

Racecourse and Racehorse Owner Development in Mainland China

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Context

- Other than the policy changes and frequency of racing in China, there have also been changes in other parts of the value chain
- Government plays a large part, but some areas of change are also driven by private sectors
- Areas with private sector involvement or public-private partnership to highlight in this presentation are:
 - Racecourse development
 - Emergence of new breed of Mainland Chinese racehorse owners
 - Growth in supporting sectors in equine industries

The Value Chain of Racehorse Development

 Focus of this presentation



Government Policy

Government Industry Association

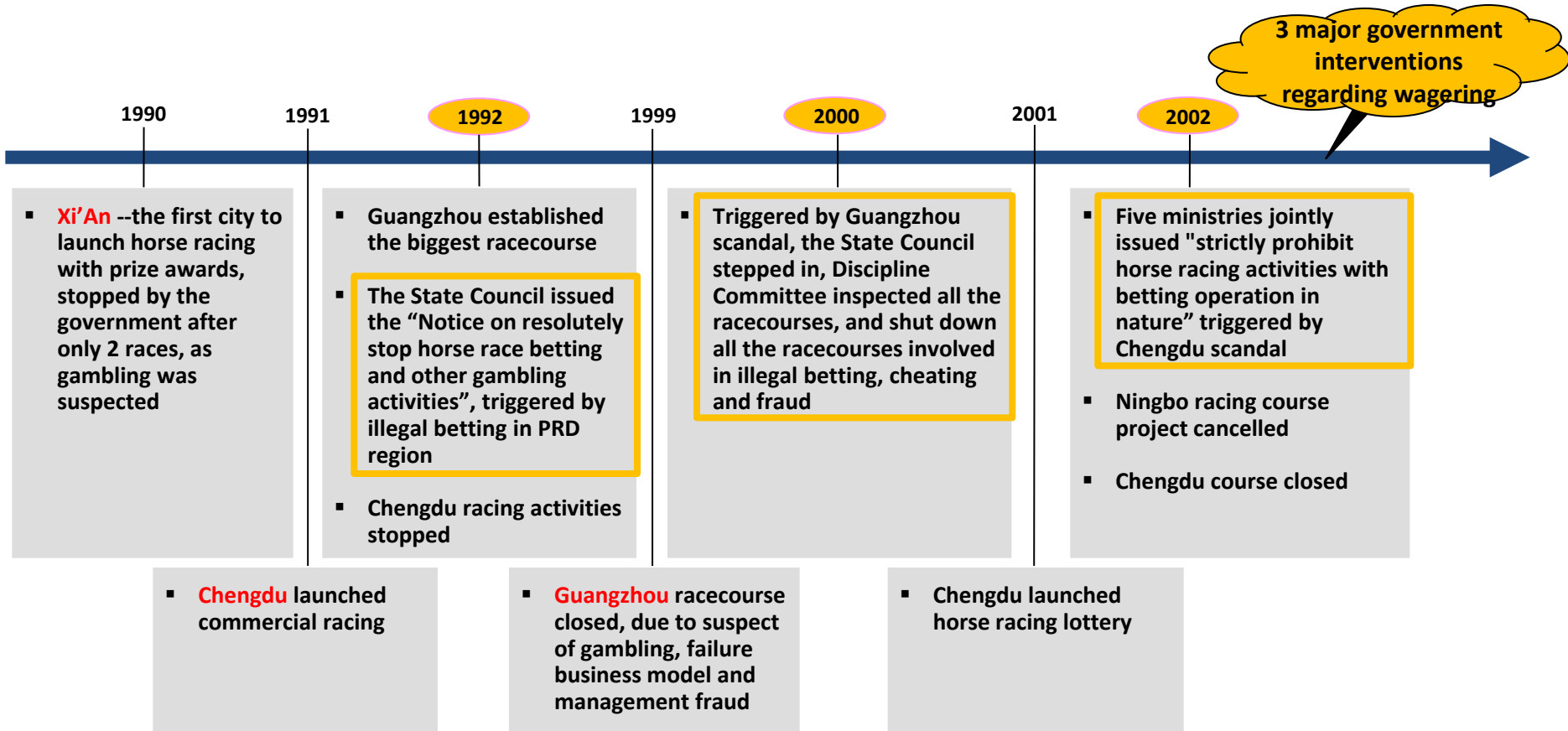
Four Key Trends

- 1. The third wave of racecourse investment in China**
2. The rise of top Mainland Chinese owners
3. Not only as owners, they are also becoming organizers of racing
4. Emergence of cross value chain commercial racing enterprises

1. Three Wave of Racecourse Investments

- First wave (1990s) – racecourse with ‘wagering mission’ which were asked to stop (e.g., Guangzhou, Xi’An, Chengdu)
- Second wave (2000s) – wait and see investments
- Third wave (2010s) – coming back with real racing interests

The first wave in 90s was about racing with gambling , but was suspended



Source: Literature research; Expert interviews; Booz & Company analysis

1. Three Wave of Racecourse Investments

- First wave (1990s) – racecourse with ‘wagering’ or ‘prizes’ which were asked to stop (e.g., Guangzhou)
- Second wave (2000s) – racecourse waiting for changes in lottery policy (e.g., Wuhan)
 - Moderate racing interests driven by government support
 - Real estate around racecourse was the backing
 - However, business model proven to be difficult
- Third wave (2010s) – coming back of interests

1. Three Wave of Racecourse Investments

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- Second wave (2000s) – racecourse waiting for changes in lottery policy (e.g., Wuhan)
- Third wave (2010s)
 - Rapid emergence of racecourse supported by owners with strong racing interests
 - With more frequent speed races organized by CEA, CHIA or even among private sector owners

At least 7 Racecourse in China with active speed racing - today



Racecourse with active Racing (7)

Updated Aug 2015

STRICTLY CONFIDENTIAL

.. With newer racecourse projects being announced or discussed



Black – Racecourse with active Racing

Green – Racecourse development in discussion

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But there are different stories behind the new projects



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Recent high profile activities of Mainland Chinese Owners

- Not new news that Hong Kong-based owners are keen on owning horses outside Hong Kong
 - Top HK-based owners own more than 300 racecourse overseas
 - Many running in Group races
 - Explained the popularity of overseas simulcast betting among Hong Kong owners
- For Mainland China, HJKC research estimated that the Top 10 Mainland Owners own approximately 1,000 thoroughbred horses with increasing number of them racing overseas.
- Rider Horse Group owned Mongolian Khan, multiple G1 winner in Australia and New Zealand. They also spent AUS\$410,000 on two yearlings at Inglis Australian Easter Yearling Sale in Apr 2015
- Yu Long Investments spent over AUS\$1.1 million to claim the two top priced broodmare at the Inglis Australian Broodmare Sale in May 2015

Top 10 Mainland Owners – who are they

Owner rank	Active Race horse owner since	# of Thorough-bred Horse in racing
1	2012	600
2	2002	100+
3	2010	100
4	2004	100+
5	2007	150
6	2010	100
7	2013	50
8	2014	80
9	2011	100
10	2003	100

Source: HKJC analysis



Mr. Lang Lin with Mongolian Khan



Inner Mongolia Rider
Horse Group



Mr. Zhang Yuesheng



Yulong Baby at Caulfield Racecourse in Melbourne



As a result overseas players are targeting top Mainland owners

- Inglis announced a RMB 1 million thorough-bred race in China, Inglis China-Australia Cup, will be run at Yulong Racecourse in September 2016
- New Zealand Bloodstock Cup worth RMB 500,000 will be held in July 2016 at Korchin, Inner Mongolia, and open to horses purchased by any Chinese buyer at this year's New Zealand Bloodstock Ready to Run Sale in November.
- Meydan 2016 races targets to have another race in Chenghu and target to have some of the horses sold in Mainland China afterwards.
- Kylin and China Horse Club are formed with a business model to attract Mainland Chinese to own horses and race overseas as a consortium

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Racehorse owners will become a shaping force of the industry

China Horse Owners Association (CHOA)

- Non profit organization being registered with Ministry of Civil Affairs
- 200 horse owners as members, covering 80% of mainland horse owners
- Lang Lin is the Secretary General whilst Wang Wei Dung is the Chairman
- 3 main objectives of CHOA:
 - promotes legitimate interest of the owners;
 - provides platform for the exchange of information amongst owners;
 - organizes races among owners
- On the way forward, it is the intention of CHOA to do its own races which is entirely possible by law. That said, they have no intention to go against CEA nor CHIA

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Case Study: Rider Horse Group (RHG)

- RHG targeted to be the first company running the equine business to be listed in stock exchange in China (expected 2016)
- VC-backed, Completed the Series D round investment in June 2015
- RHG targeted to be the first company running the equine business to be listed in stock exchange in China (expected 2016)
- Currently there are 17 investors and 2 original shareholders
- Total annual turnover and profit amounts to USD 35 million and USD 9-10 million respectively in 2015



6 subsidiaries under RHG to cover the commercial horse value chain

1. Horse importing business:

- Purchasing of thoroughbreds for sales, breeding and supporting the Group's racing needs
- Acquisition of overseas stud farm

2. Racecourse and racing operation business:

- Construction and running of racecourse. New racecourse at Horqin Middle Right Banner targeted to operate in June 2016
- Regular racemeetings conducted every Saturday from July to September
- A 3-days racing carnival in July, supported by local government as a tourism initiative
- Currently RHG owns around 500+ thoroughbred racehorses
- It targets to establish handicapping systems to rate the horses competing in their races
- Racing business revenue comes from local government subsidy, admission fees to the racecourse and management fees received through stabling and horse training.

6 subsidiaries under RHG to cover the commercial horse value chain

3. Livestock trading business

- Purchasing of thoroughbreds and animals for sales

4. Horse transportation business in light of industry growth of leisure riding clubs

- **Over 1,600 riding clubs in China**
- Mostly based on Beijing, Shanghai

5. Feed industry:

- Partnered with a New Zealand company, Dunstan, to build a feed factory to be completed in 2016
- RHG provides financial and land resources (RMB 100M)
- Dunstan is responsible for daily running and management of the factory

6. Provision of **consultation services to other equestrian clubs** in mainland

Final thoughts

1. Emergence of the third wave of racecourse investment in China – economic sustainability and quality to be seen
2. Emergence of top Mainland Chinese owners – definitely a growly trend attracting attention of global racing industries
3. Not only as owners, they are also becoming organizers of racing – how it interacts with CHIA and CEA is to be seen
4. Emergence of cross value chain commercial racing enterprises – economic success without wagering – conclusion to be unfolded