

Reports

SPORTS-BETTING ASIA - PART 1



Betting on dragon, tiger and cub markets for future growth

As one of the oldest forms of gambling, sports betting dates back more than two thousand years to when the Greeks placed bets on their various sporting events

From the ancient era to modern bets in the 18th century to the arrival of bookmaker shops and the technological surge in the 1990s – sports betting is today a huge market. Sports Betting in Asia represents about 40 percent of the global sports betting market and is expected to lead the

way in terms of growth in the land based gambling and betting sectors.

The gambling market in Asia is estimated to be worth US\$190bn compared to the US\$500bn global gambling sector. For many years only

horse racing and lottery were legal in Asia and today gambling is still heavily restricted in most countries by either religious reasons or political leadership.

But sports betting is a big part of Asian culture today and there is no sporting event you cannot bet on! The Asian market is opening up more towards the European market from recreational players to semi pro and professional trading groups and syndicates. Laws are relaxing and changing. In this first part of our detailed report we take a look at the sports betting markets, both land based and online, in the following countries: China, Japan, Philippines, followed next month with Taiwan, Malaysia and Singapore in part 2.



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There are two authorised lottery operators in China, the Welfare Lottery established in 1987 which offers Lotto, VLT and Instants, and the Sports Lottery established in 1994, which offers the same and sports-betting

betting is not restricted to football.

With single match betting there are two main sub categories – Jing Cai which is a product allowing pool or pari-mutuel betting on single matches or fixed odds betting on more than one match and Beijing single match (only in Beijing, Tianjing and Guangdong provinces) where all bets are pari-mutuel in nature.

Sports betting accounts for 16.1 percent of the total sales. This sector, compared to the other sectors, saw an 81.7 percent growth rate between 2013 and 2014. Of this growth traditional football betting grew by 14 percent and single match betting grew by 97 percent.

Strong sales were reported in 2014 due to the FIFA World Cup and this sector generated 60 percent of national ticket sales growth during 2014.



CHINA

Technically of course gambling in China is illegal. Outside of Hong Kong and Macau the only sectors which exist are the two national lotteries which govern the lottery and sports betting sectors. It is said the potential for these sectors are huge with a 20 to 30 percent growth annually.

The regulated lottery industry in China was launched in 1987 and has grown rapidly and is one of the world's largest lottery markets in terms of sales volume.

Lottery sales increased by around 33 percent between its launch and 2013 and products have expanded from an initial base of simple weekly draw lotto games to a comprehensive range including weekly draw games, scratch cards, video lottery terminals, sports betting and virtual sports betting.

There are two authorised lottery operators in China – the Welfare Lottery (issued by China Welfare Lottery Issuing Centre) established in 1987 which offers Lotto, VLT and Instants and the Sports Lottery (issued by China Sports Lottery Administration Centre) established in 1994 which also offers Lotto and Instants and runs sports betting. The Sports Lottery also introduced VLTs for the first time in 2015.

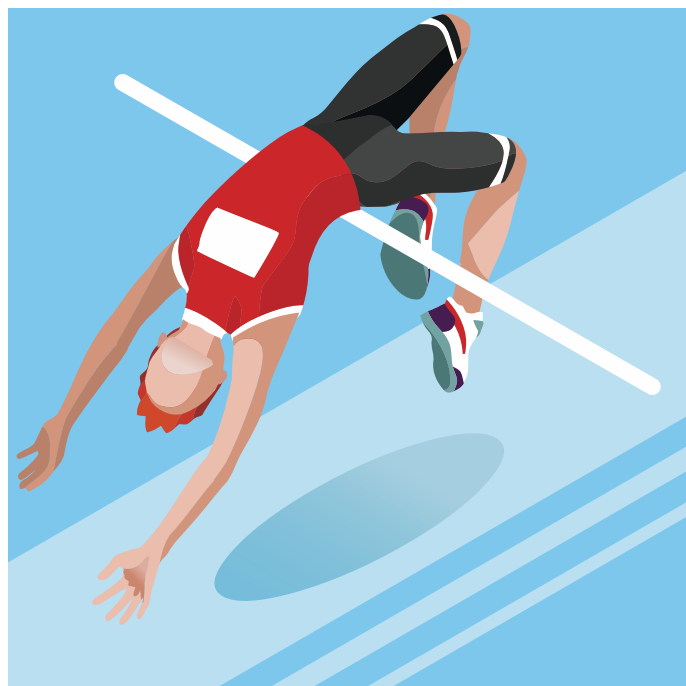
Both provide funding towards good causes in the country. The Welfare Lottery accounts for 54 percent of total sales by the lotteries and Sports Lottery the remaining 46 percent.

The State Council has the power to authorise the issuance of sports lottery and welfare lottery whilst the Ministry of Finance is responsible for administering, regulating and supervising the national lottery industry.

In 2009 the Regulations on Administration of Lotteries were introduced and these governed the lottery industry and represented a new milestone in the development of this sector. It clarified the administrative system, sales and prize collections. In 2010 the Ministry issued two provisional regulations to look at the online and mobile sectors.

There are four main product categories run by the two organisations:

Sports Betting – Only the Sports Lottery (Sporttery) is permitted to offer sports products and there are two main game categories – single match betting and traditional football betting. Both permit betting on FIFA Category A soccer matches, although single match betting differs in that players can bet on just one event and



SPORTS LOTTERY DATA

SECTOR	Month	Annual Difference	CNY
Lotteries (total)	Total 2011		222bn
	Total 2012		262bn
	Total 2013	+18%	309bn
	Total 2014	+23.6%	382bn
	April 2015	+3.4%	32.6bn
	June 2015	-22%	28.12bn
	July 2015	-27.3%	27bn
	August 2015	-10.9%	28.09bn
Welfare Lottery	1st half year	+5.2%	187.68bn
	1st 8 months	-1.8%	242.82bn
	April 2015	+2.2%	18.1bn
	1st half year	+4.4%	102.84bn
Sports Lottery	1st seven months	+2.1%	118.4bn
	1st eight months	+0.0%	133.4bn
	April 2015	+5%	14.5bn
	1st half year	+6.2%	84.83bn
	1st seven months	-3.4%	96.3bn
	1st eight months	-4.2%	109.4bn

In 2014 some changes were introduced which saw the permitted prize payout ratio for sports increase to 73 percent from 69 percent which is still low compared to online sports betting site ratios.

In China betting is operated via licensed betting shops known as the Chinese Sports Lottery (Sporttery) whilst online each province has its own official lottery site, licensed and regulated by each regional local government.

As well as the official sites the 'Caipiao' section of popular websites such as TaoBao, Sina, Sohu, Tencent and 163.com are officially licensed agents of Sporttery. However sports lotto odds are poor compared to those offered by foreign online bookies.

Lotto – Lotto sales are CNY249bn per year and this accounts for 65.1 percent of total sales and the sector saw a 17.7 percent growth rate. Growth is driven by modern high draw frequency games which saw a 26 percent growth in 2014 whilst traditional daily or weekly draw games grew by nine percent.

VLTs – Video Lottery Terminals are operated by the Welfare Lottery which operates around 28,000 terminals in approximately 1,000 VLT halls across China. These games are popular and

growing rapidly due to its relatively low base although contribution in terms of sales are modest. Sales in 2014 were CNY29bn. This accounted for 9.9 percent of sales and VLTs saw a 30.4 percent growth rate.

In 2015 Chinese lottery supplier Netcom Technology Holdings and Shoutz Inc launched its first games via VLT products in two provinces – Hainan and Chongqing and for the first time via the Chinese Sports Lottery.

Scratch Cards – Sales in 2014 were CNY34.3bn which accounted for nine percent of sales and these saw a 2.4 percent decline in sales figures.

The downward trend is attributed to the success of other lotto products whilst scratch cards have not benefited from the online/mobile distribution channels.

Lottery sales have grown steadily over the years from CNY262bn in 2012 to CNY309bn in 2013 and CNY382bn in 2014 (approximately \$61.5bn) – this is a growth rate of 24 percent which is combined sales from both the Welfare Lottery and Sports Lottery.

The Chinese lottery sales amounted to CNY214.7bn (\$33.6bn) in the first seven months of 2015 which was 0.4 percent down on the

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Essential and facts about sports-betting in China

Non remote operators	Sports Lottery
Sales Welfare Lottery	CNY206.4b
Sales Sport Lottery	CNY175.8bn
Total Sales (both)	CNY382.3bn (2014)
Online market	Restricted to lottery companies only at present
Remote GGR	approx \$3.2b
Remote licences	2
Licensing	Ministry of Finance

previous year.

July 2015 saw CNY27bn worth of lottery tickets sold, a year on year decline of 27.3 percent.

January to July Welfare Lottery sales increased by 2.1 percent to reach CNY118.4bn whilst Sport Lottery dropped 3.4 percent to CNY96.3bn.

The growth rate is attributed to disposable income, increased prize payout ratios, more appealing products and changes to the retail distribution.

However despite the growth China's lottery participation is quite low which is reflected in China's ratio of lottery gross win to GDP being lower than in other countries in the region. This is caused by a low number of shops per capita, gaps in terms of the breadth of some products such as sports betting, slow development of the remote channel and high play frequency games which have payout ratios which are not sufficiently high enough to compete with illegal market.

There are still major problems in terms of illegal operations in China. It is said that the illegal market is 10 to 20 times the size of the legal market!

The authorities are committed to channelling vast underground revenues away from the illegal market and into the regulated lottery network. It is slowly working and the legal market is growing. Initiatives which have been helping to encourage this include increases in prize payout ratios and the introduction of new rapid draw lotteries and virtual sports betting games and the expansion of sports betting networks and more online and mobile distribution channels.



ONLINE

In March 2015 the Ministry of Finance banned unauthorised online lottery sales.

Initially sports lottery tickets were sold at exclusive outlets in the cities until the Sports Lottery entered the online world in 2010. The new online rules enabled licensed sport lottery vendors to partner with website providers to offer online lottery purchases. These websites have to be government approved and are subject to strict regulations.

During the World Cup period operators of major retail sales websites partnered up with licensed local lottery vendors to offer these products online through retail websites and this was in violation of the regulations.

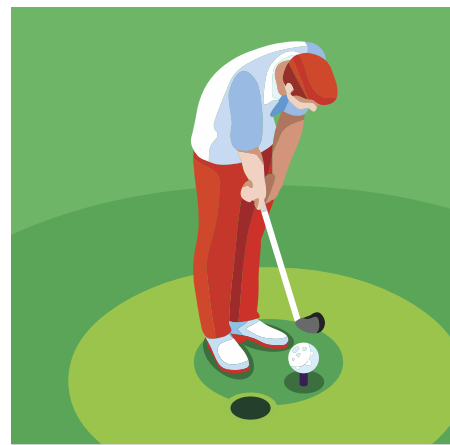
Often they offered higher returns and the situation was left alone during World Cup fever.

In March 2015 after a series of inspections of unauthorised lottery operators, the clamp down began and online lottery ticket agents were all shut down.

Around 40 websites suspended online lottery ticket sales and the only two legal entities permitted at the moment are the Welfare and Sports Lottery.

World Cup fever turned up the heat for regulators after several reports of suicides due to gambling problems. The gambling regulator said more than CNY150m was placed in bets on June 12 2014 in the country whilst bets hit CNY2.4bn in the first week of the World Cup with around CNY10bn spent over that period in bets.

Some 70 per cent of bets were made online. Many internet companies had tapped into this during this time. Only two companies 500.com



and sporttery.cn had the licence to carry out pilot projects to sell online lotteries from the Ministry of Finance.

In March 2015 all provincial sports lottery administration centres were 'temporarily suspended' after the Ministry of Finance issued a statement saying "all institutions, online entities or individuals which provide unauthorised lottery sales services, either directly or through agents, shall immediately cease such services."

This came after Beijing ordered provincial lottery administration centres to suspend online lottery sales as from March 1 2015 as apparently many weren't registering all sales. It also instructed provincial authorities to investigate online lottery sales in their areas.

Apparently there were as many as 400

companies offering online lottery sales in China around this time and these companies reportedly generated annual sales of CNY85bn (\$13.8bn) - around 22 percent of the country's total lottery sales per year.

In terms of online data of the US\$50.7bn total lottery market in 2013 the sports lottery market accounted for \$21.9bn and the online sports market accounted for \$1.5bn which was estimated to rise to \$3.2bn in 2015.

One of the companies 500.com which had received a licence for a pilot project in 2012 also had its operations suspended. In February 2016, 500.com reported huge losses and zero revenues for its online sectors. Full year (2015) net revenues were CNY99.6m - an 82 percent decrease from net revenues in 2014 of CNY579.7m.

Meanwhile the Virtual Sports market in China is currently offered via provincial remote distribution and offers a 59-69 percent return to player payout and is televised in store at retail and betting shops or remotely for races and sports matches.

The Ministry of Finance initially granted approval to two virtual sports in the China Lottery and there are two games in the market

Virtual Car Racing via 'Lucky Racing' and Virtual Football via 'E-Ball'

AGTech is the supplier of China's only virtual sports lottery platforms to the Chinese Sports Lottery via AGT JV (AGTech 51 percent owned joint venture company with Ladbrokes) and the games are supported by Inspired Gaming.

Lucky Racing was launched in the Hunan province in 2011 whilst E-Ball lottery was launched in Jiangsu province during 2013.

Lucky Racing is a fixed odds betting game broadcast to lottery shops via a central computer and cable TV. The game is a computer generated Grand Prix style car race offering betting with one race every 10 minutes. It is now available at some 1,700 lottery shops in the Hunan province and in the first month sales exceeded that of all other lottery products in the province.

Bets on Lucky Racing make up over 30 percent of all lottery sales in Hunan and 1.1 percent of all national sports lottery sales. There are six virtual events per hour (84 a day).

E-Ball was launched in 2013 and offers high frequency betting opportunities with four matches every 10 minutes. It is found in 1,300 locations in the Jiangsu province.

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JAPAN

Gambling in Japan is in general banned by the Criminal Code Chapter 23 with some exceptions including four authorised public sports, the lottery and Toto.

The code states fines of ¥500,000 maximum for anyone found gambling and up to three years imprisonment for habitual gamblers. Only domestic sports can be wagered on legally offline in Japan and soccer betting is available pari-mutuel style via J-League Soccer Pools (Soccer Toto).

Sports betting has been legal since 1998 and was approved to help raise funds for sport promotions in the country. This now applies only to betting on professional Japanese soccer (basically J1, J2, Emperors Cup and Nabisco Cup) and wagers are made through Soccer Toto.

There are many versions of sport Toto now available such as Toto, Mini Toto, Toto Goal 3 and Toto Goal 2. All other forms of sport Toto come under the banner BIG which was launched in 2006 and is basically a lottery where the computer generates selections at random and offers games such as BIG1000 and MiniBIG.

The sports related lotteries run under the Toto banner are run by the National Agency for Advancement of Sports and Health. When it was launched in 2001 the Toto was closer to a betting game than a lottery and players chose which J-League teams would win in certain sets of games. Total sales for 2014 were ¥110.7bn.

Funds from the Toto go to subsidise projects to promote sports. The division is 50 percent of sales as prize payments, two thirds in subsidies and one third to the national treasury. Players have to be 19 years old plus and there are no taxes on winnings.

The games include:

Soccer Toto – involves picking home, draw or away in listed football matches. There are 13 Japanese soccer matches listed on the card. Tickets cost ¥100 and 50 percent of this goes into the prize pool.



Mini Toto – works similar to Soccer Toto but there are only nine matches to choose from. Tickets cost ¥100 and 50 percent goes into prize pool. Winning tickets can pay out around ¥70,000–¥80,000.

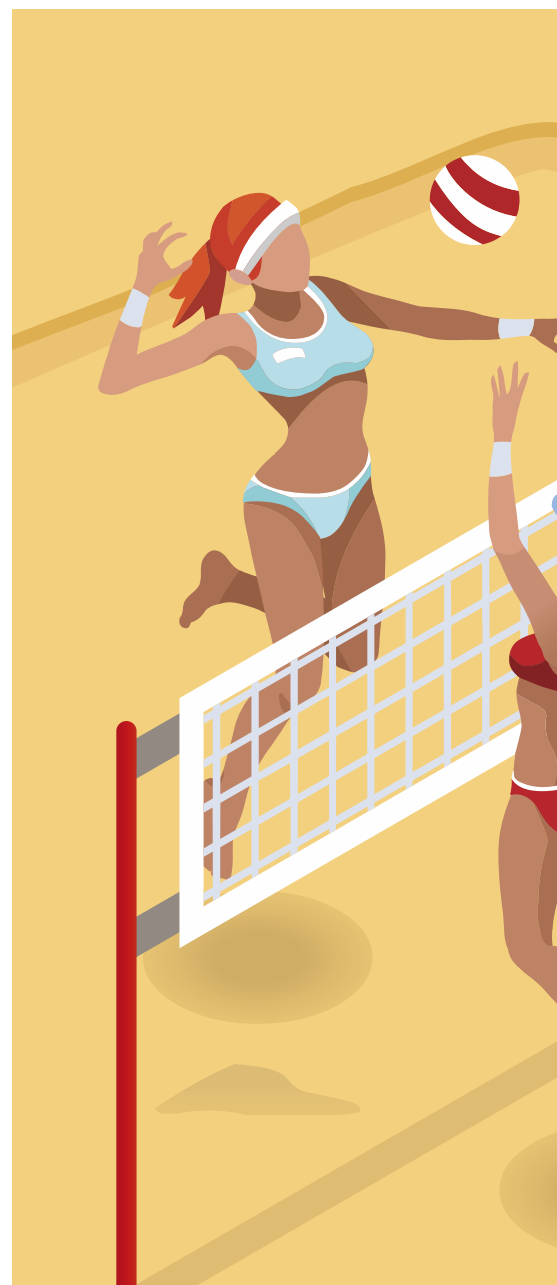
Toto Goal 3 – This involves three Japanese soccer matches and players select 0,1,2 or 3 (accounts for three plus) goals for all six teams. Tickets again are ¥100 with half to prize pool.

Toto Goal 2 – works the same at Tote Goal 3 bar there are only two matches and four teams. Tickets same price and division is the same.

J-League Toto is accessible via a debit card purchase, an ATM machine or via convenience stores. Online sales are available on the Toto website or with Toto Rakuten or Yahoo!Toto. Revenue at the J-League organisation grew by six percent last year to ¥12.3bn in 2014.

Meanwhile there are four public sports that can also be bet on. These are allowed by special laws and regulated by local governments. In 2010 these generated ¥4.3 trillion in gambling receipts. The public sports are:

Horse Racing (Keiba) There are a total of 25 racecourses in Japan and two main organisations. The Japan Racing Association (JRA) via the federal government, operates all major horse racing in Japan of which there are



10 tracks. Tokyo, Nakayama, Kyoto and Hanshin are known as the 'big four' of the 10 racecourses and with Chukyo most races are held at these five tracks. The others are in Sapporo, Hakodate, Fukushima, Niigata and Kokura. Bets off track can be made via OTB locations called WINS betting facilities of which there are 43 locations. There are races for around 288 days a year and in 2014 some 3,451 races were held. Total pari-mutuel revenues in 2014 were ¥2.49 trillion of which ¥2.40trillion was off course and ¥92bn was on course. Average turnover per day is ¥8.6bn with around six million visitors.

Meanwhile local governments run non-JRA tracks through the country although the quality of racing is said to be poor and was developed mostly for entertainment. There are 14 local governments which conduct horse racing and there are a total of 17 racecourses. Two of JRA racecourses (Sapporo and Chukyo) are also used by local government racing. Around 15,500 races are held each year over 1,400 days of racing. Attendance is around 3.2 million per year and total turnover in 2014 was ¥375.2bn. There are about 80 plus OTB facilities for local government horse racings.

Boat Racing (Kyotei) has been around since 1952 and is a government sponsored motorboat event introduced initially in the US. There are



Local governments run non-JRA tracks through the country although the quality of racing is said to be poor and was developed mostly for entertainment

today over 20 venues in Japan and pari-mutuel betting is legal at the course. Six speed boats race three laps around a 600m course and racers are assigned a boat at random on race day. Bets predict the winner, two out of the top three or an exact combination of the top three finishers.

Motorcycle Racing (Auto Race) is a version of motorcycle speedway with gambling and held on an asphalt course and regulated by the JKA Foundation. It was created for gambling purposes and the first ever meet was held in 1950 but this was banned by the government in the 1960s as the tracks (flat dirt) were considered dangerous. In the 1960s it was introduced on asphalt on bikes without brakes and the JKA took over in 1967. There are eight riders in each six lap race going as fast as 150kmph on the straights. Betting tickets offer various options and can be bought at the track. There are six tracks in Funabashi, Hamamatsu, Sanyo, Kawaguchi, Iizuka and Isesak and entry is ¥100.

Bicycle Racing (Keirin) is older than horse racing and has a devoted fan base. It is a home

grown sport which began in 1948 and involves a group of cyclists doing laps of a course on fixed gear bikes with no brakes and paced by a motorbike before a mad dash to the finish line. Races are typically two kilometres long. It was designed expressly for gambling purposes and there are around 70 dedicated Keirin racing velodromes around the country and in the year 2000 it became an Olympic event. This event is managed by the JKA Foundation. The popularity of this sport has decreased due to young people now betting more on baseball and football. In 1991 the revenue for Keirin was almost ¥20bn with 27.4 million people visiting a velodrome. In 2013 the sport generated only ¥6bn with 4.2 million visitors.

Meanwhile the lottery in Japan has existed since 1630 but was banned in 1842 and most of the gambling laws now stem from a 1907 legislation which still prohibited the lottery. Lotteries came and went throughout the years and were mainly set up to raise money after wars.

Then in 1964 the lottery (Takarakuji) was regulated nationally and the Japan Lottery Association was created.

Initially customers queued up at department stores to get their tickets, but today they can be bought directly but only at sanctioned lottery booths found mostly near train stations or in front of large stores.

The Jumbo lottery is the largest and highest paying amongst all the lotteries and beside the Spanish El Gordo is the biggest lottery in the world. Tickets are sold exclusively by the Mizucho Bank for a limited period and can offer prizes of ¥25bn in total and tickets cost ¥300.

The games include Jumbo Lottery, Mini Lotto, Lot 6, Numbers 3, Numbers 4 and scratch cards which have been around since 1984. The lotteries are considered as amusement so there is no age limit and no taxes on winnings.

ONLINE

Online gambling is prohibited under the Chapter 23 of the Penal Code and as such there are no online bookmakers operating from Japan.

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SPORTS-BETTING ASIA - PART I

Essential and facts about sports-betting in Japan

Non remote operators	Sports Toto
No. of betting shops	6,000 Toto shops
Total sales Toto & BIG	¥110.7bn (2014)
Horse tracks	25 total
WINS betting venues	80 (government) and 43 (JRA)
Public Sports revenues	¥4.3 trillion (all sports)
Lottery	Takarakuji
Points of Sale	15,000 lottery booths
Online market	Only via the Toto, Lottery, Public Sports
Remote GGR	n/a



In 2015 a bill was introduced to legalise casino gambling with a push to do so before the 2020 summer Olympics in the country. It is backed by the ruling Liberal Democratic Party and if approved could open up the market immensely bringing Japan just behind Macau and US in terms of gambling market business.

Online betting is only permitted on the lottery, soccer Toto and the public sports however this is only for pari-mutuel betting with the official channels. Players head to foreign betting sites for fixed odds betting, casino, poker or bingo games.

The foreign bookmakers often offer bets in Japanese and some with Yen currencies. They also offer bets on J-League Soccer and for both basketball leagues and the V-Premiere volleyball.

The penalties for unlawful betting are strict with up to three years imprisonment and high fines although this law generally goes unchallenged by the government. Some of the most popular sites include Dafabet.com, Betway.com, Bet365, Pinnaclesports.com and 138.com.

Dafabet – parent company is Asian Logic the largest government approved sports betting company in the Philippines. They offer betting on most Japanese sports and have an online casino and poker room that can also be downloaded. The Yen is not supported but players can play in Dollars.

Bet365 – does not support Japanese language but players can play in Yen in English, Chinese or another language. As it is a global site it offers odds on almost every sport worldwide.

Pinnacle Sports – offer great betting odds and their site is available in Japanese language and they accept bets in Yen. Other sites such as 32Red.com and GoldenLounge.com are top choices for Japanese players who want to access



casino and poker games. Most offer games in Japanese language and Yen.

In 2015 a bill was introduced to legalise casino gambling with a push to do so before the 2020 summer Olympics in the country. It is backed by the ruling Liberal Democratic Party and if approved could open up the market immensely bringing Japan just behind Macau and US in terms of gambling market business.

The idea is to launch integrated resorts similar to ones in place in Singapore generating an estimated \$40bn a year in extra gambling revenues. But Buddhist backed Komeito party is strongly against the idea and with recent reports of betting scandals some believe the Japanese government will instead take a stricter stance against gambling.

It is thought if online gambling laws look set to change it will happen alongside the Casino Bill although General Elections due in the summer will now delay matters further as ruling Liberal Democrat Party didn't introduce the bill into the Diet earlier this year. The bill is described as a "hot potato" which no-one really wants to handle with elections so near.



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