
THE BUSINESS OF LOTTERY AND GAMING IN CHINA

**Authors: LI Gang, LIU Ding, LU Yang,
FANG Yanping, GAO Bin, MA Ying**

A SportBusiness Group Report

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

Published May 2008

© 2008 SportBusiness Group Ltd

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the permission of the publisher.

The information contained in this publication is believed to be correct at the time of going to press. While care has been taken to ensure that the information is accurate, the publishers can accept no responsibility for any errors or omissions or for changes to the details given.

Readers are cautioned that forward-looking statements including forecasts are not guarantees of future performance or results and involve risks and uncertainties that cannot be predicted or quantified and, consequently, the actual performance of companies mentioned in this report and the industry as a whole may differ materially from those expressed or implied by such forward-looking statements.

Authors: LI Gang, LIU Ding, LU Yang, FANG Yanping, GAO Bin and MA Ying

Publisher: Philip Savage

Sub-editor: Linda Buskell

Design: Character Design

Production Assistant: Craig Young

Published by SportBusiness Group Ltd

SportBusiness Group Ltd is a wholly-owned subsidiary of Electric Word plc

Registered office: 33-41 Dallington Street, London EC1V 0BB

Tel. +44 (0)207 954 3515

Fax. +44 (0)207 954 3511

Registered number: 3934419

ISBN: 978-1-904308-28-7

Table of Contents

Author Profiles	13
Executive Summary	15
1. The History and Development of the Chinese Lottery Industry	19
1.1 Introduction	19
1.2 The History of the Lottery in China	19
1.3 The Policy Environment	20
1.3.1 The Lottery Issuing Policy of the Chinese Government	20
1.3.2 The Administrative Structure of the Chinese Lottery Industry	21
1.3.3 The Monopolistic Nature of China's Lottery Industry	22
1.4 Public Welfare Projects	23
1.5 The Sports Lottery Public Welfare Fund	23
1.5.1 Distribution of Sports Lottery Sales Revenue	23
1.5.2 The Use of the Sports Lottery Public Welfare Fund	23
1.6 The Welfare Lottery Public Welfare Fund	23
1.6.1 The Distribution of Welfare Lottery Sales Revenue	23
1.6.2 The Welfare Lottery Funding Strategies	24
1.7 The Development of the Sports Lottery	24
1.7.1 The History of the Sports Lottery	24
1.7.2 China Sports Lottery Game Formats	25
1.8 The Development of the Welfare Lottery	26
1.8.1 The History of the Welfare Lottery	26
1.8.2 China Welfare Lottery Game Formats	26
2. Lottery Administration and Management	29
2.1 Introduction	29
2.2 Sports Lottery Structure, Issuing and Sales System	29
2.2.1 The China Sports Lottery (CSL) Administration Centre	29
2.2.2 Sports Lottery Distribution	30
2.2.3 Lottery Machines	30
2.3 Welfare Lottery Issuing and Sales Systems	30
2.3.1 The Administrative Structure of the China Welfare Lottery (CWL)	30
2.3.2 The Welfare Lottery Issuing System	31

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

2.4	Senior Management/Sales Performance	31
2.5	Personnel Issues	32
2.6	New Initiatives	33
2.7	Transformation	33
2.8	Industry Experts?	33
3.	The Lottery Market and Sales and Distribution Mechanisms	35
3.1	Demographic Trends and Variations	35
3.2	Sports Lottery Sales	35
3.3	Welfare Lottery Sales	37
3.4	Regional Structure	38
3.5	Market Size of the Major Regions	38
3.5.1	Guangdong Province	38
3.5.2	Beijing	38
3.5.3	Shandong Province	39
3.5.4	Liaoning Province	39
3.5.5	Sichuan Province	39
3.5.6	Hubei Province	40
3.6	Moves towards Diversity by the China Welfare Lottery	40
3.7	The Development of New Lottery Games in China	41
3.7.1	Fixed-Odds Football Lottery (Single Match Bet)	41
3.7.2	China Welfare Lottery Online	41
3.7.3	Happy-8 (Keno)	42
3.7.4	Lucky Seven	43
3.8	The Horse Racing Lottery	43
3.8.1	The History of Horse Racing in China	43
3.8.2	The Horse Racing Lottery in Beijing and Wuhan	44
3.8.2.1	Horse Racing in Wuhan	44
3.8.2.2	Horse Racing in Beijing	44
3.8.3	The Development of the Horse Racing Lottery	44
3.8.4	Welfare Principles	45
4.	The Chinese Lottery in the Modern Age	47
4.1	Mobile Phone Value-added Lottery Services	47
4.2	The Mobile Lottery in China	47
4.2.1	The Two Mobile Models	47
4.2.2	The Challenges for the Mobile Lottery	48

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

4.2.3	The Natural Advantages of a Mobile Lottery	48
4.2.4	The Future of the Mobile Lottery	49
4.3	The Integration of the Chinese Lottery and the Internet	49
4.3.1	The Online Lottery Joint-purchase Platform and Agency	49
4.3.2	The Advantages of the Online Joint-purchase Agency	50
4.3.3	The Business Environment for the Online Joint-purchase Agency	50
4.4	Number-Reducing Software	51
4.5	Number-Selection Software	51
4.6	Publications	51
4.7	Lecture Programmes	52
5.	Lottery-Related Studies	53
5.1	Research into Chinese Lottery Customers	53
5.1.1	The Mind-set and Psychology of the Lottery Player	53
5.1.2	Sociological Studies of Lottery Players and Social Status	53
5.2	Media Studies	53
5.2.1	Magazine, Press and News Media	54
5.2.2	Internet Media	54
5.2.3	Illegal Publications	54
5.2.4	Future Media Trends	55
5.3	Academic Studies	55
5.3.1	Academic Research	55
5.3.2	Co-operation with International Academic Research Organisations	55
5.3.3	Numerical Research Methodologies	56
5.4	The Government's Strike on Illegal Prediction Activities	56
5.5	Appeals for the Legalisation of Gambling	56
5.5.1	The Institute of Law	57
5.5.2	The Current Situation	57
6.	Future Development of the Lottery Industry	59
6.1	Drivers of and Brakes on the Development of the Chinese Lottery Market	59
6.1.1	Driving Forces	59
6.1.2	Demand Analysis	59
6.1.3	Other Benefits Brought to the Country by the Chinese Lottery	59
6.1.4	Obstacles to the Development of the Chinese Lottery Industry	60
6.1.5	The Impact of Underground Gambling on the Chinese Lottery Industry	60
6.1.6	The Unintended Consequences of the Competitive Market	61

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

6.1.7	The Negative Effects of the Lottery	61
6.1.8	The Conservative Nature of Chinese Lottery Administration	62
6.2	International Lottery Industry Trends	62
6.3	Market Growth Estimates	62
6.4	The Lottery Industry and Underground "Gangs"	63
6.5	The Impact of the 2008 Beijing Olympics	63
6.5.1	The Opportunities Brought by the Beijing Olympics	63
6.5.2	Forecast on the Olympics Lottery	64
6.6	Heading to a Paperless Age	64
6.7	Further Policy Relaxation and the Opening up of the Market	65
6.8	The Continued Association with "High-Tech"	65
6.9	The Development of New Lottery Games	66
6.10	Government Policy on the Lottery Industry	67
7.	The Chinese Underground Gaming Market	69
7.1	Introduction	69
7.2	The Effects on Government Policy	69
7.2.1	The Damage Caused by Underground Gambling	69
7.2.2	Regulations Issued by the Chinese Government	70
7.3	The Development of Chinese Underground Gambling	71
7.3.1	The Origins and History of Chinese Underground Gambling	71
7.3.2	Game Categories and Payout Rates in Chinese Underground Gambling	72
7.3.3	The Geographical and Demographic Distribution of Chinese Underground Gambling	73
7.4	The Market Size of Chinese Underground Gambling	73
7.4.1	Annual Transaction Values	73
7.4.2	The Scale of Participation	74
7.5	Analysis of the Underground Gambling Business Model	75
7.5.1	A Study of the Sales Channels used by Underground Gambling	75
7.5.2	The Patterns of Marketing in Underground Gambling	75
7.6	The Underground Gambling Business Model	76
7.7	Related Services	77
8.	Underground Gaming Regional Distribution and Game Formats	79
8.1	Regional Distribution	79
8.2	Underground Gambling in Major Areas	79
8.2.1	Guangdong Province: A Key Market for Underground and Lottery Activity	79

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

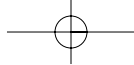
8.2.2	Hainan Province: A Key Market for Underground Gambling, Weak for Lottery	79
8.2.3	North East China	80
8.2.4	Beijing (North China)	80
8.2.5	Jiangsu and Zhejiang Areas (East China)	80
8.2.6	Hunan and Hubei Areas (Central China)	80
8.2.7	Sichuan and Chongqing (South West China)	80
8.3	Chinese Underground Game Formats	81
8.3.1	Standard Bets	81
8.3.2	Asian Handicap	81
8.3.3	Other Types of Underground Gambling	81
8.4	The Chinese Sports Industry and Domestic Gambling	82
8.4.1	The Link between the Chinese Football League and Underground Gambling Organisations	82
8.5	Gambling on Major Sports Tournaments	82
8.6	The Future of the Underground Market	83
8.6.1	Government Policy	83
8.6.2	Future Market Forecasts	83
8.6.3	The Rapid Development of Chinese Underground Gambling and the Global Market	84
9. The Internet Gaming Market		85
9.1	Introduction	85
9.2	The Risks for Internet Gambling in China	85
9.2.1	The Legal and Political Background	85
9.2.2	Technological Risks	86
9.2.3	Transaction Risks	86
9.3	The Characteristics of Chinese Internet Gambling	86
9.3.1	A Slow Start	86
9.3.2	An Unclear and Weak Legal and Regulatory System	87
9.4	The Operational Format of Chinese Internet Gambling	87
9.4.1	Macao Slot	87
9.4.2	Singbet	88
9.5	The Strengths and Weaknesses of Websites versus Client Software Platforms	88
9.5.1	Website Format	88
9.5.2	Client Software Format	89

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

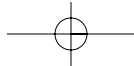
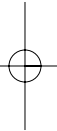
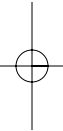
10.	The Development of Chinese Internet Gambling	91
10.1	Development	91
10.2	The Performance of Overseas versus Domestic Companies	91
10.3	Internet Gambling Market Size	92
10.3.1	The Demographic Distribution of Customer Groups	92
10.4	Cash Flow	93
10.5	Chinese Internet Gambling Operating and Business Models	94
10.5.1	Operating Model	94
10.5.2	Profit Model	95
10.6	Products Deriving from Chinese Internet Gambling	95
10.6.1	Internet and Mobile Prediction Games	95
10.6.2	Internet Entertainment Games	96
10.7	Trend Forecasts	96
10.7.1	General Trends	96
10.7.2	Market Growth Forecasts	97
10.7.3	Forecasts on Legalisation Trends	97
Appendices		
Appendix 1		99
Allocation of Public Lottery Funds Between Central and Local Governments in 2003		99
Allocation of Public Lottery Funds Between Central and Local Governments in 2004		100
Allocation of Public Lottery Funds Between Central and Local Governments in 2005		101
Appendix 2		102
Lottery Sales in China 2003		102
Lottery Sales in China 2004		104
Lottery Sales in China 2005		106
Appendix 3		108
Regional Lottery Sales Ranking in China 2003		108
Regional Lottery Sales Ranking in China 2004		109
Regional Lottery Sales Ranking in China 2005		110
Appendix 4		111
Regional Personal Taxation Income from Lottery Prizes 2003		111
Regional Personal Taxation Income from Lottery Prizes 2004		112
Regional Personal Taxation Income from Lottery Prizes 2005		113
Appendix 5		114
Regional Sports Lottery Sales Ranking 2003		114
Regional Sports Lottery Sales Ranking 2004		115

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

Regional Sports Lottery Sales Ranking 2005	116
Appendix 6	117
Regional Welfare Lottery Sales Ranking 2003	117
Regional Welfare Lottery Sales Ranking 2004	118
Regional Welfare Lottery Sales Ranking 2005	119
Regional Welfare Lottery Sales Ranking 2006	120
Appendix 7	121
Regional Lottery Sales 1987 - 1994	121
Regional Lottery Sales 1995 - 2000	122
Regional Lottery Sales 2001 - 2005	123
Appendix 8	124
Public Welfare Fund generated by the Sports Lottery in China 1994 - 2000	124
Public Welfare Fund generated by the Sports Lottery in China 2001 - 2005	125
Appendix 9	126
Welfare Fund generated by the Welfare Lottery in China 1987 - 1994	126
Welfare Fund generated by the Welfare Lottery in China 1995 - 2000	127
Welfare Fund generated by the Welfare Lottery in China 2001 - 2005	128
Appendix 10	129
Lottery Sales, by Game-type, in China 1987 - 2005	129
Appendix 11	130
Allocation of the Public Welfare Fund of the Chinese Lottery between Central and Local Governments 1987 - 2005	130

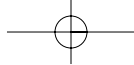


THE BUSINESS OF LOTTERY AND GAMING IN CHINA

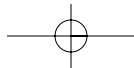
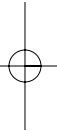
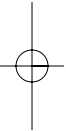


List of Figures

1.1	Lottery Administrative Structure	22
1.2	China Sports Lottery Game Formats	25
1.3	Welfare Lottery Game Formats	26
2.1	The Sports Lottery Machine	30
2.2	Chinese Sports Lottery Finance 2000-2007	32
2.3	Chinese Welfare Lottery Finance 2000-2007	32
3.1	Chinese Sports Lottery Revenue 1995-2007	36
3.2	Chinese Sports Lottery Sales and Distribution 2005-2006	36
3.3	Welfare Lottery Revenue 1987-2007	37
3.4	Chinese Welfare Lottery Sales/Distribution 2005-2007	41
3.5	Monthly Sales of the China Welfare Lottery Online 2006	42
3.6	China Welfare Lottery Online Sales Growth, 2005-2006	42
6.1	Forecasts of Future Growth in the Chinese Lottery Industry	62
7.1	Pyramid Model of Underground Gambling in China	76
8.1	The Gambling Market in China 2007-2011	84
10.1	Estimated Value of Chinese Internet Gaming Market	94
10.2	Forecast of Future Growth in the Internet Gaming Market	97



THE BUSINESS OF LOTTERY AND GAMING IN CHINA



Author profiles:

LI Gang – Previously an editor of sports lottery media for “Football Lottery 310” and the Sports Lottery Centre official website (www.lottery.gov.cn), Li Gang was also a special expert for the lottery column on the *Beijing Evening News*, *China Sports*, and *Football Lottery Gold*. Since 2006, he has been appointed guest expert on the programme “Challenge the 5-Million” for Beijing Sports Broadcasting.

LIU Ding – Having been the Chief Editor of Kicker Chinese Version, Liu Ding currently works in the Asian gaming and international sports media sectors.

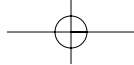
LU Yang – Lu Yang joined National Lottery Online (www.guocai.com) in 2000, later becoming Chief Editor of 343 Football Online. He is currently Chief Editor of Sina Sports (sports.sina.com.cn).

FANG Yanping is one of the primary editors of “Lottery Weekly” in *China Society News*, the official publication of the Ministry of Civil Affairs, which issues and is the administrative organisation for the Welfare Lottery. In 2003 he was appointed Chief Editor of the official website for the China Sports Lottery Centre (www.lottery.gov.cn).

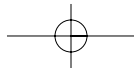
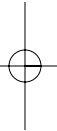
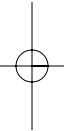
GAO Bin – As Chief Editor for this report and General Manager of Era China Sports International Ltd, Gao Bin is an experienced expert in the Chinese gaming industry. He was one of the founders and business development director of 343 Football, the first professional football gaming information content-provider website in China. He has previously been Lottery Value-added Service Business Director for China Interactive Sports, a subsidiary company of the General Administration of Sports.

MA Ying graduated from Liverpool University with an MBA (Football Studies) in 2002. An active professional in the football and gaming market in China, he has previously been Business Development Manager for sports and lottery related projects at China Interactive Sports, a subsidiary company of the General Administration of Sports. Ma Ying is currently Vice General Manager of Era China Sports International Ltd.

The authors wish to thank the Foreign Language Institute of China University of Political Science & Law for their assistance in the draft translation for this report.



THE BUSINESS OF LOTTERY AND GAMING IN CHINA



Executive Summary

From a gaming operator's perspective, China represents a much-coveted prize. Not only is it the world's most populous country, it also has a culture which is deeply ingrained in gaming, stretching back over 3,700 years. Despite China's hostile operating environment, both politically and legally, the business has continued to flourish and, since the turn of the new millennium, gaming across the region has been experiencing faster than ever growth.

Gaming in China takes two different forms: the official lottery, which is administered and operated by the national government; and unofficial or underground gambling activities, which are defined as illegal according to Chinese criminal law. Measured at the end of 2006, the official lottery generated annual sales of nearly RMB 82 billion (approximately US\$13 billion) while estimates of the value of illegal gambling activity were at least RMB 1,000 billion (\$166 billion). The total value of gaming in China in 2006 was therefore around RMB 1,082 billion (approximately \$175 billion).

China's National Bureau of Statistics' last available data for 2006 shows the Chinese population stands at 1.3 billion with income per capita of \$2,010. This gives an estimated total income of \$2,613 billion for the year meaning that spending on gaming accounted for over 6% of total national income. This indicates just how important an element this is in the Chinese way of life.

Gaming for the Chinese is analogous to the dominant role football plays in the social cultures of most European countries. It forms an intrinsic part of life at all levels of society. Gambling has a longer history than almost every other form of entertainment in China and has evolved to fit itself to the nation's social, political and economical environment. It is common to see people playing mah-jong or poker by the roadside and for many it forms part of the rhythm of everyday life. It is quite normal to bet on boxing, horse racing, or dog racing, but can anyone imagine betting on a cricket contest? That is the small insect, not the sport. The Chinese regularly bet on cricket fights held in a pot.

The Chinese have therefore acquired a well-deserved reputation for their extreme gambling tendencies. They will bet on almost anything with almost anyone: friends, colleagues, even strangers. No leisure pursuit really counts for anything unless money is at stake on the outcome. Even the government's attempts to block illegal gambling have had to take account of this. They classify individuals gambling together with reasonable odds not as illegal gaming but as leisure and entertainment. It is only seen as illegal where there is a pre-defined intention to make a profit.

There are essentially two kinds of gaming consumers as defined by consumption habits and psychology. One is the leisure player who plays moderately for entertainment and fun, with a desire to gain financially but a realistic grasp of the odds of doing so. Winning brings excitement but losing will do them no real harm. The other kind is the obsessive, potentially addicted gambler, for whom winning money is the only goal and who sees gaming as a quick and easy way to acquire a fortune.

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

One of the striking differences between the average lottery player and the gambler who prefers illegal gambling is their comparative income levels. The majority of lottery players tend to come from the lower income groups although, conversely, they do not account for the bulk of lottery revenue. By contrast, in the unofficial gambling market, players are overwhelmingly made up of middle-income groups both in the numbers playing and in spending per head.

The gaming industry is well developed in almost every region in China with the exception of the North West. South-East China is responsible for around a third of the total value of the Chinese gaming market. It is the most advanced in part because of its close proximity to the sophisticated gaming markets of Hong Kong and Macao and partly because of its distance from Beijing and its comparatively well-developed local economy. This market is predicted to be the fastest growing over the next three to five years.

East China is the second most important gaming region and has the dubious reputation as being the home of one of the largest illegal gambling operations in China, which police closed down in Shanghai. Gaming is developing rapidly in the region in line with its fast-paced economic growth.

South-West China is regarded as the most promising new market for gaming. This area has the most populated province in China, Sichuan, where the people are characteristically known for their appetite for enjoying life and are prepared to spend in pursuit of entertainment. East China and South-West China together account for another third of the total gaming market in China. The other three areas are less developed due to their less advanced economies and a more controlled legal and political environment.

China had a total of 70 million lottery buyers by the end of 2006, according to the statistics of the Ministry of Finance, whilst the underground market is estimated, by the Ministry of Public Security, to involve some 30 million participants. Most of these (over 70%) are in the 18-44 age range, although in the rapidly developing world of internet gaming the customers tend to be younger.

Yet, the lottery industry's relatively short history in China is evident from the gap that exists in its organisational and administrative effectiveness, compared to more mature markets.

Competition between the two monopolistic organisations has contributed in some measure to initial market improvements, such as a more rapid rollout of retail outlets and innovations in sales techniques and game design. However, the duopolistic structure has also hindered progress in certain aspects which has, in effect, acted as a brake on further development. For example, it has resulted in much unnecessary duplication. Maintaining two sales and distribution networks wastes considerable resources and increases running costs.

Similarly in management, whilst differentiation between the sports and welfare lotteries should encourage both to develop robust rules and regulatory structures, in reality this simply adds complexity and duplicates the legal processes. This in turn adds to costs and compromises effective management supervision.

Innovation in game design and issuance has also been disadvantaged. The current collection of games and outlet channels worked well when the lottery was a new concept – it enabled rapid introduction in new markets – but these are now struggling to keep pace

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

with the demands of consumers. Some recent game innovations, such as the China Welfare Lottery Online, and the resulting rapid expansion show the scope for getting this right and the results that are likely to follow.

Conversely, the over-centralised nature of the systems has resulted in a certain level of homogeneity, which takes no account of strong regional differences. Focusing on sport and a particular type of welfare has, in the view of some, been over restrictive and has prevented funds from going to causes in other areas, such as education or the environment. This highlights the strong demand that exists with the public in support of causes but also indicates that there is some confusion as to the purpose and character of the lottery as an entertainment medium.

While there may be issues with the mechanisms involved, the overriding purpose of a national lottery is to raise funds for the development of public welfare projects and thereby to improve the welfare of society as a whole. The global growth of national lotteries after the 1950s coincided with a philosophy of wealth redistribution and a growing realisation that the state should not necessarily have responsibility for all forms of social welfare.

The way in which these funds are managed under the Chinese system has obvious advantages in ensuring the implementation of key public welfare programmes and raising public consciousness of the impact that an injection of capital can have. But it also brings with it certain problems.

Firstly, there is a long time lapse between the collection of funds and their distribution to public welfare projects. It is estimated that up to one quarter of lottery funds are held on deposit at any given time whilst distributors go through the highly bureaucratic processes involved for the allocation of funds to social causes.

Secondly, any welfare fund that handles large quantities of money is open to abuse. Supervision can only be effective up to a certain point and the power of central government over local administrations is limited. Controls are fundamentally weak and the illegal use of funds almost inevitable.

And thirdly, the priorities set by the lottery operators will always appear unfair to those causes which do not receive support. This has led to much debate in recent years with some critics seriously questioning the value of sport over education or the environment and asking whether these independent and sometimes unaccountable bodies should really have so much power in dictating how funds are spent.

Internet gaming, which only really exists unofficially in China, is becoming an increasingly popular format and the potential that it offers to gaming operators as an enticing prospect in the Chinese gaming market is obvious.

Among the 30 million unofficial gaming customers, it is estimated that 14% to 22% play online. This would indicate that, at the start of 2007, internet gaming had a customer base of between 4.2 million and 6.6 million people. At the time, according to China Internet Network Information Centre (CNNIC) data, China had a total of over 137 million internet users, indicating that between 3.1% to 4.8% of all Chinese internet users are internet gaming customers. With data from CNNIC indicating 200 million Chinese internet users by

THE BUSINESS OF LOTTERY AND GAMING IN CHINA

the end of 2007, this suggests that current levels of internet gaming usage could be as high as 10 million. And all the evidence is that these figures will keep increasing rapidly.

The structure of this report revolves around the three key aspects of gaming in China. The first section (chapters 1 to 6) deals with all aspects of the official side of gaming activity, namely the Lottery in China, its structure, character and evolution. Appendices 1-11, included at the end of the report, contain relevant additional supporting sales data.

The second (chapters 7 and 8) looks at the growth of underground gaming, its history, development and current impact on the economy. In addition to the negative social consequences, underground gambling has had some effect on China's economic progress: because gamblers will always lose more than they win a great deal of capital has flowed offshore resulting in fewer resources to reinvest locally. This section also analyses the impact illegal gaming has had on government legislation, its marketing and business models and the pattern of regional penetration, including game formats and other gaming activities.

Finally, the third section (chapters 9 and 10) examines the impact of the internet on China's gaming market as a whole, in terms of the development of both its 'legal' and 'illegal' formats. It assesses the technological and business opportunities offered by this highly accessible form of gambling, against the backdrop of China's current legislative restrictions, and discusses the possible future gains and pitfalls of embracing this potential 'enfant terrible' of the gaming world.

Methodology

Because of the nature of the gaming industry, data and information is not transparent and is, by definition, difficult to find. Face-to-face interviews with contacts at official organisations have been conducted to obtain reliable first-hand information, including: the China Welfare Lottery Issuance and Administration Centre and regional welfare lottery centres; the General Administration of Sports, China Sports Lottery Administration Centre and regional sports lottery centres; the Ministry of Public Security; the Gaming Research Institute of Peking University; major gateway financial services companies (3); major online joint-purchase agencies (5); lottery and gaming content-related media companies (12); and domestic and international internet gaming companies (4 and 3 respectively). To guarantee the reliability and accuracy of data, this report only uses data which has been authenticated by the relevant lottery centre personnel.