



Victorian Commission for
Gambling and Liquor Regulation

Crown China Investigation Second Addendum Report

TRIM ID:

To:	Stephen Berriman, Director, Compliance Tim Leddra, Manager, Compliance		
CC:	Scott May, Acting Director Legal Services Amy Rudolph, Acting Manager Legal Services		
From:	Tim Bryant, Team Leader, Compliance		
Division:	Compliance		
Subject:	Crown China Summary Investigation Report – Further Crown material supplied on 8 June 2018	Date:	12 June 2018

Purpose

1. To provide a report regarding further documents provided by Crown Melbourne Limited (**Crown**) on 8 June 2018 in relation to the Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) investigation regarding the detention of Crown staff in China.

Background

2. On 7 June 2018, Crown advised that:

'...we have identified, through the process set out in that letter, further documents which may be responsive to a notice previously given to Crown by the VCGLR in relation to the China Investigation (assuming a broad interpretation as indicated in the VCGLR correspondence.'

The 2 February 2018 notice issued to Crown Melbourne Limited by the VCGLR

3. On 2 February 2018, a notice (**the Notice**) was issued to Crown by Inspectors, in accordance with powers appointed under Part 4 of the Victorian Commission for Gambling and Liquor Regulation Act 2011 and pursuant to section 26(1) of the Act. The Notice requested various information but included a request for:

'Any other records which contain information regarding any identification, assessment or treatment of risks conducted by Crown Melbourne Limited and/or Crown Resorts Limited and/or Crown Resorts Pte Ltd (Hong Kong) regarding operations within mainland China from 1 January 2015 to the present, excepting any records or documents which have already been provided to the Commission.'

Crown's response to the Notice

4. On 16 February 2018, Crown responded to the Notice. Specifically, Crown stated:

'We have been unable to locate any documents that contain information about Crown Resorts, Crown Melbourne or Crown Singapore's identification of risks attaching to the operations being conducted by their employees in China save for

- (a) Documents that have previously been provided to the VCGLR and
- (b) Documents that record legal advice that is subject to legal professional privilege which Crown does not intend to waive.

Additional materials

For the sake of completeness, we otherwise note that Crown is in the process of restoring a number of back up tapes, which may contain materials that are required to be discovered in the Class Action that has been commenced against Crown in connection with the China detentions. The technological aspect of this restoration process will take considerable period of time (months).

It is possible that, in the course of reviewing further materials (as back up tapes are restored), that Crown may identify further documents that fall within the scope of the Notice (and/or earlier notices issued by the VCGLR under s26 of the Act). If this is the case, we will let the VCGLR know, and can supply a copy of the identified documents.'

Crown documents provided on 8 June 2018 at 7.04 PM

5. As the Commission, would be aware, Inspectors conducted interviews with key Crown staff between 8 March 2018 to 10 May 2018.
6. On 8 June 2018, Crown provided further material purportedly pursuant to the Notice. The material includes;-

Emails and email chains dated 8 and 9 February 2015. The emails are correspondence between key Crown staff being Michael CHEN (CHEN) and the Crown VIP International Offices, CHEN and Aldread GOMEZ (GOMEZ), Executive Vice President China Crown Resorts, and Jason O'CONNOR (O'CONNOR) and Howard ALDRIDGE (ALDRIDGE), Managing Director Crown Aspinalls London,

Crown Resorts Limited Risk Management Committee Memorandum and Reports dated 30 April 2015

Crown Resorts Limited Report Against Material High Risks dated 31 October 2015

Crown Resorts Limited Report Against Material High Risks dated 31 May 2016

Crown Resorts Limited Risk Management Committee Minutes dated 13 May 2015

January 2015 Sales Summit VIII Synthesis VIP International

VIP International Strategy Workshop Planning for F17 dated April 2016

7. For the purposes of this report, I have detailed correspondence which highlights risk considerations and mitigation related to operating in mainland China that have not been previously disclosed. The emails shed greater light on what has been previously disclosed and/or is directly relevant to responses at interview.

Email 1: 8 February 2015 headed 'Shen Yang news'

8. An email chain dated 8 February 2015 from Ms Jessica LIU (Crown China sales staff member) to GOMEZ. The email states:

Dear Boss:

I just got update news from Shen Yang police bureau, since 2015 they will take strict action to heat the 5 type gamble behaviour. One of is to heat overseas casino staff and agency which is set up and located in Mainland. Below is black and white in Chinese for your reference do you think we should inform our management about it since I am very nervous. (sic)

The email then has Chinese writing below it.

GOMEZ forwards the email to CHEN the same day and states:

Hi Michael,

Could you check with our lawyers on the seriousness of this one in China for our team based in China. Many have called and express concern when news came out in the social media. Here is another link.

The link is believed to be that referring to the Reuters article 'China's President just declared war on global gambling.'

On 9 February 2015 CHEN responds to GOMEZ and his response (which appears to be brief) is redacted.

Comments regarding email 1.

9. This is clearly indicative of an escalation of risk that is directly referenced as coming from the Chinese Police. It is specific to overseas casino staff set up on the Chinese mainland and that they will take strict action. It is unknown whether LIU was specifically questioned by Chinese police but that would appear to be a reasonable assertion based on the fact she specifically references 'update news from Shen Yang police bureau' and not a generic news article or report. SHENYANG is the largest city in North East China and has a population in excess of six million. Crown executives at interview have never referred to this incident and/or a 'warning' such as this coming direct from the Chinese authorities

Email 2: 7 February 2015 headed 'China'

10. An email chain from ALDRIDGE to O'CONNOR dated 7 February that has attached the Reuters article dated 6 February 2015 headed 'China to crack down on foreign casinos seeking Chinese gamblers'. ALDRIDGE states:

Hi Jason,

Are you guys in Melbourne making any adjustments to the F16 business plan based upon which is happening in China. Also, is there any concerns for the Crown staff working in China. Maybe we can add this to the topics for discussion when I am in Melbourne.

On 9 February 2015 O'CONNOR responds to ALDRIDGE and cc'ed CHEN in

Happy to discuss this Howard,

These issues will, undoubtedly bring considerable discussion during the planning process (which is yet to commence).

Personally, I'm very concerned with the international business near term prospects for reasons I'm sure your well aware of. Our challenge will be convincing our masters that they need to temper their expectations, but with the development plans ahead, talk of conservative expectations won't be well received.

As for the staff, we are always very concerned for their well being and Michael is consulting our lawyers (next line redacted) In the meantime we all need to take extra care.

11. At interview (Q251), O'CONNOR said:

Q251 He was aware of a general anti-corruption crackdown but 'A specific crackdown on the casino industry?. No'. O'CONNOR stressed he understood it to be a

crackdown on corruption and that he couldn't recall specific discussions about it with CHEN or FELSTEAD.

Comments regarding Email 2:

12. The correspondence and interviews indicate and confirm:

- an escalation of risk in China that Crown's International Executives were aware of and considering in light of business planning,
- that the thrust of the article and news was not just related to 'corruption' but also in relation to overseas based casinos and gambling was considered the same by Crown and that O'CONNOR was made aware of this from several sources and had discussions in relation to it.
- That Crowns International staff considered it a challenge to temper the expectations of their 'masters' (presumably the Board members) that set their targets despite the increased risk environment that they acknowledge

Email 3: Headed 'Recent news on China Position on Foreign casinos'

13. An email dated 9 February 2015 from CHEN to 'VIP International Offices' that details an Attachment '*Reception Guidelines – Government Investigations FINAL pdf.*' The material provided does not include the attachment however this has possibly been provided previously.

The email includes:

'...a number of articles came out this past weekend regarding the Chinese government seeking to crack down on Chinese gambling abroad. It is still unclear what this will mean for us.'

'We have engaged one of the Worlds best law firms and political consultants to provide advice on this matter'

I am re-circulating the guidelines and process we have in place that you should follow, if you are ever requested by a government official for an interview.'

In addition to these steps I wanted to remind everyone to take normal precautions. It is important to be reminded that we have been given advice from outside counsel. The next paragraph is redacted.

That said, China policies are always subject to change. We are closely monitoring the situation and will advise of any news..'

Comments regarding email 3

14. Reinforces the escalation of risk regarding Crowns China operation from February 2015 onwards and mitigation considerations.

Crown Resorts Limited Report Against Material High Risks 30 April 2015

15. Under '*Heading 1. Legislative / Regulatory Changes.*'

'Changes to legislation regulation or Government policy covering the conduct of, and access to gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crowns affiliate businesses and the value of licences granted Possible changes include;-

Changes to restrictions on advertising and marketing (where applicable)

Under 'Crown Melbourne' it is all redacted.

Under Heading 2 Volatility of premium Gaming

Redacted and then reads

'The International Premium Gaming market remains highly competitive with new (and projected) entrants in Asia presenting compelling and convenient local options for Asian VIP patrons, and Echo increasing domestic competition. The proactive promotion of Crown Melbourne's Worldclass VIP experience remains a key initiative.

The remainder is redacted.

Crown Resorts Limited Risk Management Committee Memorandum and Reports dated 13 May 2015

16. The majority is redacted. Under 'Volatility of Premium Gaming' it states:

'The Committee considered the possible correlation between China's recently launched anti- corruption campaign and increased patron visitation to Australia...'

Crown Resorts Limited Report Against Material High Risks 31 October 2015

17. Under 'Heading 1. Legislative / Regulatory Changes.'

'Changes to legislation regulation or Government policy covering the conduct of, and access to gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crowns affiliate businesses and the value of licences granted Possible changes include;-

Changes to restrictions on advertising and marketing (where applicable)

Under 'Crown Melbourne' it is all redacted.

Under 'Heading 2 Volatility of premium Gaming'

Redacted and then reads

'The International Premium Gaming market remains highly competitive with new (and projected) entrants in Asia presenting compelling and convenient local options for Asian VIP patrons, and Echo increasing domestic competition. The proactive promotion of Crown Melbourne's and Crown Perth's world class VIP experience remains a key initiative.'

The remainder is redacted.

Crown Resorts Limited Report Against Material High Risks 31 October 2015

18. Under 'Heading 1. Legislative / Regulatory Changes.'

'Changes to legislation regulation or Government policy covering the conduct of, and access to gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crowns affiliate businesses and the value of licences granted. Possible changes include;-

Changes to restrictions on advertising and marketing (where applicable)

Under Heading 2 Volatility of premium Gaming

Redacted and then reads

'The International Premium Gaming market remains highly competitive with new (and projected) entrants in Asia presenting compelling and convenient local options for Asian VIP patrons, and Echo increasing domestic competition. The proactive promotion of Crown Melbourne's and Crown Perth's world class VIP experience remains a key initiative.'

The remainder is redacted.

Comments regarding Crown Resorts Limited Report Against Material High Risks documents dated 30 April, 13 May and 31 October 2015.

19. Crown in their covering email dated 7 June 2018 for the material state;

'All the redactions are for privilege, other than to the board minutes, which is for confidentiality, per my letter of earlier today.'

The earlier Crown letter referred to also states:

'Some other documents have also been redacted on the basis of legal professional privilege or lack of any relevance to the China investigation.'

The information that has been provided in the Crown Resort Limited Reports Against Material High Risks is limited with the majority being redacted. It is unclear if this is for confidentiality reasons or claims of legal professional privilege.

Overall comments

20. The recently provided documents strengthen the findings of the Crown China Summary Investigation Report. They highlight additional risk incidents including a 'warning' from the Chinese police, reinforce a clear sense that Crown were aware of a Chinese Government crackdown on gambling from February 2015 onwards, and indicate perceived pressure to meet targets despite the escalated environment.

21. The emails suggest that, at interview, Crown executives have not been as forthright as possible regarding their recollection of certain key incidents including the February 2015 crackdown also being gambling related. The emails may have assisted Crown executives to recall key events at that time.

22. These documents are clearly of interest to the investigation and would have been put to the interviewees at interview and their views would have been sought in relation to those documents.

23. The information contained within the Crown Resorts Limited Report Against Material High Risks documents is limited. There is a repeated reference to '*..proactive promotion of Crown Melbourne's and Crown Perth's world class VIP experience remains a key initiative.*'

There is no reference to China's anti-corruption crackdown in the reports as per the Crown Resorts Limited Risk Management Committee Memorandum Report dated 13 May 2015 when the '*The Committee considered the possible correlation between China's recently launched anti- corruption campaign and increased patron visitation to Australia...*'

Recommendations

1. This latest information be considered by the Commission as an addendum to the Crown China Summary Investigation report (**the 'Report'**)

- Noted
 Please discuss

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