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ANNEXURE  
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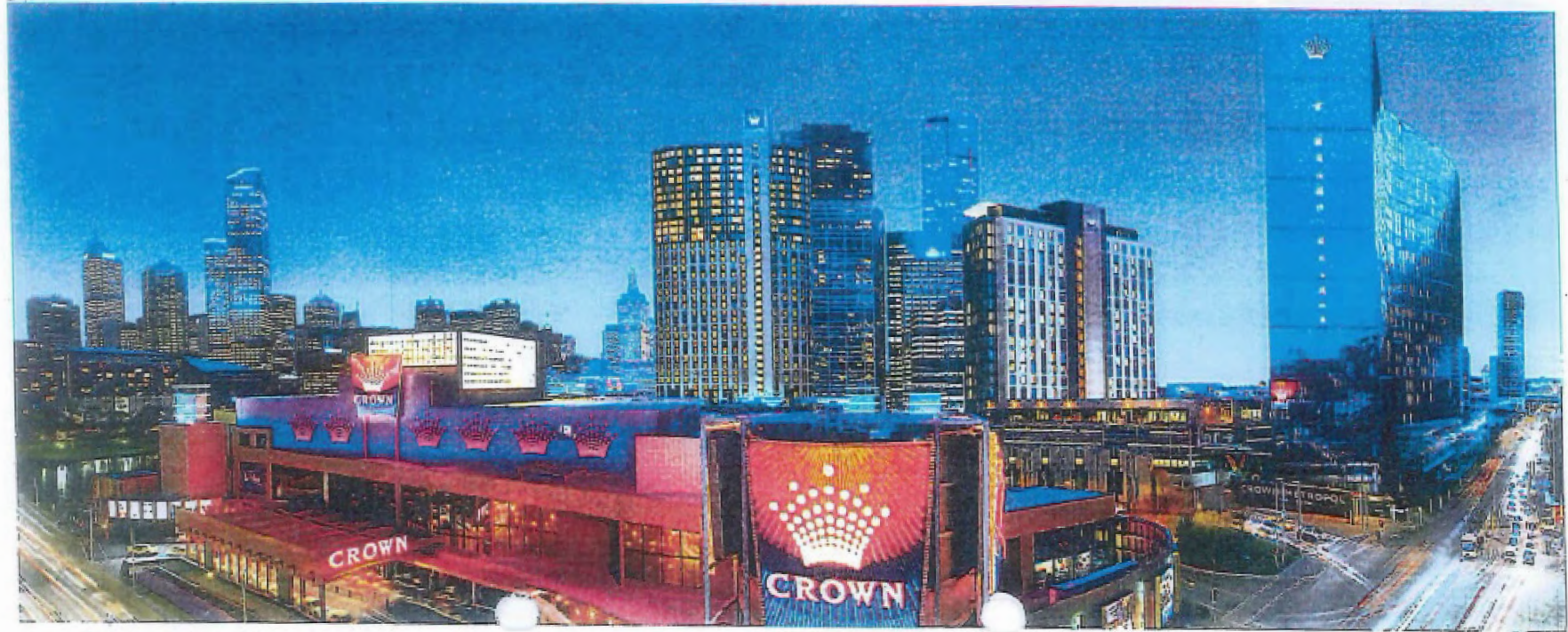
# Presentation to the Victorian Commission for Gambling & Liquor Regulation

August 2017



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## Background



- In October 2016, 17 current and two former employees of the Crown Resorts Limited group were detained in China.
- On 26 June 2017, each of the 19 detainees was convicted by the Shanghai Baoshan District Court of contraventions of Article 303, Clause 1 and Article 25, Clause 1 of the *Criminal Law of the People's Republic of China*.

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# Articles 25 and 303 of the Criminal Law of PRC



Crown has been informed that the substantive English translation of:

- **Article 303, Clause 1**, is that anyone who organises gambling parties or is engaged in gambling as one's main business for the purpose of making profits shall be sentenced to not more than three years of fixed-term imprisonment, detention, or surveillance, and shall be jointly fined; and
- **Article 25, Clause 1**, is that a joint crime is an intentional crime committed by two or more persons jointly.

# Sentences



- Eleven defendants received a custodial sentence of 9 months.
- Those 11 defendants were released on 12 and 13 July 2017.
- Five defendants received a custodial sentence of 10 months. They were released on 12 and 13 August 2017. Two of them were deported.
- Three defendants – the most junior staff – did not receive custodial sentences.
- The 16 defendants who received custodial sentences were also fined.
- Crown paid their fines on an 'ex gratia' basis. The total amount was approximately AUD1.67million.
- No judgment/reasons for decision have yet been published.
- Crown itself was not prosecuted, convicted or fined.

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## How did this happen?



- In early 2015, Chinese state media quoted an official of the Chinese government as saying that there was to be a crackdown on corruption and illegal activities, including gambling.
- Crown had heard many rumours that illegal gambling was occurring in China (amongst other criminal activities) and understood the crackdown to be targeting such gambling, rather than targeting the provision of assistance to customers to arrange visits to foreign or Macau casinos.
- In mid-2015, Crown staff became aware of the detention of a number of staff of two South Korean casinos, Paradise and GKL. - *FORGETTABLE ONLY*
- Crown sought (privileged) legal advice from a leading US firm, Wilmer Hale, which had an office in Beijing with strong political ties. (One of the partners was Ambassador Barshefski, who was the US trade representative to China in relation to WTO negotiations and was understood to be well connected in Beijing.)

## How did this happen?



- In October 2015, Crown staff heard that the detained Paradise and GKL staff had been formally arrested. Crown sought further (privileged) legal advice from Wilmer Hale and also government relations/intelligence/risk management advice from the Mintz Group (specifically, the MD for Asia, Randy Phillips, who spent 28 years with the CIA and was its chief representative in China).
- Mintz advised Crown that:
  - according to sources working in the Public Security Bureau (PSB) in China, most provincial levels of the PSB had intelligence units that routinely monitored people engaged in gambling;
  - the PSB had a network of informants, including representatives of foreign casinos and were routinely developing new contacts to help in particular with information about laundering of significant amounts of money;

## How did this happen?



- o also according to PSB sources, the Ministry of State Security (MSS) and the Central Discipline Inspection Commission (Discipline Commission) were also keen to have some contacts with foreign casino operators. The Discipline Commission was the dominant force in leading the anti-corruption crackdown in China and gathered information from the PSB and MSS which were generally cooperative;
- o the Discipline Commission and the PSB and MSS could be harsh on sources involved in specific cases and in some circumstances sources might be detained;
- o there was no reason to believe that small private dinners of 5-6 people and coffee meetings with customers would present any material risk;
- o Crown staff's activities should not be too overt but it was fine to proceed with low key marketing efforts with small groups, avoiding publicity, cell phone and text messaging whilst in-country or providing business cards to persons other than known customers;

## How did this happen?



- the detention and arrest of the Paradise and GKL staff was a targeted effort, not part of a broad-based action against foreign casinos;
- the reason that Paradise and GKL were targeted was because of their overt promotional activities, including use of collateral which referred to gambling and promotional offers, and the movement of money involving local travel agents and 'mules', coupled with heightened sensitivity about casinos in neighbouring countries;
- Crown staff should not be concerned beyond the need to take normal precautions per standard operating protocols; and
- Mintz would continue to monitor the situation carefully and would advise if anything changed.



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## How did this happen?



- Paradise and GKL were the top two foreigners-only casinos in South Korea and many of their prime players were from China;
- because of recent infectious disease scares, the Chinese government was discouraging Chinese tourists from travelling to South Korea; and
- there had been some other allegations of blatant currency exchange breaches, including carrying duffle bags stuffed with cash on flights to South Korea.

## How did this happen?



- Crown's inquiries at the time indicated that:
  - the Chinese government's anti-corruption enforcement had to some extent diverted Chinese gamblers from Macau to neighbouring countries including South Korea, Malaysia and Vietnam;
  - South Korea had become one of the most popular destinations for Chinese tourists;
  - many new entertainment/casino developments were being constructed in South Korea;
  - Paradise and GKL had been penalised previously by South Korean law enforcement agencies in respect of receiving RMB in China in return for providing gambling chips at their casinos in South Korea, in violation of foreign currency control policies both in South Korea and China;

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## How did this happen?



- Contrary to media reports, Crown did not receive any warning, official or otherwise, to the effect that its staff might be regarded as breaching Article 303 or any other relevant laws.
- Crown staff, like the staff of other foreign casinos and Macau-licensed junket operators, have been meeting with and entertaining actual or prospective customers in China for many years.
- Crown had obtained legal advice on Article 303 and a related court guideline which said that an individual committed an offence against Article 303 if they:
  - Organised 10 or more Chinese citizens to engage in group gambling;  
and
  - Personally receiving a 'referral fee' or similar kind of reward.

## How did this happen?



- Crown instructed its staff to conduct themselves in China in a manner which it understood would not involve breaching Article 303.
- Crown staff were instructed to:
  - Refrain from meeting with more than a few patrons (or potential patrons) at the same time (given the 10 person guideline);
  - Not hand out promotional materials that referred to gaming facilities or terms of play (Crown did not produce such materials for distribution in China); and
  - Generally keep marketing efforts 'low key'.

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## How did this happen?



- Crown informed its staff in China of the substance of the advice received from Wilmer Hale and Mintz and reminded them of the importance of limiting their activities to low key marketing to small groups and no publicity.
- Crown did not hear anything further of substance in relation to the Paradise and GKL staff or the proceedings against them before Crown's own staff were detained.
- Nor did Crown receive any warning from Mintz or otherwise that the staff of Crown or any other foreign casino were under investigation or at risk of being detained.
- Crown did hear that one US casino group, MGM, had withdrawn its staff from its Asian offices, including China, but understood that to be part of a regional reorganisation. (There were also rumours that MGM staff had been detained, but they transpired to be false.)

## How did this happen?



- Crown did not hear of any other foreign casinos or junket operators withdrawing their staff from China or otherwise changing their operations in China.
- As far as Crown was aware, it remained 'business as usual' for foreign casinos (including Echo/Star) and junket operators in China throughout 2016, until Crown's staff were detained.

## Risk Management



- The Crown group's risk management framework is overseen by the Board of the listed parent company, Crown Resorts.
- One of the Crown Resorts Board sub-committees is the Risk Management Committee.
- The Risk Management Committee has adopted a formal charter that outlines its duties and responsibilities. One of them is the administration of the Crown group's formal Risk Management Policy.
- The Policy sets out the process for development and review of Risk Management Plans for each of Crown's controlled businesses.
- The purpose of each such plan is to identify material business risks and provide the framework for reporting, mitigating and monitoring such risks.

# Risk Management



- Crown's Risk Management Plans did not specifically identify the risk of staff being detained in a foreign country, essentially because detention is a consequence of other higher level risks.
- Such higher level risks were identified, vis:
  - material breaches of gaming and other relevant legislation/regulations;
  - foreign political policy – including policy in foreign jurisdictions regarding the enforcement of local law;
  - legislative/regulatory changes – again including government policy on the enforcement of local law.



## Risk Management



- In the implementation of the relevant Risk Management Plan, the risk of breaching the law in China and, specifically, Article 303 was recognised and, in accordance with the Plan, Crown sought appropriate advice to mitigate the risk, and acted in accordance with that advice.
- Obviously the risk mitigation steps did not eliminate the risk – the advice Crown received did not anticipate that relevant authorities in China might enforce Article 303 against Crown staff as they did.
- Nevertheless, Crown continues to believe that its risk management framework and its risk management practices were and remain sound.

## Rationalisation of Crown's operations in Asia



- Following the diminution in revenue from international operations, Crown has sought to cut costs by restructuring – including by centralising its Asian operations in Hong Kong and closing its Macau office and other Asian offices for the time being.
- Crown has also refreshed its operating protocols so as to mitigate the risk of its staff being investigated or detained by law enforcement agencies in other jurisdictions for actual or suspected breaches of local laws.
- The refreshed protocols address, amongst other things:
  - the nature and extent of interactions that staff may have with patrons from mainland China, and the jurisdictions in which interactions may or may not occur;
  - the nature and extent of interactions that staff may have with patrons from other Asian countries and the jurisdictions in which interactions may or may not occur; and
  - procedures that staff must follow in respect of travel to Asia for business purposes, and to obtain approval for such travel.

## Rationalisation of Crown's operations in Asia



- In undertaking these steps, Crown has been conscious of the risk of offending Chinese authorities and Chinese citizens. Crown recognises that Chinese tourism to Australia is important for the Australian economy and for its own business, and has sought to avoid unduly discriminating against mainland Chinese customers.

## Some observations



- Neither Crown itself nor any of its directors have been accused or convicted of any offence in China.
- The conduct of Crown staff for which they were convicted was not fraudulent, dishonest or otherwise reprehensible. Their conduct would have been legal in Australia and other western countries.
- Prior to the detentions, neither Crown nor the staff thought they were infringing the relevant local law in China. Indeed, Crown had been independently advised that the activities of its staff should not be regarded as a breach of local law.
- Crown has sought to look after the welfare of its staff, both during the period of their detention and post-release.

## Some observations



- Current staff remained on full pay during the detention period, legal counsel were procured to act for them (at Crown's expense), consular and family visits were arranged where possible and their fines were paid ex gratia by Crown.
- Post-release, Crown has provided logistical support (including transportation) and arranged medical, dental and counselling services to be provided as required.
- Through rationalisation of its operations in Asia, Crown has sought to mitigate the risk of a recurrence. **It has sought to do so in a way that is not seen as unduly discriminatory against mainland Chinese customers.**
- Crown has a robust risk management framework and retains confidence in it notwithstanding this episode.



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