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Sino Strategic International Ltd

Gaming Operations Executive Summary

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SSI and CEH Background

Company Information

Sino Strategic International Limited (“SSI”), a company listed on the Australian Stock Exchange (“ASX”) since 1987, was a pioneer in developing and introducing Chinese companies to the Australian equity market. The Company currently has three directly managed main businesses: investment banking and stock brokerage; Chinese herbal medicine; Gaming and Entertainment in China. These latter activities are conducted through China Entertainment Holdings Limited (“CEH”) a wholly owned subsidiary of SSI.

SSI has a total issued capital of 66 million shares. Cheng Chee Tock (Teddy), who is a well-known entrepreneur in China, through his wholly owned investment company Best Winning Investment Limited, is the single largest controlling shareholder of the Company.

SSI also holds a controlling 51% stake in another ASX listed company, GoConnect Ltd (“GCN”). GCN is an Internet and mobile media and communications company engaged in IPTV, Voice Over Internet Protocol, online and mobile directory search, and online advertising and media sales businesses. The innovative and patented products of m-Vision and GoTrek IPTV of GCN allow its users to enjoy mobile TV and IPTV services over mobile phone and the Internet.

Recent Background

SSI merged with China Entertainment Holdings Limited in 2005. This development transformed the company with the Chinese gaming opportunities available to CEH becoming the main business focus and potential for the company. The remainder of this Executive Summary relates to SSI’s Chinese gaming operations which are conducted through CEH.

New members were elected to the Board of SSI, including experienced operators in the gaming and investment banking industries. Mr Teddy Cheng now chairs the Board.

To further strengthen the management in achieving the goal of transforming SSI into a successful gaming and entertainment Company, the Board has invited successful entrepreneurs in the gaming and entertainment industry abroad to join the International Advisory Board of the Company. They include Dato Lim Kim Wah, former MD of Magnum Group of Malaysia; Mr. Roger De Lima, a veteran in the gaming industry with over 30 years experience in casinos worldwide; Mr. Rod Whyte, an independent financial advisor; Mr. Ricky Lei, director of Hingsoft Group engaging in software services in China.

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The management and advisory teams ensure SSI is well managed and advised on the development of the Company's gaming and entertainment business in China.

Gaming Background

Lottery operations have been in China since 1987 when Premier Deng Xiao Peng approved the sale of lottery games to enable the country to extract welfare funds from the gaming industry.

Currently, the Ministry of Finance administers gaming operations. There are 2 main streams of gaming operations; one under the China Welfare Lottery Centre ("CWLC") and the other under the General Administration of Sports ("GAoS"). The two operations share the total annual gaming revenue of approximately RMB 70 billion.

There are different kinds of lottery games operated by the Shanghai Welfare Lottery Centre ("SWLC") (a branch of CWLC), including traditional Scratch tickets, Dual Color Balls, Shi She Le, 3 Digits, and new game types implemented in 2005 such as Keno and Video Lottery Terminals. The play frequency of each game type varies. For instance, 3 Digits games open every 30 minutes, while Keno opens every 5 minutes.

With Video Lottery Terminals, there are 6 different types of games, which provide a wide variety for the players to choose from. It is estimated by the SWLC that under the current pace of development, the growth of gaming sales in Shanghai could reach 25% per annum.

It is the policy of the SWLC and the Cultural Ministry to withdraw the street vendor lottery sales agency licenses within 2 years with the objective of keeping sales agency activities indoor. It is also a policy of SWLC to encourage corporate sales agency arrangements in Shanghai, to improve the efficiency of monitoring of the outlets.



CEH Business Transformation

CEH's bid for Lottery sales agency licenses

In May 2005, CEH through its wholly owned subsidiary Shanghai Kelo Investment Management Ltd, successfully bid for the tender of 500 gaming sales agency permits offered by the SWLC. An additional 250 permits were also granted to CEH in the third quarter of 2005. The permits allow CEH's Chinese subsidiary company to operate lottery gaming sales agency business in Shanghai under different game types offered by the SWLC. The sales commission is 7% of gross sales turnover, payable to the agent weekly after collections have been confirmed. In October 2006 the 750 annual renewable permits were amended by mutual agreement to become 600 permits with a 5 year term. This retail distribution franchise is already one of the largest in China based on the number of outlets.

All sales agents have to submit a security deposit to SWLC to warrant the payment of revenue collected to SWLC. For each Keno Point of Sale (POS), a sum of RMB 30,000 has to be paid as security deposit while other lottery products require a RMB3,000 security deposit per POS. Deposits are refundable in the event that the agent returns the permits to SWLC.

CEH's operational strategy

CEH develops its own outlets staffed by CEH personnel at strategic locations. Current games on offer are Keno and Lotto. After the POS network is fully established, other games will be added. It is anticipated the 600 stores will be opened by the end of Q1 2007.

CEH also currently manages 2 shops with VLT's out of the total number of 8 VLT shops being trialled in Shanghai.



CEH's future gaming sales development plans

The development of the POS network is only one aspect of the gaming model being constructed. CEH will endeavor to bid for new lottery sales agency permits from GAOs when the POS network has reached critical mass. It is expected that GAOs will grant concessions to our licensing application. If this plan is successful, our POSs will be able to capture both the gaming markets of SWLC and GAOs. Once the network has grown to a sufficiently sustainable size, further economy of scale benefits will be achieved.

Through the recent acquisition of Endless Idea Management Ltd, CEH has contracted with a government body, Shanghai VSAT Company, in the development of content provision services for the Lucky Channel, movie bars and an internet portal engaged in gaming sales agency services. Shanghai VSAT is 40% owned by SWLC.

Lucky Channel, now registered and managed by the Shanghai Media Group, is the only digital television channel that is allowed to broadcast gaming related activities in China. As the exclusive content provider of the channel, CEH via its subsidiary Endless Idea, has an advantage of bringing "real time" gaming information such as sports events, lottery results, and gaming programs to the audience which will directly and indirectly enhance the lottery and gaming sales business of the outlets.

The operation and development of content for screens within the movie bars by using satellite download technology will be helpful to the development of sports gaming outlets in various locations throughout China without the physical limitations imposed by the traditional cable access requirements.

The Internet portal <www.skylc.com.cn> owned by Chinavnet.com, associated with Shanghai Telecom, is an Internet portal operated by Shanghai VSAT. It is intended that this Internet portal will be developed into one that is able to allow China's 110 million plus online population to conduct gaming through the Internet environment. Currently, Shanghai VSAT cooperates with China Telecom to implement the sales of SWLC lottery tickets through this Internet portal. This arrangement opens up the opportunity of capturing the 110 million plus Internet users to purchase SWLC's lottery products online. The co-operation with Shanghai VSAT in the further development of this Internet platform will provide CEH the opportunity to bring the gaming sales business online.

Networks in other cities

As well as developing a network of gaming sales outlets in Shanghai, and the affluent Yangtze River Delta region, CEH plans to develop similar lottery sales agency networks in other major cities. Management believes that the commission rate of 7% on sales in China provides an attractive income stream for the Group. By comparison, lottery sales businesses in other countries with lower commission rates are still highly profitable. For example, Malaysia has a commission rate of 5% and Russia 4%.



CACF Development

A significant development in CEH's gaming strategy is the execution in September 2006 of a Memorandum of Cooperation ("Memorandum") between CEH and the national charity China Aged Care Fund (CACF) to jointly establish the CACF Charity Poker Club and develop community aged care property projects which will include Multi-function Entertainment Centres (MECs) across China.

CACF was founded in July 2005 under the auspices of the China Aging Development Foundation ("CADF"). It is a non-profit organization incorporated with the blessing of the political leaders. The objective of the fund is to raise funds in China and from abroad to finance welfare activities for the helpless and the elderly. The mission was propounded in the Eleventh Five Year Plan of the Central Government and is chaired by four respected Chinese leaders.

CACF has an objective of delivering multiple community retirement property development projects that will include MECs among other retirement and commercial facilities, in 50 major cities across China. These MECs will be developed as destination entertainment locations for surrounding residents and visitors.

The Congress has issued decrees to various provincial and local municipalities to provide free allocated land to CACF to assist with these objectives.

In order to finance these prospective community facilities CACF intends to operate local and international poker tournaments, through the development of the Charity Poker Club as a means of generating income for CACF via collection of poker tournament entry fees. CACF will be responsible for securing the approvals from relevant government authorities including the General Administration of Sports, the Cultural Ministry, and the Ministry of Civil Affairs to ensure that the partnership has the appropriate licences and support to operate the CACF Charity Poker Club for conducting poker tournaments in China.

Since CEH has established its reputation as the largest retail gaming sales agency business in China, under the Memorandum, CACF has agreed to partner with CEH to implement its business programs in return for revenue sharing between the partners. CEH will bring to the partnership its gaming and entertainment retail network. CEH will provide support to both land based and online tournaments with video poker terminal installations under the CACF brand.



Gaming Opportunity Potential

As a result of this arrangement with CACF, significant business opportunities will be opened up for CEH, including:

- Aged Care property projects incorporating MEC property and operating business developments
- Poker Tournament Events.
- Poker Tournament operating rights leading to land-base competitions and online competitions, with further expansion into Virtual Private Network (“VPN”) intranet video poker terminals. In so doing, a new gaming network in China is being created.
- Poker Tournament for CACF charity programs will extend into thousands of existing card rooms in all major cities. A franchised network will be developed under the CACF brand name.
- Leveraging on the CACF Charity Poker Tournament intellectual property rights, new consumer products will be developed to enhance the value of the CACF national brand.



Progress to date

CEH has already taken a number of initiatives to assist CACF in achieving its objectives:

- Provided advice on electronic dealer-less poker tables to conduct tournaments with negotiations under way to license a back-end system to capture the customer loyalty profile.
- Formation of a technical team with expertise in online poker tournament events and competition on a commercial scale.
- The fit out of the first major flagship outlet (MEC) in Shanghai International F1 Racing Circuit for carrying out CACF charity poker tournaments has been completed. Another outlet in Suzhou Garden City has been identified with operational and funding issues under investigation.



Conclusion

The road ahead for SSI (through CEH) is an exciting one. The company has undergone a rapid developmental stage and is now ready to evolve to become a pan-China gaming and entertainment operator. With the concessions from various Government authorities, CEH now has a well-defined business plan to follow.

With adequate financial support, CEH will grow into one of the biggest entertainment and gaming companies in the region. The Memorandum of Cooperation with CACF which involves CEH assisting with the implementation of CACF's future plans, will prove to be an exceptionally valuable opportunity for CEH in its future business development and integral to the company positioning itself for national expansion.

CEH's strength lies not only in its capability to implement its strong business plan but also in management's ability to foresee and take first mover advantage of a rapidly evolving gaming market. The company's unique position in the Chinese gaming and entertainment industry makes it an attractive partner for any major international operator wishing to enter the Chinese market.

CEH has proven that it has the support and encouragement of the authorities whose objectives are to build a strong cash flow from gaming operations to fund welfare projects. The successful achievement of this objective will result in a profitable business outcome for CEH.