

27 February 2008

Mr Richard Li
Director
Sino Strategic International Limited
Level 2, 419 Collins Street
MELBOURNE VIC 3000

Dear Mr Li

Valuation of China Entertainment Holdings Limited

This report ("Report") has been prepared by BDO Kendalls Corporate Finance (NSW-VIC) Pty Ltd ("BDO Corporate Finance") for Sino Strategic International Ltd ("Sino" or the "Company") in connection with the valuation of the equity of China Entertainment Holdings Limited ("CEH") and the intangible assets of CEH acquired by Sino in November 2005. The Report has been prepared in accordance with our letter of engagement dated 21 January 2008 and attached terms and conditions.

This Report has been prepared solely for the directors of Sino to assess the potential value of CEH and to provide Sino with a valuation of the intangible assets of CEH. The intangible assets valuation will assist management in assessing the impairment of assets in accordance with Australian Accounting Standards Board 136 ("AASB 136") for financial statement reporting purposes. This Report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party other than professional investors and advisers of the Company without our express written consent that we may at our discretion grant, withhold or grant subject to conditions. BDO Corporate Finance accepts no duty of care to any third party for this Report. Accordingly regardless of the form of action, whether in contract, tort or otherwise, and to the extent permitted by applicable law, BDO Corporate Finance accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Report.

The information used by BDO Corporate Finance in preparing this Report has been obtained from a variety of sources as indicated within the Report. While our work has involved analysis of financial information and accounting records, it has not included an audit in accordance with generally accepted auditing

standards. Accordingly we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us by and on your behalf.

The management of Sino has reviewed a draft version of this report and has confirmed that the information provided to us is accurate and that no significant information essential to our Report has been withheld.

Budgets/forecasts/projections relate to future events and are based on assumptions which may not remain valid for the whole of the relevant period. Consequently, they cannot be relied upon to the same extent as information derived from audited accounts for completed accounting periods. For these reasons we express no opinion as to how closely the actual results achieved will correspond to those budgeted/forecasted/projected.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. For each intangible asset there is, therefore, no indisputable single value and we normally express our opinion as falling within a likely range. Although our conclusions are in our opinion reasonable and defensible, others might wish to argue for a different value.

If you require any clarification or further information, please do not hesitate to contact Phillip Rundle on (03) 8320 2140.

Yours faithfully
BDO Kendalls Corporate Finance (NSW-VIC) Pty Ltd



Phillip Rundle
Director

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1. Introduction

Key Points

- **Engaged by Sino**
- **Valuation date as at 31 December 2007**
- **Solely for internal use**
- **No audit or due diligence undertaken**

Scope and purpose of work

- BDO Corporate Finance has been engaged by Sino to assist management in assessing the potential value of CEH and to provide a valuation of the intangible assets in CEH. The purpose of the valuation of intangible assets is to assist the management in assessing the impairment of assets in accordance with AASB 136, for financial statement reporting purposes.
- We have undertaken the valuations of the acquired intangible assets in accordance with AASB 136.
- AASB 136 mandates a *fair value less costs to sell* or *value in use* approach.
 - > *Fair value less costs to sell* is defined as the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction less the costs of disposal.
 - > *Value in use* is the present value of the future cash flows expected to be derived from the asset.
- You have requested us to value the intangible assets at 31 December 2007.
- The scope of our engagement is set out in our engagement letter dated 21 January 2008.

Information

- We have considered and relied upon information provided by the management of Sino. We consider, on reasonable grounds, that this information is reliable and not misleading. In this regard, management has represented to us that all information (other than publicly available information) held by Sino that may influence our analysis has been provided to us and is accurate and complete.
- The key information we have received and used in our valuation is outlined in Appendix 1.
- We have discussed the assumptions made in the valuation with the management of Sino and they have confirmed to us that the assumptions are reasonable.

2. China Entertainment Holdings Ltd Overview

Key Points

- **CEH acquired by Sino in November 2005**
 - **CEH undertakes gaming business in China, including Keno Lotto, and Sports Lotto.**
 - **CEH expects to offer Sports Betting in March 2008.**
- China Entertainment Holdings Limited (“CEH”) is a wholly owned subsidiary of Sino and conducts gaming and entertainment operations in China.
 - CEH formerly known as Oriental Treasure Investment Limited was incorporated in April 2005 in the British Virgin Islands (“BVI”). The name was changed in May 2005.
 - CEH was acquired by Sino in November 2005.
 - CEH currently holds licences issued by Shanghai Welfare Lottery Issuance Centre (“SWLC”) and Shanghai Sports Lottery Administration Centre (“SSLA”) to conduct Keno, Lotto and Sports Lotto gaming activities.
 - These gaming activities are distributed by CEH’s network of 422 point of sales (POS) terminals network in Shanghai. Keno is carried through all POS terminals, however Lotto and Sports Lotto are currently not available in all terminals.
 - Management anticipates increasing the number of POS network terminals during the next 6 months to 600 terminals, the maximum allowable under its Keno licence. The number of terminals offering Lotto and Sports Lotto will also be increased in the short term to reach the maximum allowed under their respective licences.
 - CEH also anticipates that it will be able to offer Sports Betting in April 2008, when it is expected to be legalised by the Chinese Government. Once legalised, management expects to be able to offer Sports Betting through its existing POS locations.

2. China Entertainment Holdings Ltd Overview (Cont'd)

Key Points

- **Strong historical revenue growth**
- **Increased overheads and capex to support growth**
- **No income tax paid to date (on which carry forward losses are available)**

Historical performance

- The historical income statements of CEH and its subsidiaries are presented below:

	30 June 2006 6 months ¹ HKD'000	30 June 2007 12 months HKD'000	30 September 2007 3 months HKD'000
Revenue	923	5,880	2,385
Other revenue	333	2,919	35
Operating expenses	(16,804)	(57,303)	(13,338)
EBITDA	(15,548)	(48,504)	(10,918)
Depreciation and amortisation	(1,180)	(4,886)	(1,011)
Financing costs	(123)	(1,338)	(10)
Profit/loss before tax	(16,851)	(54,728)	(11,939)
Income tax	-	-	-
Net loss after tax	(16,851)	(54,728)	(11,939)

Source: CEH unaudited management accounts

¹ CEH commenced its commercial operations in January 2006 following its acquisition by Sino in November 2005

- CEH has experienced strong revenue growth. For the three 3 months ended September 2007, CEH has booked revenue of HK\$2.4 million, representing 41% of sales for the year ended June 2007. CEH's revenue growth has been driven by the increase in the number of POS terminals as well as an increase in the average volume of sales through each terminal.
- The growth in revenue has also resulted in an increase in operating expenses and depreciation.
- Other revenue in 2007 was primarily due to the disposal of CEH's investment in Sino Joy.
- Financing costs were higher in 2007 due to a mortgage over premises owned by CEH. In June 2007, CEH relocated to different premises, sold the premises and repaid the mortgage. Therefore CEH has no material external debt as at 30 September 2007.

2. China Entertainment Holdings Ltd Overview (Cont'd)

Key Points

- **CEH is financed by equity and related party liabilities**
- **Minimal working capital**

Financial Position

- The table below shows the financial position of the CEH as at 30 September 2007.

BALANCE SHEET	30/09/2007 HKD'000
Assets	
Cash at bank	8,254
Accounts receivable	165
Deposits and other receivables	29,196
Prepayments	3,998
Fixed assets	13,614
Goodwill (Endless Idea)	4,398
Total Assets	59,625
Liabilities	
Accounts payable	1,180
Provisions	2,047
Other current payables	3,703
Non current related party payables	23,525
Total Liabilities	30,455
Net Assets	29,170
Net Tangible Assets ¹	24,772

Source: CEH unaudited management accounts as at 30 September 2007

¹ Net tangible assets excludes the goodwill in relation to Endless Idea (refer below)

- We are advised that CEH requires minimal working capital in running its business operations.
- Deposits and other receivables are paid to secure POS terminals and gaming licences and are refundable should the POS terminals or gaming licences be returned.
- Goodwill in respect of Endless Idea relates to amounts paid to secure management rights for a media and internet operation. It is unrelated to the gaming operations.
- Other current payable relates to are loans and advances to third parties.
- Related party payables are non interest bearing and payable to entities within the Sino Group.

3. Valuation Methodologies

Key Points

- **Valuation approaches**
 - > Capitalisation of maintainable earnings
 - > **Discounted cash flow analysis**
 - > Asset based valuations
 - > Comparable market transactions

Valuation Methodologies

- There are four traditional methodologies for valuations. Traditional methodologies include:
 - > capitalisation of maintainable earnings;
 - > discounted cash flow analysis;
 - > asset-based valuations; and
 - > comparable market transactions.

We have considered the relevance of each of these methodologies prior to undertaking our valuation.

- Capitalisation of maintainable earnings is the capitalisation of the future maintainable earnings having regard to operating results, future growth prospects and key industry risk factors by an appropriate capitalisation rate that will reflect a purchaser's required rate of return, inherent risks and future growth expectations.
- Discounted cash flow valuations determine the present value of the net cash flows that are expected to be derived from future activities, recognising both the risk of their receipt and the time value of money.
- Asset-based valuations – in the absence of reliable forecasts for future cash flows or earnings, the net asset value of a company can be a reliable indicator of minimum value. The three primary asset-based methodologies include orderly realisation of assets basis, forced sale basis, and going concern basis.
- Comparable market transactions are based on research that is directly comparable to the company being valued. Valuation measures employed in the actual transaction can be utilised for the company valuation. The difficulty with this methodology is the sourcing of sufficient market information.

3. Valuation Methodologies (cont'd)

Key Points

- **DCF approach selected**

Our Approach

- We have selected the **Discounted Cash Flow methodology** as the basis of the valuation due to the requirements of AASB 136 which mandates the adoption of either a *fair value* or *value in use* approach.
- A *fair value* approach is not appropriate as there are no publicly available comparable market transactions in China for gaming licences or gaming businesses.
- The alternative valuation method permitted by AASB 136 is the *value in use* approach, which is in essence a discounted cash flow approach.
- The following steps have been applied in valuing CEH
 - > Value CEH as a whole entity (“entity value”);
 - > Value Keno and Lotto licences separately.
 - > Assume the fair value of CEH’s net tangible assets as at 30 September 2007 approximates their net book values as at the valuation date; and
 - > Determine the value of goodwill, being:
 - > Equity value of CEH
 - > *Less* value of the Keno and Lotto licences
 - > *Less* net tangible assets
- Management has indicated that the unaudited management accounts of CEH as at 31 December 2007 are not yet available, however management has represented that the net assets of CEH as at 31 December 2007 will not be materially different from its net asset position as at 30 September 2007. Accordingly we have considered CEH management accounts as at 30 September 2007 in our valuation assessment.

4. Valuation – CEH Equity

Key Points

- Assumptions underlying management forecasts attached as Appendix 2
- Significant uncertainties underlying the forecasts

CEH Equity Valuation

Discounted Cash Flow Approach

- **The valuation is based on forecasts and assumptions prepared by management.**
- There are significant uncertainties underlying the assumptions and the forecasts. This is due to two key factors:
 - > The lack of independent empirical market research regarding the legalised gaming industry in China; and
 - > Management's expectation that the Chinese Government will legalise Sports Betting which is currently illegal, and management's assumptions regarding the current size and future growth of the illegal Sports Betting market, and the rate of conversion of the illegal market into the legalised market.
- In this regard, management has represented to us that all information (other than publicly available information) held by the Sino that may influence our analysis has been provided to us and is accurate and complete.
- Whilst Sino is responsible for the financial projections provided to us, we have made appropriate enquiries of Sino management to determine whether there exists a reasonable basis for the assumptions underpinning the financial projections.
- **The achievement of the prospective results is not warranted or guaranteed by BDO Corporate Finance. Prospective results by their nature are uncertain and are dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly from the prospective information and any variations may affect our valuation.**

4. Valuation – CEH Equity (cont'd)

Key Points

- **The assumptions are based on management best estimates**
- **Forecasts cover a 10 year period**
- **Future growth rates reflect historical growth and management's assessment of the current market size and external information**
- **Future growth rates and market size projections for the Sports Betting market are based on management estimates**

Cash Flows

- Management's assumptions underlying the forecasts are attached as Appendix 2. Key assumptions include:
 - > 10 year forecast period. This is in excess of the 5 year period that is recommended in AASB 136. However, management has advised that the 10 year forecast period provides a more accurate outline of the expected future growth in the business and this approach was adopted in the impairment test performed as part of the preparation of the audited 2007 annual financial reports. Accordingly, we have accepted the 10 year forecast period for the purposes of this valuation.
 - > Growth rates for gaming markets for the next ten years reflect historical growth rates.
 - > Estimates of the size of the illegal Sports Betting market, the rate of growth and conversion of the illegal market into the legalised market as outlined in Appendix 2.
 - > Operating expenses and overheads based on actual expenses for the 6 months ended December 2006.
 - > Hong Kong Dollar (HKD) to Australia Dollar (AUD) exchange rate of 7.00.
 - > No substantial working capital is required to support the growth in the business as the gaming business operates on a cash basis. However, we note that significant capital expenditure is required to fund the increasing number of POS network terminals and initiating the sports betting business. The estimated capital expenditure for 2008 and 2009 is forecast to be RMB12.2 million and RMB57.3 million respectively.
- Management has agreed to the following adjustments to the assumptions:
 - > Operating expenses and overheads based on actual expenses incurred during the 3 months ended September 2007.
 - > Actual HKD to AUD and RMB to AUD exchange rates as at the date of the valuation, being 6.8428 and 6.41250¹ respectively.

¹ Source: oanda.com
Commercial-in-Confidence

4. Valuation – CEH Equity (cont'd)

Key Points

- **Discount rate is based on WACC**
- **Post tax discount rate is 14.00% to 15.00%**
- **Pre tax discount rate is 16.14% to 17.31%**
- **Terminal value is based on 4.5% growth**

- > Carry forward tax credits are available on CEH's accumulated losses to date.

Discount Rate

- In determining the discount rate used, we have applied the Weighted Average Cost of Capital ("WACC"). The WACC weights the risk adjusted returns required by the company's shareholders and debt providers by the respective proportions of equity and debt in the company's capital structure.
- We have applied a post tax discount rate of 14% to 15% in valuing CEH and its intangible assets. The equivalent pre tax discount rate is 16.14% to 17.31%
- The detailed calculation of the discount rate is set out in Appendix 3.

Terminal Value

- In order to determine the terminal value growth rate, we have considered:
 - > The current and medium term forecast nominal GDP growth of China is expected to remain strong at or in excess of 8%².
 - > Management's forecast growth rates for the gaming industry are significantly greater than forecast GDP growth.
 - > The medium term forecast for inflation in China is approximately 3%³.
- Considering the above factors, we have adopted the terminal growth rate of 4.5%.

Surplus Assets/ (Liabilities)

Surplus assets/(liabilities) represent those assets/(liabilities) that are not required by CEH to continue to realise its principle source of earnings, and any income from which is not reflected in the cash flow forecasts.

² IBISWorld, 20 December 2007

³ Source: The Economist Intelligence Unit, Country Forecast – China, June 2007
Commercial-in-Confidence

4. Valuation – CEH Equity (cont'd)

Key Points

- **The potential equity value of CEH is in the range of \$788 million to \$905 million as at 31 December 2007**

Surplus Assets/ (Liabilities) (Cont'd)

- We note that as at 30 September 2007 CEH has a liability to its related party of approximately \$23.5 million. We are advised that the liability does not bear any interest. Accordingly, we have considered it as part of the equity of CEH.
- Management has represented that there are no surplus assets held by CEH as at 30 September 2007.

CEH Equity Valuation

- Based on the assumptions above, we have determined the potential equity value of CEH as at 31 December 2007, which is summarised in the table below.

Equity Value	Low Value '000	High Value '000
Potential Equity value of CEH – RMB	5,053,119	5,802,670
Exchange rate	6.4125	6.4125
Potential Equity value of CEH – AUD	788,012	904,900

- The potential equity value of CEH is in the range of \$788 million to \$905 million.
- A detailed calculation of the CEH Equity Valuation is provided in Appendix 4.

5. Valuation – Keno and Lotto Licence

Key Points

- **The value of the Keno and Lotto licence is in the range of \$66.9 million to \$77.2 million**

Keno and Lotto Licence Valuation

- Management has indicated that the “gaming licence” intangible asset recorded in the financial report of Sino relates to the welfare Keno and Lotto licence, as CEH did not hold any other gaming licences at the time that it was acquired by Sino.
- In valuing the Keno and Lotto licence we have adopted management’s assumptions and the same terminal value growth rate and discount rate as adopted to value the equity of CEH.
- The table below summarises the valuation of the CEH’s Keno and Lotto licence as at 31 December 2007.

Keno and Lotto Licence	Low Value '000	High Value '000
Value of Keno and Lotto licence – RMB	428,938	494,921
Exchange rate	6.4125	6.4125
Value of Keno and Lotto licence – AUD	66,891	77,181

- The conversion of value of the Keno and Lotto licence from RMB to Australian Dollars is for illustrative purposes only. Under AASB 136, the assessment of the impairment of the Keno and Lotto licence should be undertaken in the functional currency (Hong Kong Dollars).
- As a cross check, we have assessed Sino’s volume weighted average price (“VWAP”) and market capitalisation for the last three months.
 - > During that period Sino’s share price has fluctuated significantly with the highest VWAP of \$1.85 on 16 November 2007. Sino’s average market capitalisation for the last three months is approximately \$72 million.
 - > The shares are currently trading at a VWAP of approximately \$0.80.
 - > Based on our assessment, there are no public company announcements which directly supported the fluctuation of Sino’s share price, however we note that the recent share market turmoil has had a negative impact on Sino’s share price.

5. Valuation – Keno and Lotto Licence (cont'd)

Key Points

- Value of the Keno and Lotto licence is sensitive to discount rate adopted
- It is also sensitive to the terminal growth rate, to a lesser extent

- > We further note that the current market capitalisation may not capture the potential value from other gaming activities recently introduced, i.e. Sports Lotto or Sports Betting, which is to commence in April 2008.
- > On this basis, we consider the recent market capitalisation reflects Sino's value based only on the Keno and Lotto businesses, as the other segments of Sino are not making a positive contribution to the financial performance of Sino.
- > Based on an average market capitalisation for the last three months of some \$72 million and our assessed value of the Keno and Lotto licence of \$67 million to \$77 million, we consider that our valuation range of the Keno and Lotto licence is not unreasonable.

- A detailed valuation of the Keno and Lotto Licence is provided in Appendix 5.

Sensitivities - Keno and Lotto Licence Valuation

- Set out below is a sensitivity analysis reflecting changes to discount rate and terminal growth rates.

Sensitivity	Pre tax discount rate	Terminal Growth Rate	Keno and Lotto License Value AUD'000	Difference to the High Case AUD'000
High case	16.14%	4.5%	77,181	-
Low case	17.31%	4.5%	66,891	(10,290)
1	14.00%	4.5%	103,309	26,128
2	15.00%	4.5%	89,677	12,496
3	16.00%	4.5%	78,581	1,400
4	17.00%	4.5%	69,402	(7,779)
5	18.00%	4.5%	61,703	(15,478)
6	19.00%	4.5%	55,169	(22,011)
7	16.14%	3.0%	71,516	(5,664)
8	16.14%	4.0%	75,137	(2,044)

- The sensitivity scenarios selected above have been made on an arbitrary basis for illustrative purposes only and are not intended to extend the range of our valuation.

6. Valuation – CEH Goodwill

Key Points

- **Goodwill is valued to be in a range of \$717 million to \$824 million**

Goodwill Valuation

- The table below summarises the valuation of the goodwill arising from Sino’s acquisition of CEH as at 31 December 2007.

	31/12/2007 Low Value '000	31/12/2007 High Value '000
Potential Equity value of CEH¹ - RMB	5,053,119	5,802,670
Less CEH net assets per management accounts ^{1,2} - HKD	24,772	24,772
- Converted to RMB	23,224	23,224
Less value of Keno and Lotto licence - RMB	428,938	494,921
Estimated goodwill value – RMB	4,600,957	5,284,525
Exchange rate	6.4125	6.4125
Estimated goodwill value – AUD	717,498	824,097

¹ Unaudited management accounts as at 30 September 2007.

² Net tangible assets is based on net assets as at 30 September 2007. (refer to section 2)

- The conversion of goodwill to Australian Dollars is for illustrative purposes only. AASB 136 mandates that calculation and assessment of the impairment of goodwill is to be calculated in the currency applicable to the CEH acquisition (Hong Kong Dollars).
- Our valuation of goodwill above is an estimate only as it is based on the net assets of CEH as at 30 September 2007. Management has indicated that the net assets of CEH as at 31 December 2007 have not been finalised at the date of this Report, however, we are advised that there has been no material changes in the past 3 months.

7. Summary

Summary

- The valuation is based on forecasts and assumptions prepared by management and there are significant uncertainties underlying the assumptions and the forecasts.
 - > Whilst Sino is responsible for the financial projections provided to us, we have made appropriate enquiries of Sino management to determine whether there exists a reasonable basis for the assumptions underpinning the financial projections.
 - > **The achievement of the prospective results is not warranted or guaranteed by BDO Corporate Finance. Prospective results by their nature are uncertain and are dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly from the prospective information and any variations may affect our valuation.**
- The values generated are also based on the assumption that CEH is able to obtain the additional equity of approximately RMB 120 million in 2008 and 2009 to fund the projected growth in the business.
- The potential value of CEH, CEH's Keno and Lotto licence and CEH goodwill are summarised in the following table:

	31/12/2007 Low Value	31/12/2007 High Value
CEH potential equity value (RMB million)	5,053	5,803
CEH potential equity value (AUD'million)	788	905
Keno and Lotto licence (RMB million)	429	495
Keno and Lotto licence (AUD'million)	67	77
Goodwill (RMB million)	4,601	5,285
Goodwill (AUD'million)	718	824

Appendix 1 - Sources of Information

The key information we have received and used in our valuation includes:

- Management forecasts (incorporating management's assumptions)
- CEH Management accounts as at 30 September 2007
- Oanda.com – current and historical exchange rates
- IBISWorld Business Environment Report - GDP Growth - China (Mainland): A3131, 20 December 2007
- The Economist Intelligence Unit, Country Forecast – China, June 2007
- *Koller, Goedhart, Wessel, Valuation*, 4th Edition, McKinsey & Company, Chapter 25, “Estimating the cost of capital in emerging markets”
- Bloomberg – comparable company financial information and government bond rates
- Australian Graduate School of Management (AGSM) – Centre for Research in Finance, Risk Measurement Service, September 2007

Appendix 2 - Management Assumptions Underlying the Forecasts

General

HKD/AUD exchange rate		6.8423
RMB/AUD exchange rate		6.4125
RMB/USD exchange rate		7.3141
HKD/RMB exchange rate		0.9375
Currency (except stated)		RMB
Inflation		3%
Business tax		5%
Tax rate - Welfare		0%
Tax rate - other		(25% from FY2 onwards)
Depreciation & Amortization		5 year straight line
Welfare Keno commission rate	*2	7.0%
Welfare Lotto commission rate	*2	7.0%
Sports Lotto commission rate		7.0%
Sports Betting commission rate		7.0%
Terminal growth rate - all operations		4.50%
Hong Kong Head Office Expenses per annum	*3	17,441,908
Sino Group (excluding China, Hong Kong and GCN) Expenses per annum	*4	10,162,879

Welfare Keno & Welfare Lotto Assumptions

Costs

Per POS fitout cost		20,528
Security Deposit - KENO		30,000
Security Deposit - Lotto		6,000
ShiShiLi terminal		10,000
Telephone equipment per terminal		1,600
Number of Keno licenses		600
Number of lotto licenses		300
Number of Shi Shi Li licenses	*5	200
Number of staff per POS		2
Wages per staff per annum	*3	14,926
Utilities per annum	*3	6,899
Rental per annum	*3	28,678
Other expenses per annum	*3	6,927

Ramp-up Schedule

Keno		Now	Target
Total number of Keno POS		425	600
Ramp-up Schedule		6 months	
Average Monthly Sales per POS	*6	10,894	12,110
Projected Growth Schedule		24 months	
CEH growth rate per annum - until achieving market average sales over 24 months		5.30%	
Lotto		Now	Target
Total number of Lotto POS		222	300
Ramp-up Schedule		6 months	
Average Monthly Sales per POS	*6	7,765	146,484
Projected Growth Schedule		24 months	
CEH growth rate per annum - until achieving market average sales over 24 months		156%	
SSL		Now	Target
Total number of SSL POS		187	200
Ramp-up Schedule		6 months	
cost apportion to welfare operation (Welfare Commission/Total Commission) - %	*6	7,939	29,297
cost apportion to welfare operation (Welfare Commission/Welfare + Sports Lotto) - %		24 months	
CEH growth rate per annum - until achieving market average sales over 24 months		67%	

Appendix 2 - Management Assumptions Underlying the Forecasts (Cont'd)

	CY0	CY1	CY2	CY3	CY4	CY5	CY6	CY7	CY8	CY9	CY10	CY11	
Macro Assumptions													
Total Shanghai Welfare Lotto Market (CY0 = 2006 Actual)	1,600,000,000	2,000,000,000	2,500,000,000	3,125,000,000	3,906,250,000	4,882,812,500	5,664,062,500	6,570,312,500	7,621,562,500	8,841,012,500	10,255,574,500	10,717,075,353	
Growth rate per annum - Y1 to Y5	25%												
Growth rate per annum - Y6 to Yr10	16%												
Total Number of POS	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	
Total Shanghai Welfare Keno Market (CY0 = 2006 Actual)	*7	80,000,000	92,800,000	107,648,000	124,871,680	144,851,149	168,027,333	194,911,706	226,097,579	262,273,191	304,236,902	352,914,806	368,795,973
Growth rate per annum - Y1 to Y5	16%												
Growth rate per annum - Y5 to Yr10	16%												
Number of Keno POS	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	
Revenue per Keno license per annum	80,000	92,800	107,648	124,872	144,851	168,027	194,912	226,098	262,273	304,237	352,915	368,796	
Sino share of Keno market	*8	75%											
Revenue per Sino Keno license per annum	*8	100,000	116,000	134,560	156,090	181,064	210,034	243,640	282,622	327,841	380,296	441,144	460,995
Sports Lotto Assumptions													
Costs													
Security deposits per licence	20,000												
Lotto Equipment	10,000												
Installation cost per POS	5,000												
Ramp-up Schedule													
Total number of Lotto POS		Mth5	Total										
Ramp-up Schedule - months		200	600										
Average Monthly Sales per POS		12	Target										
Time to achieve target - months	*6	Now	39,192										
		-											
		24											
Macro Assumptions													
Total Shanghai Sports Lotto Market (CY0 = 2006 Actual)	730,000,000	846,800,000	982,288,000	1,139,454,080	1,321,766,733	1,533,249,410	1,778,569,316	2,063,140,406	2,393,242,871	2,776,161,731	3,220,347,607	3,365,263,250	
Growth rate per annum - Y1 to Yr10	16.00%												
Total Number of Sports Lotto POS	1,600	1,833	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	
New No of CEH-owned POS	0	233	367	0	0	0	0	0	0	0	0	0	
Total No of CEH-owned POS	-	233	600	600	600	600	600	600	600	600	600	600	
Sports Betting Assumptions													
Sports Betting Security Deposit	100,000												
Computer Equipment Cost	45,000												
Telephone equipment Cost	3,200												
Number of staff per POS	2												
Wages per staff p.a.	*3	13,592											
Macro-Specific Assumptions													
Illegal Shanghai soccer betting market	*11	CY0	CY1	CY2	CY3	CY4	CY5	CY6	CY7	CY8	CY9	CY10	CY11
				87,769,200,000	95,668,428,000	104,278,586,520	113,663,659,307	123,893,388,644	135,043,793,622	147,197,735,048	160,445,531,203	174,885,629,011	182,755,482,317
Growth rate per annum - Yr1 to Yr10		9%											
Share of legal market as percentage of illegal market				5%	10%	15%	20%	25%	30%	35%	40%	45%	45%
Size of legal Shanghai soccer betting market				4,388,460,000	9,566,842,800	15,641,787,978	22,732,731,861	30,973,347,161	40,513,138,087	51,519,207,267	64,178,212,481	78,698,533,055	82,239,967,042
Total Number of Sports Betting POS	*12			1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050	1,050
New No of CEH-owned POS				300	-	-	-	-	-	-	-	-	-
Total No of CEH-owned POS				300	300	300	300	300	300	300	300	300	300

Note: Cashflow and revenue forecast start as of July 2007 (FY) and are derived from calendar year based (CY) macro/market statistics and assumptions.

*2: 6.5% sales commission + 1% commission on prize paid, approximate to 7% of sales.

*3: Figures derived from actual 2H06 numbers.

*4: Figures derived from actual CY06 numbers, excluding share option expenses.

*5: Shi Shi Li (SSL) is one of five games offered by Welfare Lotto; it is assumed that revenue generated from SSL is 20% of Welfare Lotto.

*6: Target sales is derived by dividing the estimated market size at end of ramp-up period by the total number of outlets

*7: CY1 Keno estimates provided by SWLC.

*8: Based on CEH's current actual Keno market share of 75%.

*9: Figures derived actual CY07 numbers; F1 currently enjoys a rental holiday for 3 years.

*10: Target sales based on average daily VLT sales across China as per ChinaLot Synergy 1Q07 report.

*11: China's illegal sports betting market is estimated at US\$10 billion per month. Shanghai is estimated to account for 10% of total illegal market in China.

*12: Of the current 1,500 POS, half are estimated to be street vendors, which are not in a position to distribute soccer betting. Plus CEH's 300 permits will give a total of 1,050 permits

Appendix 3 - Discount Rate Calculation

WACC

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital ("WACC").

The WACC is calculated using the following formula:

$$WACC = (E/V)(Ke) + (D/V)(Kd)(1-tc)$$

Where:

Ke	=	cost of equity capital
Kd	=	cost of debt
tc	=	corporate tax rate, being 30%
E/V	=	proportion of company funded by equity
D/V	=	proportion of company funded by debt

Cost of Equity Capital (Ke)

Ke is the rate of return that investors require to make an equity investment in a firm. We have used the Capital Asset Pricing Model ("CAPM") to estimate the Ke for the Company. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital. The cost of equity capital under CAPM is determined using the following formula:

$$Ke = Rf + \beta (Rm - Rf)$$

The components of the formula are:

Ke	=	required return on equity
Rf	=	the risk free rate of return
Rm	=	the expected return on the market portfolio
Rm-Rf	=	the equity market risk premium
β	=	beta, the systematic risk of a stock which can be objectively measured by the responsiveness of company returns to movements in returns earned on the market portfolio

Appendix 3 - Discount Rate Calculation (Cont'd)

Each of the components in the above equation is discussed below:

Risk Free Rate (R_f)

Theoretically, the nearest approximation of the risk-free rate should be the rate on the Chinese Government borrowing instrument that matches the life of the cash flows being valued.

We have selected a risk-free rate of 4.31%, representing the 10-year Chinese Government bond rate at 30 January 2008.

Equity Market Risk Premium (EMRP)

EMRP represents the long-term average return on the average market basket of equities over the risk-free rate, and is highly sensitive to the period of observation chosen.

For the purpose of our assessment, we have adopted a risk premium for the Chinese market of 8%.

Beta Estimate (B)

The beta coefficient measures the systematic risk of a company in comparison to the market as a whole. A beta of greater than one indicates greater market related risk than average, while a beta of less than one indicates less risk than average.

In determining an appropriate beta in valuing CEH we have considered the betas for listed companies in the gaming industry. We are advised that CEH does not utilise external debt funding and management does not expect that debt funding will be required during the forecast period. On this basis we have applied a beta of 0.85 in valuing CEH and its intangible assets.

Appendix 3 - Discount Rate Calculation (Cont'd)

Company specific risk premium

The specific company risk premium adjusts the cost of equity for company specific factors.

- We have considered the following in our assessment of the company specific risk premium:
 - > The historical under performance of CEH against budget;
 - > The lack of empirical research for the legalised gaming market in China;
 - > The lack of information regarding the illegal Sports Betting market in China with no empirical research being available;
 - > The long term (10 year) nature of the forecasts;
 - > Operational risk. Historical market growth rates may not be reflective of growth rates for the next 10 years and CEH may not be able to maintain its current share of the gaming market;
 - > Political risk;
 - > Legal risk around the various gaming licences;
 - > Currency risk; and
 - > Sovereign risk.
- On the basis of the above, we have adopted a specific company risk premium in the range of 3% to 4%.

Calculation of WACC

Based on the above, the cost of equity for CEH is the same as the cost of debt and we have assessed the nominal post-tax WACC for the Company to be 14.0% to 15.0%. The equivalent pre tax discount rate is 16.14% to 17.31%

Appendix 4 - CEH Equity Valuation

Sino Strategic International Limited													
Discounted Cash Flow Method (Pre Tax)													
CEH Valuation - Entire Business													
4.5% terminal growth, exchange rates at 31/12/07, Sept 07 actual costs													
In RMB, except where noted													
31/12/2007													
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Normalised End of Period	Terminal Value
Forecast Revenue													
Keno		5,313,830	5,958,052	7,080,224	8,213,060	9,527,150	11,051,494	12,819,733	14,870,890	17,250,232	18,944,908		18,944,908
Lotto		6,502,761	24,269,776	52,294,922	65,368,652	78,442,383	90,993,164	105,552,070	122,440,402	142,030,866	155,984,083		155,984,083
Sports Lotto		1,463,179	11,553,019	25,342,286	27,252,427	31,612,815	36,670,866	42,538,204	49,344,317	57,239,407	62,862,649		62,862,649
Sports Betting		-	139,553,028	252,086,308	383,745,198	537,060,790	714,864,852	920,323,454	1,156,974,197	1,428,767,455	1,609,385,001		1,609,385,001
Total Revenue		13,279,770	181,333,875	336,803,740	484,579,338	656,643,138	853,580,376	1,081,233,461	1,343,629,806	1,645,287,961	1,847,176,641		1,847,176,641
Forecast expenses													
Business tax		663,988	9,066,694	16,840,187	24,228,967	32,832,157	42,679,019	54,061,673	67,181,490	82,264,398	92,358,832		92,358,832
Wages		16,823,328	26,604,219	27,402,345	28,224,416	29,071,148	29,943,282	30,841,581	31,766,828	32,719,833	33,701,428		33,701,428
Rent		16,161,344	17,723,109	18,254,802	18,802,447	19,366,520	19,947,516	20,545,941	21,162,319	21,797,189	22,451,104		22,451,104
Utilities		3,887,658	4,263,345	4,391,245	4,522,982	4,658,672	4,798,432	4,942,385	5,090,657	5,243,376	5,400,678		5,400,678
Other CEH overheads		3,903,821	4,281,070	4,409,503	4,541,788	4,678,041	4,818,383	4,962,934	5,111,822	5,265,177	5,423,132		5,423,132
Corporate overheads		27,604,787	28,432,930	29,285,918	30,164,496	31,069,431	32,001,513	32,961,559	33,950,406	34,968,918	36,017,985		36,017,985
EBITDA		55,765,156	90,962,508	236,219,740	374,094,243	534,967,169	719,392,231	932,917,388	1,179,366,283	1,463,029,070	1,651,823,482		1,651,823,482
Depreciation (not included in free cash flows)		3,920,528	7,912,528	7,912,528	7,912,528	5,495,614	3,992,000						
Subtotal		55,765,156	90,962,508	236,219,740	374,094,243	534,967,169	719,392,231	932,917,388	1,179,366,283	1,463,029,070	1,651,823,482		1,651,823,482
CAPEX		12,184,737	57,293,333										
Free Pre Tax Cash flows		67,949,893	33,669,174	236,219,740	374,094,243	534,967,169	719,392,231	932,917,388	1,179,366,283	1,463,029,070	1,651,823,482		1,651,823,482
HIGH VALUE													
Periods Discounting		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.00	
WACC (Pre Tax Equivalent)	16.14%												
Present Value Factor		0.9279	0.7990	0.6879	0.5923	0.5100	0.4391	0.3781	0.3255	0.2803	0.2413	0.2239	
Perpetuity Value													
Terminal Growth													4.50%
WACC (Pre Tax Equivalent)													16.14%
Terminal Value													14,828,020,379
Present Value of Cash Flows	2,482,035,638	(63,051,536)	26,900,054	162,498,989	221,579,355	272,828,158	315,894,158	352,722,229	383,930,082	410,081,503	398,652,647		3,320,634,577
Present Value of Terminal Value	3,320,634,577												
Enterprise Value - RMB	5,802,670,216												
LOW VALUE													
Periods Discounting		0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.00	
WACC (Pre Tax Equivalent)	17.31%												
Present Value Factor		0.9233	0.7871	0.6709	0.5719	0.4876	0.4156	0.3543	0.3020	0.2575	0.2195	0.2026	
Perpetuity Value													
Terminal Growth													4.50%
WACC (Pre Tax Equivalent)													17.31%
Terminal Value													13,477,421,212
Present Value of Cash Flows	2,322,007,687	(62,737,240)	26,499,786	158,489,081	213,962,394	260,829,566	298,998,284	330,536,485	356,203,505	376,682,723	362,543,101		2,731,111,579
Present Value of Terminal Value	2,731,111,579												
Enterprise Value - RMB	5,053,119,266												

Appendix 5 - Keno and Lotto Licence Valuation

Sino Strategic International Limited													
Discounted Cash Flow Method (Pre Tax)													
CEH Valuation - Keno and Lotto Segment													
4.5% terminal growth, exchange rates at 31/12/07, Sept 07 actual costs													
In RMB, except where noted													
31/12/2007													
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Normalised End of Period	Terminal Value
Forecast Revenue													
Keno		5,313,830	5,958,052	7,080,224	8,213,060	9,527,150	11,051,494	12,819,733	14,870,890	17,250,232	18,944,908	18,944,908	18,944,908
Lotto		6,502,761	24,269,776	52,294,922	65,368,652	78,442,383	90,993,164	105,552,070	122,440,402	142,030,866	155,984,083	155,984,083	155,984,083
Total Revenue		11,816,591	30,227,828	59,375,146	73,581,712	87,969,533	102,044,658	118,371,803	137,311,292	159,281,098	174,928,991	174,928,991	174,928,991
Forecast expenses													
Business tax		590,830	1,511,391	2,968,757	3,679,086	4,398,477	5,102,233	5,918,590	6,865,565	7,964,055	8,746,450	8,746,450	8,746,450
Wages		14,969,716	13,347,627	13,318,137	14,282,726	14,830,345	15,275,255	15,733,512	16,205,518	16,691,683	17,192,434	17,192,434	17,192,434
Rent		14,380,670	2,954,391	3,218,140	2,855,087	2,594,505	2,384,705	2,249,339	2,162,668	2,110,196	2,126,136	2,126,136	2,126,136
Utilities		3,459,311	710,687	774,133	686,799	624,116	573,648	541,085	520,236	507,614	511,448	511,448	511,448
Other CEH overheads		3,473,694	713,642	777,351	689,655	626,710	576,033	543,335	522,399	509,724	513,575	513,575	513,575
Corporate overheads		24,563,262	4,739,687	5,162,816	4,580,375	4,162,327	3,825,748	3,608,582	3,469,538	3,385,357	3,410,930	3,410,930	3,410,930
EBITDA		- 49,620,892	6,250,403	33,155,812	46,807,984	60,733,054	74,307,037	89,777,361	107,565,368	128,112,469	142,428,019	142,428,019	142,428,019
Depreciation (Information only and is not taken into account)		3,220,528	7,912,528	7,912,528	7,912,528	5,495,614	3,992,000						
Subtotal		- 49,620,892	6,250,403	33,155,812	46,807,984	60,733,054	74,307,037	89,777,361	107,565,368	128,112,469	142,428,019	142,428,019	142,428,019
CAPEX		4,018,070											
Free Pre Tax Cash flows		- 53,638,962	6,250,403	33,155,812	46,807,984	60,733,054	74,307,037	89,777,361	107,565,368	128,112,469	142,428,019	142,428,019	142,428,019
HIGH VALUE													
Periods Discounting			0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.00
WACC (Pre Tax Equivalent)													
Present Value Factor			0.9279	0.7990	0.6879	0.5923	0.5100	0.4391	0.3781	0.3255	0.2803	0.2413	0.2239
Perpetuity Value													
Terminal Growth													4.50%
WACC (Pre Tax Equivalent)													16.14%
Terminal Value													1,278,541,922
Present Value of Cash Flows	208,600,502	(49,772,248)	4,993,772	22,808,364	27,724,786	30,973,279	32,629,152	33,943,489	35,016,755	35,909,439	34,373,713	286,320,790	8.977
Present Value of Terminal Value	286,320,790												
Value of Gaming Rights - RMB	494,921,293												
LOW VALUE													
Periods Discounting			0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.00
WACC (Pre Tax Equivalent)													
Present Value Factor			0.9233	0.7871	0.6709	0.5719	0.4876	0.4156	0.3543	0.3020	0.2575	0.2195	0.2026
Perpetuity Value													
Terminal Growth													4.50%
WACC (Pre Tax Equivalent)													17.31%
Terminal Value													1,162,086,886
Present Value of Cash Flows	193,449,064	(49,524,146)	4,919,466	22,245,533	26,771,726	29,611,118	30,883,954	31,808,490	32,487,923	32,984,822	31,260,178	235,489,334	8.159
Present Value of Terminal Value	235,489,334												
Value of Gaming Rights - RMB	428,938,398												