calculation of betting duty for local bets on non-local races should be different, and should be calculated on net stake receipts minus the necessary product costs payable to overseas operators rather than the entire portion of the net stake receipts. This is compounded by the betting duty tax rate in Hong Kong being the highest in the world¹.

For standard bets, the net stake receipt is 17.5% of turnover. After deducting betting duty from the net stake receipts and taking out another 1.5% product fee (on turnover) payable to the overseas operators, only 3.3% (of turnover) will be left for the Club, which is barely enough to cover operation costs.

Under the current prohibitively high betting duty environment in Hong Kong, no operator will be able to sustain the simulcasting of major overseas races unless the global product fees increase above 1.5% of turnover is deductible from the calculation of betting duty. Any such deduction would be due to the overseas operator.

¹ The betting duty rate (72.5%) in Hong Kong is the highest in the world. The betting duty rate in major racing jurisdictions overseas is much lower, namely, 15.0% in the U.K, 19% in Australia (New South Wales) and 25% in Singapore.

If the simulcast service to the public becomes unsustainable and is discontinued, a vacuum will be created for illegal and unauthorized bookmakers to engage local bettors initially on major overseas races and eventually on local races as well. The Government will also stand to lose initially \$80 to \$90 million every year, which is about half of the tax revenue from existing simulcasts, and eventually up to \$1 billion per year as the ability of illegal and offshore bookmakers to take large bets on local races increases.

4. Product or royalty fees are calculated as a percentage of turnover and is payable to overseas jurisdictions that host major international racing events. The market product fees of the global racing events are expected to increase to about 3% of turnover.
5. (a) The respective size of betting pools managed by HKJC and relevant overseas operators:

	Breeders' Cup		Melbourne Cup		HKIR	
	2010 US	2010 HKJC Simulcast	2012 Australia	2012 HKJC Simulcast	2012 Hong Kong	2012 Overseas Simulcast
Turnover Per Race (HK\$m)	84	6	161	15	127	9

(b) HKJC is currently paying an average of 1.5% on turnover (or \$0.2 million per race on the average in the past three years) to overseas racing jurisdictions to bring major overseas races to Hong Kong. The average product fees HKJC imposes on overseas operators is about 2-3% on turnover (or about \$0.1 million per race). This is higher than the 1.5% the Club is currently paying to bring simulcast races to Hong Kong. The difference in the % level of product fees is partly due to the much smaller overseas separate pools on Hong Kong races versus HKJC pools on major overseas races.

In addition, nearly half of HKJC's overseas partners (i.e. Dubai, Japan, the U.K., the U.S.A. and Ireland) which "export" their races to Hong Kong and collect product fees from HKJC do not bet on Hong Kong races. In other words, the costs paid by HKJC to "import" these overseas races cannot be balanced by our "export".

(c) the dividends and prize money for individual winning horses as cited by the Club in the last correspondence were:

Horse Name (Raceday)	HKJC's Odds	Prize money for winning horse
King Mufhasa (New Zealand horse, Champions Mile Race, 5 May 2013)	35.0 (Win)	HK\$6,840,000
Alcopop (Australian horse, Longines HK Cup, 9 December 2012)	21.0 (Win)	HK\$12,540,000
Animal Kingdom* (US horse, Dubai World Cup Day, March 2013)	11.35 (Win)	US\$6,000,000
Red Cadeaux** (HK owner, Dubai World Cup Day, March 2013)	4.7 (Place)	US\$2,000,000
Ambitious Dragon* (HK horse, Longines HK Mile, 9 December 2012)	4.1 (Win)	HK\$11,400,000
Lucky Nine* (HK horse, HK International Races Dec 2011)	4.3 (Win)	HK\$7,980,000

*winning horse

**second placed horse

6. Annual turnover, net stake receipts, betting duty paid to the Government and HKJC's net margin after payment of dividends and tax, operating costs and charitable donations of the past three years are listed in the Appendix.

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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Appendix

	2009/10	2010/11	2011/12
Annual Turnover (horse racing, football betting and Mark 6)	\$120,780m	\$127,042m	\$141,095m
Net Stake Receipts (i.e. turnover minus dividends and rebates)	\$21,788m	\$23,480m	\$25,422m
Betting duty paid to Government	\$13,803m	\$14,833m	\$16,022m
HKJC's net margin*	\$6,988m	\$7,566m	\$8,198m
Operating costs	\$5,239m	\$5,514m	\$5,957m
Charitable donations	\$1,521m	\$1,622m	\$1,729m

* Net margin = net stake receipts minus betting duty, payment to overseas jurisdictions and Lotteries Fund