



Race Track Industry Program

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Global Racing Part II – Wagering Matters

Moderator/Speaker:

Kenneth Kirchner, President, FalKirk International

Speakers:

Maurits Bruggink, Executive Director, International Federation of Horseracing Authorities

Bobby Chang, Head of Betting Services & Systems, Hong Kong Jockey Club

Nigel Roddis, International Director, At The Races

MR. DOUG REED: We have our second of the two-part global wagering panel today, to continue our international theme. I was excited when I looked at the pre-registrations; we have representatives from 17 different countries when I looked at the pre-registration, hopefully that continues to increase. We are very pleased to have all of our international guests here this year. I would like to thank our sponsors too; our luncheon after this session is sponsored by AmTote, the entertainment during lunch is sponsored by Caliente/Codere and this session is sponsored by European Wagering Services.

I know Ken was introduced at the last session so he probably needs very little introduction. Ken Kirchner is here as our moderator and we welcome Ken and we look forward to the discussion on global wagering.

MR. KEN KIRCHNER: Repeat performance here. Thank you very much, Doug. It is a pleasure to be here again and I salute you for the great job you do in putting this symposium on every year.

Okay, this panel is on global racing, more dealing with the wagering and simulcasting, which is near and dear to my heart as many of you know. At this point, global wagering worldwide is approximately \$115 billion. So outside of the United States, approximately \$100 billion is wagered annually in jurisdictions all

around the world. Racing is conducted in over 100 countries, everywhere from Austria to Sweden to Hong Kong, Japan, Singapore, Australia, you name a country and more than likely there is a racing industry there.

Our panelists today are three gentlemen that I've had the pleasure of working with over a number of years in trying to promote global commingling and global wagering. Each of them is an expert in their field and has developed a very good global reputation in the industry. Each has very progressive thoughts and understands the need and the direction that racing needs to move on a global basis in order to grow and improve our sport. So first I would like to introduce Bobby Chang who is the head of betting services and systems for the Hong Kong Jockey Club, one of the largest wagering organizations in the world. Annual turnover of the Club is in excess of \$12 billion U.S. a year. Bobby was educated here in the States at Princeton University and also at Stanford. I've had the pleasure of working with him now for several years. The Hong Kong Jockey Club system is one of the more advanced, not just tote systems but wagering systems in operation today. So we welcome Bobby and look forward to your remarks.

(Applause)

MR. BOBBY CHANG: Good morning everyone. Doug, thank you very much for inviting the Hong Kong Jockey Club to speak at the Symposium. The timing of this event makes it rather difficult for us to attend this gathering as our most important race day, the Hong Kong International, races right around the time of this Symposium. But every couple of years we try to attend this important event to learn from and also to share our experience with you all.

I have prepared a few things for today. So let's run through the agenda first. I brought along a video highlighting our 2006 and 2007 racing season. So it will be a good introduction, especially for people in the audience who may not be too familiar with our races. After the video I will give you an overview of our simulcast program, sharing with you our experiences. Thereafter I will cover the hurdles and issues that we are facing and I will end by presenting the opportunities that we see and also our future plans. So let's begin with the video.

(A videotape was played)

Well, I hope you liked the video.

Now let me give you an overview of our simulcast program. We offer what we believe to be a world class racing program. The season starts from September and runs through July of the following year. Under current licensing conditions we are allowed to organize 78 race meetings in a year. Typically, we will have a night meeting on Wednesday and a day meeting over the weekend, either on a Saturday or a Sunday. For night meetings, we normally have eight races and for the day meetings, we normally have 10 races. The field size is fairly consistent, when racing at our Happy Valley track, we typically have 12 runners per race. And when racing at our Sha Tin track, we usually have 14 runners per race.

Now, throughout the season we also have a number of richly prized international Group One races. The Hong Kong Cup, a 2,000-meter race, the Hong Kong Vase a 2,400-meter race, the Hong Kong Mile, the Hong Kong Sprint, which is 1,200-meter race, are staged during the Hong Kong International Races in December. This year they will be held on December 9th. Then in April we have two Group One races, the QE Two Cup and the Champions' Mile.

Hong Kong horses have also achieved high global rankings. Our jockeys, trainers and facilities are generally regarded as top class.

Of course, integrity of races is of utmost importance therefore we have a team of professional racing stewards assisted by the best equipment and supported by a set of comprehensive procedures.

Now, we also have some of the largest, most stable and competitive betting pools. Here are some figures from last season translated in U.S. dollars and they are in millions. So let's take a look at the three columns of numbers on the right. The first column, which is this column here, represents the total annual turnover. The second column shows the average turnover per race meeting. The third column shows the average turnover per pool. Now, the difference between turnover per race meeting and turnover per pool is that certain pools are only offered once per race meeting, for example, six up and triple trio. And certain pools are offered several times per race meeting, for example, place and first four. Now, win, place, quinella, and quinella place, the first four pools listed in the table are our most popular bet types. Roughly, they account for about 85 percent of our total turnover. As you can see from the chart, the average turnover or the average pool size is around two to \$3 million U.S. I want you to bear in mind that we see these figures consistently, race after race, meeting after meeting. If we take a look at some of the exotic bets, the average turnover or the average pool size is also very significant. The average pool size for triple trio, for example, it is about \$1.6 million U.S. and the average pool size for six up is close to \$1 million U.S.

With a strong product, we have been exporting our races for close to 20 years. Today our races are regularly telecast to eight countries and regions around the world, the U.S., Canada, Australia and New Zealand, Singapore and Malaysia, South Africa and Macau. For major events, our races are in even more locations. Now, bets from Macau and the U.S. are commingled into Hong Kong, the other locations are operated as separate pools.

So what are the benefits of commingling? First of all, customers will enjoy a superior product. Instead of betting into separate pools that are generally smaller, customers can bet into host pools that are generally larger. These larger pools could offer better payouts, especially long odds, exotic bets. Larger pools also bring about more stable odds which will be favored by customers, particularly those who place large bets.

Second, commingling means additional business opportunities for both the guests and the host. For the host, commingling generates additional business on existing programs. And for the guests, commingling is an economical approach to expand the racing program and to increase betting opportunities.

Third, commingling is also beneficial to the governments involved, increasing business opportunities mean additional wagering dollars. This means additional duties and taxes for the governments. In addition, commingling also provides a legal channel to combat offshore operators and help tackle illegal gambling.

As I've mentioned earlier, two locations commingle into the betting pools of the Hong Kong Jockey Club.

Now I'm going to share with you our commingling arrangements in Macau and the U.S. So let's begin with Macau. Commingling with Macau began in January of 2005. For those of you who are not too familiar with Macau, it's about one hour away from Hong Kong by high speed ferry. Our commingling partner is the Macau Jockey Club and Macau Jockey Club takes our entire program of 78 race meetings. If you recall, our races are on Wednesdays and either on a Saturday or Sunday. Macau Jockey Club will then slot in their local races on Friday and the other weekend day when Hong Kong is not racing. The pools available in Macau are win, place, quinella and quinella place and we're talking about the enabling of other pools.

The transaction currency between Macau Jockey Club and the Hong Kong Jockey Club is Hong Kong dollars. However, customers in Macau can place bets with Macau Jockey Club using either Hong Kong dollars or Macau currency, Pataca. But I should point out that the Hong Kong dollars are widely used in Macau and accepted dollar for dollar against the local currency. The pools are based on gross pool pricing.

Now, this slide shows the overall technical set-up. The Hong Kong side is shown on the left while the Macau side is shown on the right. Now, in this implementation we have adopted what we internally refer to as a branch model. So sales from Macau Jockey Club are handled as a branch just like one of our off-track betting shops. Communications between Hong Kong and Macau are based on the proprietary protocol and every bet is actually validated by our banking systems in Hong Kong before a ticket is actually printed in Macau. Communication between the locations are on two paths, one via microwave and the other one is via that submarine cable. In addition, the transmission of the betting transactions and the racing data are on separate routes. In terms of resilience, the overall set-up or the overall standard is very similar to the ones that we've adopted in Hong Kong. In other words, no single point of failure would cause an interruption.

Now let's take a look at the situation here in the U.S. We have been exporting our races to the U.S. since 1994. Up until the beginning of this current season in September, betting on Hong Kong races in the U.S. were on separate pools. Through our cooperation with the Las Vegas Dissemination Company, U.S. customers can, for the first time, commingle into the betting pools operated by the

Hong Kong Jockey Club. Overnight, customers in the U.S. have access to some of the largest and most stable pari-mutuel betting pools on single races in the world. Similar to the arrangement in Macau, all 78 race meetings are transmitted over to the U.S. Right now, pools available for betting are win, place, quinella, quinella's place, double, tierce, trio and first four. And by the first quarter of 2008, double trio, triple trio and six up will be available as well. The transaction currency between LVDC and the Hong Kong Jockey Club is Hong Kong dollars. However, the transaction currency between the customers and the SPMOs are in U.S. dollars. The pools, again, are in gross pool pricing.

So let me now go through the technical set-up with you. Again, the Hong Kong Jockey Club set-up is on the left, the LVDC setup is on the right. In this case, communication between the two totes is via the Internet through what our IT colleagues describe as triple desk VPN tunnel. Again, betting transactions and racing data are sent separately. Through specific arrangements with ISPs, we have incorporated resilience into this set-up.

Now, unlike the Macau set-up, the protocol being used in this commingling arrangement is ITSP and the specific version that we're using now is 5.19. For standard bets, the implementation is rather simple using collation summary. But for exotic bets, particularly bets involving large numbers of combinations and crossing a number of races, additional procedures necessary to safeguard integrity. Now, as such, we have devised a solution to augment the ITSP collation model, which I will walk you through in greater detail.

What we have done is that in addition to the collation tables being sent via ITSP, bet details are being transmitted to the Hong Kong Jockey Club in batches near real time. In simple terms, there are six key steps. The host is on the left, the guest in on the right. So step one, which are the dark blue circles, the host, which is the Hong Kong Jockey Club will request the guest collation and winner using ITSP. Step two, the light blue circles, the guest, which is LVDC, will then reply to the host with information and collation and winner, again, using ITSP. At this stage, the host will have a set of complete data from the guest. Then we move on to step three, which are the dark green circles. The host will request from the guest a log of the transactions via a proprietary protocol and then the guest will reply to the host with a file containing details of each transaction via proprietary protocol, and that is step four. The host will then process the transaction log to produce a set of summaries. Then in step five, which are the dark purple circles, the transaction database will reply using a proprietary protocol, the inter-tote on the top there; on the host side will request collation and winner from the transaction database. The transaction database will then in return reply with the requested collation and winner using proprietary protocol. So finally, the inter-tote gateway will then verify the information by matching the collation and winner obtained via the ITSP with the collation and the winner calculated from the transaction. And thereafter, the logic including the possible zeroing out of pools is then based on the pre-agreed procedures.

Now, before we move on to talk about hurdles and issues, let me give you a quick overview of our incoming simulcast program as well. In one year we are authorized by the government to bring in 10 overseas races; yes, we are talking about 10 races and not 10 race meetings. Furthermore, these simulcast races have to fall on one of our local race days. With this severe constraint, our strategy is to allocate these limited slots to overseas races with Hong Kong runners, races with global significance and also races organized by our strategic partners. The 10 races that we brought in last year are shown here in this slide. I should also point out that the program varies from year to year. A number of Hong Kong runners participated in these races.**Other terms, concepts and keywords contained in the balance of this transcript are:** taxation, takeout rate, global commingling, Nigel Roddis, At the Races, bet types, technology, Ladbrokes, William Hill, Coral, Betfair, fixed odds betting terminals, levy yield, In-running betting, Flexi Betting, technology, local taxation, Maurits Bruggink, commingling, IFHA, advantages of global commingling, advantages for international commingling, global super bet, rebates.If you desire a full transcript contact bprewitt@ag.arizona.edu

