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Every yuan's a winner

Wednesday, February 21, 2007

The numbers promise a good return from a new entrant to the Chinese gambling market.

This week I've been shanghai-ed into a punt on a gaming business in China where Melbourne-based Richard Li reckons he has found a winning place at the tables as China's mostly illegal gambling market slowly opens to legitimate operators.

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Li is a director and chief operating officer of **Sino Strategic International** (ASX code SSI) which, since its merger last year with China Entertainment Holdings (CEH), has established a bridgehead in Shanghai where it now holds 600 of a total of 1000 permits granted to open keno and lotto agencies in that city.

Li says gambling turnover of all forms in China exceeds an estimated \$US200bn (\$255bn), but China's Ministry of Finance estimates that nearly 98% of that is illegal. That vast turnover doesn't include the estimated turnover of \$US7bn from semi-autonomous, ex-Portuguese enclave of Macau, which last year pipped America's Las Vegas to become the largest legitimate gambling centre of the world.

It seems the Chinese authorities are cautiously favourable to extending gaming permits as a means of raising tax revenue. In 1987, it permitted welfare lotteries where, for every \$1 bet, 65% went to prizemoney, 25% to welfare programs, 6.5% to sales commissions and the rest to administration.

In the 10 years since 1997, those combined lotteries have grown from a turnover of \$US640m to \$US10.35bn last year. Yet per capita, lottery sales in China amount to just \$US3.50, compared with \$US118 in Hong Kong and \$US160 in the US.

Last year, Li, who arrived in Australia as a student in 1972, teamed up with Teddy Cheng to acquire Cheng's CEH. Cheng became chairman and a 60% holder in Sino Strategic, which now has an issued capital of 66 million shares. In the year to June 30, 2006, SSI reported revenue of \$1.93m and a loss of \$6.02m, due largely to the cost of rolling out and equipping its keno/lotto outlets. It has opened 470 of the 600 under permit. It's claimed that weekly commissions at 6.5% of revenue are now running at the rate of \$1.5m a year and growing at 5% a week. The outlets will also sell lotteries and plans are to expand into 10 other provinces.

The shares sold down from a high last year of \$5.60 to a December low of \$1.85 due to a former director selling out, realising his equity would be watered in the merger. The price has rebounded to around \$2.50 after the signing of a five-year supply deal with America's largest gaming software provider, Playtech, to supply 5000 poker machine-style terminals to CEH outlets where, although online gambling is banned, private gaming networks can be run on premises. CEH has opened two, offering games such as Texas hold 'em.

SSI is also preparing to bid for sports betting concessions if, as expected, that will be permitted in the months ahead.

Meantime, I took profit on a few stocks so I could pay for my SSI punt.