

Draft Confidential Report – not to be disseminated – version 28 May 2019

DRAFT – CONFIDENTIAL

Report into the Imprisonment of Crown staff from October 2016 to August 2017 in the People’s Republic of China

Victorian Commission for Gambling and Liquor Regulation

Draft Confidential Report – not to be disseminated – version 28 May 2019

Contents

DRAFT – CONFIDENTIAL.....	1
Executive Summary.....	4
Warning signs in China about foreign casino activities.....	4
Failure to Report.....	6
Business strategy in China.....	8
Failure of Risk management.....	9
Changes since August 2017.....	10
Regulatory Outcome.....	12
Recommendations.....	14
INTRODUCTION.....	16
Regulatory Framework:.....	16
Methodology of Investigation:.....	17
Crown’s VIP International operations prior to October 2016 detention.....	18
Crown Corporate structure.....	18
VIP International business.....	19
VIP International department.....	20
Governance of Crown’s VIP International Marketing in China.....	24
Reporting about the VIP International Department to the Boards.....	24
Reporting of the Downturn in the Macau Casino Market.....	25
Macau downturn an opportunity for growth in Australia.....	28
Financial and Business planning by Crown.....	30
Strategic Business planning about VIP International Department at Executive level.....	30
Business Planning at Board level – Financial Plans adopted by the Boards.....	32
International Marketing strategies in China.....	34
Staffing strategies.....	34
Sales strategies.....	40
Public statements by CRL in Australia about its business strategy in China.....	43
Criminal Proceedings in China.....	44
Criminal law in relation to gambling in China – Article 303.....	44
China’s Judicial Interpretation of Article 303.....	44
Crown’s Interpretation of Article 303.....	45
Chinese authorities’ interpretation.....	46
Criminal proceedings against Crown employees.....	48
Chinese legal system and convictions.....	51

Draft Confidential Report – not to be disseminated – version 28 May 2019

What were the warning signs in China prior to October 2016?.....	52
6 February 2015 - Chinese Ministry of Public Security announcement.....	52
June 2015 – Criminal Detention of South Korean casino marketing staff.....	54
July 2015 - Chinese police question Crown marketing staff in China.....	54
13 October 2015 - Chinese Central TV media report – Overseas Casinos Setting up Networks inside China.....	55
Other activities by Chinese authorities after October 2015.....	56
What was Crown’s response to these warning signs?.....	57
Crown’s submission overall.....	57
Legal advice.....	58
Government Relations Advice.....	58
Reporting to the Senior Executives Responsible about the warning signs in China.....	63
Marketing continued in 2015.....	73
Staff concerns and Advice to Staff.....	74
Reporting to the CML and CRL Boards.....	79
Monitoring of Events in China between November 2015 and October 2016.....	81
Commission assessment of governance.....	83
Failure to report.....	83
Publishing Crown’s business strategy contrary to China’s public messages.....	87
Crown’s risk management of China operations before the detention.....	88
CRL Risk Management.....	88
CML Risk Management.....	90
How did the risk management framework fail?.....	91
Doing business in China.....	97
Crown’s comments regarding other casino industry participants in China.....	99
Changes implemented by Crown after August 2017.....	100
Crown’s operations in China since the release of Crown employees in August 2017.....	100
Risk Management since August 2017.....	103
Governance and Reporting by the VIP International Department.....	105
Crown’s strategic and leadership changes.....	106
Governance - Crown’s lack of analytical review and lack of explanation.....	107
Conclusions regarding disciplinary action.....	108
Recommendations.....	111
Glossary.....	113

Draft Confidential Report – not to be disseminated – version 28 May 2019

Executive Summary

1. On or about 13 October 2016, 17 current and two former employees of Crown were criminally detained by Chinese police. Eight months later, on 26 June 2017, the Shanghai Baoshan District People's Court in China ruled that all these employees had contravened China's anti-gambling criminal laws. Sixteen employees were sentenced to nine or ten month's imprisonment and fined, the other three employees were released.
2. The Commission has investigated the circumstances that led to the imprisonment of Crown's employees in China for the purposes of assessing if any regulatory action should be taken against Crown Melbourne Ltd, the holder of the casino operator licence for the Melbourne casino.

Warning signs in China about foreign casino activities

3. Crown has actively marketed to international VIP gamblers since its inception and has actively marketed to Chinese citizens for at least 20 years. The VIP International program is a substantial part of Crown's casino business. Crown has a VIP International Department that provides a service to international VIP gamblers at Crown casinos, including an international marketing division that is dedicated to attracting international VIP gamblers to Crown casinos.
4. Prior to October 2016, Crown's President of International Marketing Division was located in Hong Kong and managed numerous marketing sales staff located throughout a number of Asian countries, including mainland China. In early F17 (financial year ending on 30 June 2017) Crown had about 25 staff in China plus staff in Hong Kong dedicated to marketing to Chinese citizens, including regional vice presidents, international sales managers, directors of international sales, assistant sales managers and visa assistants. Crown allocated its sales staff and administrative staff in China to seven regional teams that reported through the executive vice president in China to the President of International Marketing in Hong Kong.
5. China's criminal law prohibits gambling activity in China (Article 303). There is a 2005 Chinese Judicial Interpretation that states that *organising more than ten citizens of the People's Republic of China to gamble abroad and to extract a commission and referral fee would contravene China's anti-gambling criminal law.*
6. Prior to 2015, Crown sought legal advice about its activities in China. Crown states that it was advised that its marketing staff could lawfully operate in China if its staff did not organise more than ten persons to travel abroad to gamble in one trip (the 10 persons per trip interpretation). Crown arranged its business practices on this advice. Crown states that at all times it believed that its staff were acting lawfully in China and relied on the advice of its Chinese legal adviser.
7. Crown did not provide the Commission with its legal advice on the grounds of legal professional privilege and declined to waive this privilege. Therefore, the Commission was unable to assess what legal advice was given to Crown, whether the advice was

Draft Confidential Report – not to be disseminated – version 28 May 2019

qualified or changed over time, who within Crown received the legal advice and whether Crown did act in accordance with the legal advice.

8. The Commission's investigation found that there were several "warning signs" given by Chinese authorities in 2015 to all foreign casinos about actively marketing in mainland China to Chinese citizens to travel abroad to gamble. These warning signs were:
 - In February 2015, the Chinese Ministry of Public Security announced a crackdown on foreign casinos in China seeking to attract Chinese citizens to travel abroad to gamble.
 - In June 2015, numerous South Korean casino marketing staff were detained by Chinese authorities, and subsequently arrested and tried in August 2016, resulting in terms of imprisonment and deportation of the South Korean casino marketing staff.
 - In October 2015, a Chinese State CCTV media report set out the Chinese authorities' attitude to foreign casinos operating in mainland China marketing to Chinese citizens to gamble overseas. The CCTV media report broadcast that Chinese authorities took the view that it was a gambling offence where a person organises more than 10 persons to go abroad on multiple occasions and the accumulative number reaches ten.
9. Each of these warning signs was brought to the attention of senior executives responsible for Crown's VIP international marketing in China, including the Chief Executive Officer (CEO) of Crown's Australian Resorts. The Crown staff in China contemporaneously raised their concerns about these developments with their managers.
10. In addition, there was a further "warning sign" specifically related to Crown's activities in China. In early July 2015, within approximately three weeks of the detention of the South Korean casino marketing staff, two of Crown's gaming marketing employees in China were contacted by Chinese police in relation to gambling related activity in China. One staff member was formally interviewed at a Chinese police station and requested to provide a letter from his employer (Crown), confirming his employment. Crown in Melbourne duly provided that letter dated 9 July 2015 to the employee and this was in turn provided to the Chinese police. The CEO of Australian Resorts, who was aware that staff members had been questioned by police, authorised the letter to be provided.
11. The Chinese authorities adopted and enforced the Chinese criminal gambling law on the basis that a person cannot organise more than ten persons to travel overseas to gamble and persons cannot work together to organise more than 10 persons travelling overseas to gamble. If a person or persons together organised more than 10 persons to travel overseas, cumulatively, according to the Chinese authorities, they would contravene China's anti-gambling law in Article 303. The judgement of the Court indicates that Chinese prosecutors gathered a significant amount of material, including statements by over 60 Chinese gamblers, and information from mobile phones, iPads and laptops of Crown staff. The indictment detailed the regional teams

Draft Confidential Report – not to be disseminated – version 28 May 2019

established by Crown in China to market gambling, the remuneration of staff based on gambling turnover, the position of each staff member and the financial performance targets for each regional sales team and the achievement of these gambling turnover targets. The Chinese authorities gathered the information relevant to Crown's business strategy in preparing the indictment. The Court found that the 19 Crown employees had jointly organised for more than 10 Chinese citizens to travel overseas to gamble. It appears that Crown arranged its affairs in China based on legal advice applicable to individual staff per trip – not based on their staff working together collectively to attract Chinese citizens overseas to gamble. Based on this evidence and the pleas of guilty by Crown staff they were a convicted of breaching Article 303 and Article 25 of the Chinese Criminal Law. It appears that Crown arranged its affairs in China based on a different legal interpretation of Article 303, that was based on an individual staff member organising no more than 10 persons per trip to travel overseas to gamble – not based on the Crown staff working together collectively to attract Chinese citizens overseas to gamble.

Failure to Report

12. The above warning signs from Chinese authorities, including the questioning of Crown's employees, were never reported to the CEO of Crown Resorts (save for the detention of the South Koreans) or the Crown Resorts Ltd (**CRL**) Board or the Crown Melbourne Ltd (**CML**) Board or their various sub-committees.
13. In short, the senior executives responsible for international marketing did conduct assessments, after each of these events. Based on external legal advice and government relations advice in China they concluded that Crown should continue marketing to Chinese citizens. Based on the advice of the government relations consultant, Crown executives were aware that Chinese authorities were closely monitoring the activities of foreign casinos, but formed a view that Crown could continue its activities in China provided Crown remained "low key" with little publicity in China.
14. On the advice of the government relations consultant and sources in the marketplace, the senior executives formed the view that the detention and criminal proceedings against the South Korean marketing staff and the October 2015 CCTV media report were specifically directed to the activities of the South Korean casinos. The senior executives considered the South Korean casinos had engaged in conduct that was outside the usual practices of foreign casinos, and therefore the attention of authorities was solely directed at the South Koreans casinos and not to other foreign casinos (like Crown). Similarly, they assessed the CCTV media report as pertaining only to explaining the detention of the South Korean casino staff and not having any broader application.
15. During the investigation, Crown submitted that the questioning of Crown's staff by Chinese police was not significant. The senior executives did not appear to realise the significance of Crown staff being questioned by police about organising gambling in China, only weeks after the detention of South Korean casino marketing staff and after the announcement of a crackdown on foreign casino's marketing to Chinese citizens in China. This was compounded by the President for International Marketing not escalating the repeated advice from the external government relations consultant

Draft Confidential Report – not to be disseminated – version 28 May 2019

in July 2015 that the provision of an employment letter from Crown could contribute to an “evidentiary pile” that could be used in the future by Chinese authorities. The government relations consultant stated: *“we must also consider the request for the letter has the effect of contributing to an evidentiary pile that PSB could decide to draw upon in the future.”*

16. The failure to report these activities by Chinese authorities, especially the questioning of Crown staff by Chinese police and related advice, to the CEO of Crown Resorts and the CRL and CML Boards (and sub-committees) demonstrates a governance and risk management failure. The CEO of Crown Resorts stated to the Commission that, in his view, the questioning of Crown’s staff in China and the October 2015 CCTV media report should have been escalated to him.
17. Crown submits that it is only with hindsight that the assessment of the risk of Crown Group staff being detained in China can be criticised. The Commission does not accept this analysis.
18. Crown was in similar circumstances to other foreign casinos in receiving the public messages from the Chinese authorities in February 2015 and October 2015, and the evidence of the Chinese government’s implementation of its warnings with the detention, criminal proceedings and deportation of South Korean employees. However, there was a significant difference for Crown – the specific questioning of Crown employees by Chinese police and the specific advice that this evidence being gathered by police could be relied upon in the future. The Crown CEO of Australian Resorts did not notify the most senior Crown executive – the CEO of Crown Resorts about the questioning of Crown employees and the provision of a letter to the Chinese police. Further the CEO of Australian Resorts, the Group Executive General Manager of the VIP International Department and the President of the International Marketing Division took no action to inform Crown’s staff most at risk in China – even to warn that they might be questioned by Chinese police.
19. Furthermore, Crown’s staff in China repeatedly raised their concerns with their immediate managers in Crown’s International Marketing division about the public actions of the Chinese authorities and these concerns were known to Crown’s senior executives, the CEO of Australian Resorts and the Group Executive General Manager of the VIP International Department. Crown staff were reporting their concerns about the Chinese authorities’ actions in 2015, contemporaneously with events and not with hindsight. As one Crown employee told the Commission, he was “really annoyed” that management did not listen to his and other staff concerns and the fact that the Chinese government had warned on state television and in other media outlets that Crown’s activities were being monitored, as he believes if this had occurred, he and others would not have been arrested.
20. As there was no formal reporting to the CRL Board or CML Board of the warning signs in China, Crown continued to pursue its business strategy of aggressively marketing Crown’s casinos to Chinese citizens in China throughout 2015 and 2016 and to publicise the success of this business strategy. The governance failure in the CEO of Crown Resorts and the CRL and CML Boards not being fully informed by the senior executive regarding the situation in China, resulted in the Boards endorsing a business strategy aimed at maximising profits for Crown and publicising this business

Draft Confidential Report – not to be disseminated – version 28 May 2019

strategy without understanding the warning signs from the Chinese authorities and the potential risks to Crown's staff and its business operations in China of being found by a Chinese court to have breached China's criminal law

Business strategy in China

21. The CRL and CML Boards and senior executives were aware that as a result of China's anti-corruption crackdown, Chinese VIP gamblers were no longer travelling in numbers to Macau to gamble but rather were travelling to other foreign casinos, including Australian casinos. The CRL Board, based on the financial performance reporting for Melco Resorts & Entertainment Ltd (**Melco**), became aware of the downturn in the Macau casino market in late F14 and this downturn continued into F15, F16 and F17. The CRL and CML Boards were also aware of the trend of increased visitation by Chinese VIP gamblers to Crown's Australian casinos. In February 2015 Crown reported that the Melbourne casino had experienced record gambling turnover in November and December 2014 from VIP program play.
22. Crown, informed by the trend of increased visitation from Chinese gamblers to its Australian casinos, considered this trend a business opportunity and implemented a business strategy to attract more Chinese gamblers to Crown's Australian casinos. This strategy included the following aspects:
 - increasing the budget of the international marketing division
 - increasing the international gaming marketing staff in China
 - highly incentivising the international gaming marketing staff through short term incentive plans, with staff able to earn uncapped bonus payments based on the gambling turnover of Chinese citizens they attracted to Crown's Australian casinos and increasing performance gambling turnover targets for international gaming marketing staff to be eligible for bonus payments
 - developing and fostering a strong sales culture in the international marketing division, with staff receiving daily sales performance reports relative to bonus payments
 - building the sales capability of international marketing staff through training and recruiting experienced and proven sales persons
 - implementing a new platform junket strategy to increase the customer base in China
 - heavily promoting major events as reasons to visit Australian casinos
 - increasing marketing roadshows in China
 - frequent travel of senior executives to China.
23. This business strategy was financially successful as reflected in the financial results for VIP Program play for Crown for F15 and F16. In F15, Crown achieved a record turnover of \$70.8 billion in VIP gambling at Crown's Australian Resorts. This was an increase of 41.8 per cent in VIP Program Play gambling turnover from F14. Crown largely sustained this massive growth in F16 with its second highest turnover of \$65.1 billion in VIP Program Play gambling at the Australian casinos.
24. Based on the success of Crown's business strategy and its substantial improvement in the VIP Program play turnover, Crown made various public announcements about its business strategy and the success of the strategy. By September 2016, when the Crown Resorts annual report was released, just weeks before the detention of staff, it

Draft Confidential Report – not to be disseminated – version 28 May 2019

stated, amongst other things, that in F16 there was a marked rise in international visitors, particularly from China, and that Crown Resorts' sustained focus on growing numbers from China has "paid off" with the resorts in Australia now among the most visited tourist destinations in their respective states. Crown also noted in the annual report that in F16 more than a third of revenue generated by the Australian casinos was generated by international visitors, predominantly from mainland China. These public announcements and reports by Crown may have been noticed by Chinese authorities who had been making their own public statements about seeking to combat the activities of foreign casinos in China which sought to attract Chinese citizens abroad to gamble.

25. In the Commission's view, if the warning signs and government relations advice in China, and in particular the questioning of Crown staff by Chinese police, had been reported to the CEO of Crown Resorts and/or the relevant boards, this would have enabled the CRL Board and CEO of Crown Resorts to make fully informed decisions about risks associated with Crown's business strategy. Crown may well have sought further advice, or reassessed its business strategy and the activities of staff in China, such as reducing the number of staff in China, or adopting a different business strategy about marketing to Chinese citizens and assessed the nature of public statements made in Australia. However, they did not have the benefit of this information and had no opportunity to reassess.

Failure of Risk management

26. Crown has an extensive risk management framework. However, the risk management systems and processes that form the framework were never engaged to assess the warning signs and address the risk of Crown staff being detained in China. The Commission considered the following factors may have contributed to the risk management framework failing to effectively identify and manage the risk to staff and Crown's business in China:
- There was no separate risk management plan or risk profile for VIP International department operations and staff overseas. The risk framework for overseas marketing operations formed part of the Crown Melbourne risk management framework.
 - The warning signs in China were not reported to the relevant risk management executive and Board committees.
 - Controls in the Crown Melbourne risk management plan were not applicable to Crown's operations in China.
 - Controls in the Crown Melbourne risk management plan relied on the judgement of senior executives. Crown advised the Commission that it did not identify any material risk so no strategies were developed or put in place to mitigate or respond to the particular risk.
 - Internal audit controls were never applied to risks relevant to the overseas marketing operations.
 - Actual controls relied on by Crown in relation to foreign political policy risk in China were not documented and not subject to any veracity or reliability measures.
 - The Crown Resorts risk profile does not make any mention of foreign political policy as a risk.
 - The risk management framework focussed heavily on financial risks to Crown.

Draft Confidential Report – not to be disseminated – version 28 May 2019

- There were insufficient checks and balances on the actual controls implemented by Crown in China.
27. The inadequacy of the risk management framework in relation to Crown’s activities in China is demonstrated by the following incident. In May 2016, an Australian Crownbet employee requested Crown’s China based staff to promote Crownbet. The Crown senior manager in China emailed his sales staff in China to promote Crownbet. A China staff member responded noting that internet gambling is illegal in China and that the sales team will take a high risk, so please think carefully. The senior manager replied commenting on how could the staff member develop the regions if they were “*too worried about something within the grey line*” and suggested they think seriously about their role.
28. In the Commission’s view, the known challenges for businesses operating in China only heightens the responsibilities of boards and their senior executives to have effective and reliable risk management plans in place. They should regularly conduct thorough risk assessments and specifically address the risks to its business and its staff operating in China or other countries. The Commission considers that the risk management plans of Crown did not adequately and effectively address the risks to Crown and its staff in China.

Changes since August 2017

29. Since the events in China, Crown has made substantial operational and leadership changes. It has also revised its entire strategic vision.
30. These changes at an **operational level** include:
- a. Removing all gambling marketing staff from mainland China. Crown has stated to the Commission that it is not proposing to have anyone engaged in dealings with actual or prospective gaming customers “on the ground” in mainland China for the foreseeable future. Crown now has only one employee in China, Business Development Manager Hotel, Conferences and Conventions who is responsible for maximising hotel sales to Crown’s hotels. Crown also has a small number of contracted education agents in China recruiting students to undertake courses at Crown College in Melbourne.
 - b. Rationalising marketing staff located in Asian countries, and Crown staff are now solely based in Hong Kong. Crown offices in Macau and other locations in Asia have been closed “for the time being”.
 - c. Refreshing its operating protocols to mitigate the risk of staff being investigated or detained by law enforcement agencies in other jurisdictions for actual or suspected breaches of local laws. The refreshed protocols include:
 - guidelines regarding the nature and extent of interactions that staff may have with patrons from mainland China and 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.

Draft Confidential Report – not to be disseminated – version 28 May 2019

- d. A compliance officer is located in Hong Kong with a separate reporting line to the Group General Manager, Regulatory & Compliance. The compliance officer reports orally to executives in Melbourne, with no written reporting.
 - e. Travel to mainland China is prohibited, save for trips related to ancillary matters, such as construction related business.
31. Crown has also made significant **strategic and leadership changes** since the criminal detention of staff in China:
- the Chairman of the CRL Board and the CEO of Crown Resorts ceased duties in February 2017, and were replaced by Mr John Alexander, the current Executive Chairman. Similarly, the President of International Marketing, the senior executive responsible for marketing operations in China has departed the business. Another experienced Crown senior executive is now responsible for International marketing under the new business model, and
 - the strategic direction of CRL has undergone a major transformation - from building a global gambling business operating across multiple continents to a business focused on consolidating the Australian casino business.
32. These changes are significant, and by removing the gaming marketing staff from China, the risk of detention of Crown staff in China has been removed.
33. Whilst Crown has made the changes above, it has not undertaken a critical review of the circumstances that led to the detentions, or reviewed its risk management framework or the governance arrangements (including reporting arrangements) to assess if any systemic failings contributed to the detention of staff. It appears, on the information provided, that Crown senior management and the CRL Board has not analysed or assessed whether there were any systemic failures in its governance arrangements, particularly in reporting about the VIP International business, and acted to address such failures. Such a review would enable Crown to take steps to address these failings and reduce the potential for another major event impacting on its overseas operations in Asia.
34. It appears that, to date, Crown's response to the events in China, has been to make reforms to the VIP International department operations (taking into account legal advice). Whilst appropriate, Crown's response has not considered more broadly the effectiveness, adequacy and reliability of its risk management framework.
35. Accordingly, the Commission is concerned, that whilst Crown has made operational changes in relation to its activities in China, there has been no analysis of its risk framework and systems and consequently no changes to its risk management processes. The Commission is concerned that Crown has not looked more broadly at the risk systems in place to identify and mitigate risks adequately and to be able to respond to emerging or increasing risks associate with changes in the environment in which it is operating. Whilst Crown has reduced the risk of further issues arising in China, rectification work regarding risk management and corporate governance processes may act to control and treat other risks should they escalate in other countries. Accordingly, the Commission has made a recommendation for Crown to

Draft Confidential Report – not to be disseminated – version 28 May 2019

undertake a comprehensive review of its risk management systems with regard to its overseas operations in Asia.

36. Further, in relation to governance and oversight of the senior executives, the most significant change has been the appointment of the Executive Chairman. However, there does not appear to have been any other broad systemic review with changes to reporting to the CRL and CML Boards regarding the activities of the VIP International department, including the international marketing operations. Further, the compliance officer only provides verbal reports to senior compliance management in relation to compliance matters involving the overseas operations of the VIP International Department in Hong Kong. Accordingly, the Commission has made recommendations regarding reporting in relation to the VIP International department operations, including the international marketing division, and reporting by the compliance officer to facilitate the Board being fully informed to effectively oversee the offshore operations of Crown in the Asian region.

Regulatory Outcome

37. The regulatory framework for the Melbourne casino is prescribed in the *Casino Control Act 1991* (the CC Act), the *Gambling Regulation Act 2003* and the *Victorian Commission for Gambling and Liquor Regulation Act 2011*.
38. The grounds for disciplinary action are set out in section 20 of the CC Act. The relevant grounds applicable under section 20 are that the casino operator is no longer suitable to hold the casino operator licence or it is no longer in the public interest that the casino operator licence remain in force. There is a very high threshold required to be met for a regulator to determine that a licence holder is no longer suitable to hold a licence, or that it is no longer in the public interest that the casino licence remain in force. Conduct of the most egregious kind may meet such a threshold. If one of these grounds are established, then the appropriate disciplinary action would be to cancel the casino operator's licence held by CML. Cancellation of the licence is the most severe disciplinary action open to the Commission and would have drastic ramifications for all Crown employees, contractors, suppliers, shareholders and businesses operating in the casino complex and for the Victorian community, with substantial financial, economic, employment and tourism consequences.
39. The Commission has considered all the circumstances surrounding the detention, conviction and imprisonment of Crown staff in China as described above.
40. The Crown executive management and Boards were informed and understood that Crown in Australia had seen a record increase in VIP gamblers from China. Based on this information, Crown implemented a business strategy to take advantage of this trend and dedicated significant resources, staff, and marketing activities to reap the profits from these Chinese citizens travelling to Australia.
41. However, Crown's executive management responsible for international marketing, relying on external government relation and legal advice, failed to monitor and identify the warning signs that the Chinese authorities were cracking down on foreign casinos marketing in mainland China to attract Chinese citizens to gamble overseas. Crown's executive management did not appear to identify the changing environment

Draft Confidential Report – not to be disseminated – version 28 May 2019

in China, and as discussed above, the most significant manifestation of this policy change for Crown was in July 2015 when Crown staff employed in mainland China were interviewed by Chinese police regarding organising gambling, and police requested an employment confirmation letter from Crown.

42. The failure by the senior executives responsible for international marketing to appreciate and address the changing regulatory environment in China regarding the activities of foreign casinos, led to a failure in governance as the CML Board and CRL Board were not informed of the warning signs indicating a change in conditions in China. Further, the risk management systems were not engaged for various reasons, but primarily because the senior executives responsible for international marketing did not identify and monitor the changed environment in China in relation to the activities of foreign casinos which increased the risks to its staff and business in China. Rather, the Boards approved increasing resources for Crown's marketing activities (including staffing, budgets and targets) in mainland China to enhance the returns for the company, but were not briefed of the potential risks to Crown's staff and business in mainland China, and therefore made decisions without being properly informed. Furthermore, Crown publicly announced in Australia the success of its business strategy to attract Chinese citizens to its casinos, which may have increased the prominence of Crown's operations in China and the risk to its staff and operations in China. Better reporting to the Board would have allowed it to reconsider its strategy in China.
43. However, after carefully reviewing the circumstances of the imprisonment of Crown's staff, and the actions taken by Crown to address issues relevant to the management and operation of Crown staff marketing in China, the Commission is not satisfied that that CML is not suitable to hold a casino operator's licence.
44. However, in light of the events and the response of Crown the Commission considers there is further action that should be undertaken by Crown and this is addressed in the recommendations below.
45. Therefore, the Commission is not satisfied that a ground for disciplinary action is established under section 20(d) or (e) of the CC Act.
46. There are no other grounds under the CC Act to take regulatory action against Crown in relation to the imprisonment of Crown staff in China. Crown did not contravene any provisions of the CC Act or other Victorian gambling legislation, and other grounds for disciplinary action are not relevant.
47. Therefore, the Commission is not satisfied that a ground of disciplinary action can be established under section 20 (d) or (e) of the CC Act.
48. The Commission considered in light of the findings above, that no regulatory action should be taken under the CC Act.

Recommendations

49. The Commission has made a number of recommendations, after having regard:
 - to the significance of the events that resulted in Crown staff being imprisoned in China

Draft Confidential Report – not to be disseminated – version 28 May 2019

- the importance of a casino operator, and its staff, complying with all laws in all jurisdictions in which the casino operator is undertaking casino related activities, and
- acknowledging the public interest for the Victorian community to have confidence that the casino operator is an accountable, trust worthy and credible corporate citizen.

Recommendation 1 The VIP International Department of Crown (and other departments of Crown that conduct activities in China or other Asian countries) to provide the CML Board and CRL Board regular six monthly written reports. These reports should provide information about:

- Crown's operations in China and other Asian countries, (including the nature and extent of operations)
- the current events and foreign political policy relevant to marketing and other Crown activities (including activities of contractors or agents etc) in China and other Asian countries
- the protocols (and any changes) in operation related to marketing, regulatory developments and compliance and other activities in those countries
- any engagement with law enforcement or other government agencies in those countries (if any)
- expert external advice received by Crown regarding its operations in those countries,
- the level of gambling turnover from citizens from those countries, and
- other matters relevant to Crown's operations in those countries.

These reports should commence at the earliest opportunity, or by 30 June 2019 at the latest.

Recommendation 2 The compliance officer in Hong Kong (and in any other overseas offices) provide regular six monthly written reports to CEO of Australian Resorts and the CRL Risk Management Committee regarding their activities to ensure compliance by Crown with all laws in the Asian region. These reports should be incorporated into Crown's risk management framework. These reports should commence at the earliest opportunity, or by 30 June 2019 at the latest.

Recommendation 3 That Crown engage an independent risk expert, approved by the Commission, to review Crown's risk management framework, including all relevant documentation and processes, and provide an assessment of the effectiveness of the risk management framework (including the identified risks and mitigation controls) in relation to its activities and operations in all Asian countries. The risk assessment should be provided to the Commission, along with any revised Crown risk management documentation, (including its risk profile, appetite, management plan, policies and charters of risk management committees) that have been implemented as a result of the review. This recommendation should be implemented by 31 December 2019.

Recommendation 4 A copy of this report is delivered to every current Board member of CML and CRL.

Draft Confidential Report – not to be disseminated – version 28 May 2019

INTRODUCTION

Regulatory Framework:

50. Crown Melbourne Ltd (**CML**) is the holder of a casino operator licence issued in 1993 under the *Casino Control Act 1991* (the **CC Act**) to operate the Melbourne casino. CML is a subsidiary of Crown Resorts Ltd (**CRL**), and CML is only one of a large number of corporate entities in a large group of companies overseen by CRL. CRL, CML and the other companies in this group are hereafter referred to as **Crown**.
51. The Victorian Commission for Gambling and Liquor Regulation (the **Commission**) is the responsible regulator established under the *Victorian Commission for Gambling and Liquor Regulation Act 2011* (the **Commission Act**). The functions of the Commission under the CC Act include, amongst other things, overseeing the operation and regulation of the casino.
52. On or about 13 October 2016, 19 Crown employees (including two former employees) were criminally detained by Chinese authorities in China. Thereafter, on 11 November 2016, three Crown employees were released on bail, and the remaining 16 Crown employees remained in criminal detention in China.
53. On 26 June 2017, all 19 Crown employees appeared in the Shanghai Baoshan District Court (the **Court**) and pleaded guilty to offences related to the promotion of gambling in China. All employees were convicted by the Court of contraventions of Article 303, Clause 1 and Article 25, Clause 1 of the *Criminal Law of the People's Republic of China*. The Court sentenced 16 employees to terms of imprisonment and they were also fined. The other three employees were not sentenced or fined.
54. In July 2017, the Commission commenced an investigation, under the CC Act, the *Gambling Regulation Act 2003* and the Commission Act, for the purposes of assessing the circumstances leading up to the detention and the subsequent conviction and imprisonment of Crown staff, to determine whether any disciplinary action or other regulatory action should be taken against CML and/or its licensed employees.
55. The CC Act is the primary legislation that confers powers on the Commission to regulate the Melbourne casino and legislates the legal obligations of CML in operating the Melbourne casino under the casino operator's licence.
56. Section 20 of the CC Act provides that the Commission may take disciplinary action, such as a letter of censure, a fine not exceeding \$1 million, cancellation, suspension or variation of the casino operator licence, where there is a ground for disciplinary action established. For the purposes of this investigation, the relevant grounds for disciplinary action are sub-sections 20(b), (d) and (e) which state:

(b) that the casino operator, a person in charge of the casino, an agent of the casino or a casino employee has contravened a provision of this Act or the Gambling Regulation Act 2003 or a condition of the licence;

(d) the casino operator is, for specified reasons, considered to be no longer a suitable person to hold the licence; or

Draft Confidential Report – not to be disseminated – version 28 May 2019

(e) for specified reasons, it is considered to be no longer in the public interest that the licence should remain in force.

57. The Commission notes that the only appropriate disciplinary action that would be taken if the grounds in sub-sections 20(d) and (e) were established is cancellation of the casino operator licence. Where the ground in section 20(b) is established a disciplinary action, such as a fine or letter of censure or suspension may be appropriate depending on the particular circumstances of the contravention.

Methodology of Investigation:

58. The Commission undertook a detailed investigation of Crown and the circumstances surrounding the conviction and imprisonment of its employees in China.
59. The investigation involved Commission staff:
- reviewing materials provided by CML and other Crown companies in response to statutory notices
 - interviewing current and former Crown senior executives and staff
 - seeking information from other international casino operators
 - seeking information from offshore regulators in Nevada and Singapore
 - seeking information from the Department of Foreign Affairs and Trade (DFAT)
 - reviewing open source materials (including media reports) related to gambling and casino activities
 - scrutiny of open source Crown materials (eg annual reports, ASX announcements), and
 - obtaining translations of various documents.
60. In undertaking this review the Commission has focussed on the activities of Crown and its operations in China between June 2014 and 13 October 2016, and the changes implemented by Crown after the imprisonment, conviction and release of its staff.
61. In summary, Crown provided significant volumes of materials between July 2017 and 18 March 2019. In addition, Crown provided submissions to the Commission in relation to the investigation. On (insert) 2019 the Commission provided Crown with a draft of this report and invited Crown to reply. On (insert) 2019 the Commission received a written response from Crown and this was taken into consideration in finalising this report.
62. It should be noted that this report is based on the evidence available at the time of writing and finalising this report. Crown, as a regulated entity, has a primary responsibility to respond to requests for information from the Commission within a timely manner. Crown was given adequate time by the Commission to respond to statutory notices and has been on notice since July 2017 of this investigation. The Commission determined to complete its investigation based on the information available. The Commission received the information from Crown in an ad hoc way, with the last batch of material provided on 18 March 2019 containing documents

Draft Confidential Report – not to be disseminated – version 28 May 2019

responding to notices issued in February and August 2018. The Commission assessed the later batches of material, noting they contained significant information, but determined that further inquiries and interviews of Crown senior executives and others was not required and would cause further unnecessary delay. If more information becomes known after this report which is pertinent to the investigation and Crown's obligations under the regulatory framework, then the Commission will assess whether to reopen the investigation in light of any new information.

63. This report does not address any potential regulatory action in relation to any persons who hold a casino special employee licence or are associates under the CC Act.

Crown's VIP International operations prior to October 2016 detention

Crown Corporate structure

64. The Crown group of companies is a complex group of corporate entities that currently owns and operates the Melbourne Casino, the Perth casino and Aspinalls casino in the United Kingdom.
65. The Commission has previously described in detail the corporate structure and overseas business operations of Crown and the subsequent divestments in the period 2013 – 2018 in the Sixth Casino Review Report.
66. Of relevance to this investigation, the casino operator licence holder under the CC Act is CML. CML is responsible for operating the Melbourne casino. The Melbourne casino is the largest casino in the Crown group and in 2017 – 18 (F18) it generated 73 per cent of Crown Resorts' normalised Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). One of the Crown employees detained, found guilty and sentenced in China, was an employee of CML.
67. CRL is a publicly listed company. CRL sets the strategic direction of the Crown group of companies and determines the financial and business strategy for the various corporate entities in the group, including CML.
68. Most of the Crown staff detained in China were employees of Crown Resorts Pte Ltd (**CRPL**). CRPL is a Singaporean incorporated company that was established for the purposes of operating a Crown office in Hong Kong and to employ staff to market Crown to potential clients across Asia, including from mainland China. CRPL is a wholly owned subsidiary of CML. Relevantly, the directors of CRPL in the period February 2015 to October 2016, included Mr Rowan Craigie, the CEO of Crown Resorts and Mr Barry Felstead, CEO of Australian Resorts.
69. During the relevant period F15 to F17 Crown had interests in a number of overseas businesses, including Melco Resorts & Entertainment Ltd (**Melco**) which operates three casinos (Altira, City of Dreams and Studio City) in Macau and the City of Dreams casino in the Philippines. Crown divested itself of its interest in Melco by 16 May 2017. The changes in the casino market in Macau, which impacted on Crown's interest in Melco, and resulted in Chinese gamblers travelling to casinos in other countries were central to Crown's business strategies in relation to its Australian casinos in F15, F16 and F17.

VIP International business

Draft Confidential Report – not to be disseminated – version 28 May 2019

70. The VIP International business is an important part of the Crown casino business. Under the Casino Agreement with the State of Victoria, CML is required to endeavour to maintain the Melbourne Casino as the dominant commission based player casino in Australia and to ensure that CRL maintains the Melbourne casino as the flagship casino of CRL's gaming business in Australia. Many international gamblers are high rollers, who are commission based players. Crown dedicates substantial resources to actively market to VIP gamblers outside Australia to grow the commission based play at the Melbourne casino.
71. The significance of the VIP business to CRL and CML is demonstrated by CRL reporting on this aspect of the business each year in the CRL annual report and the reporting of VIP program play turnover results half yearly and yearly in the financial reports in February and August each year.
72. The following table shows the volume of the VIP program play turnover in billions in recent financial years for Crown Melbourne and the total for the Australian Resorts (including the Perth casino).

	F13	F14	F15	F16	F17	F18
Crown Melbourne	\$38.9	\$37.1	\$52.3	\$50.1	\$25.2	\$43.8
Australian Casinos	\$50.7	\$49.9	\$70.8	\$65.1	\$33.3	\$51.5

73. In F15 there was a substantial increase in the volume of VIP program play, with an increase of 41 per cent in VIP program play turnover from F14, and this resulted in the highest VIP program play turnover ever achieved at the Melbourne Casino. This growth was largely maintained in F16 with a decline of approximately 4 per cent at Crown Melbourne, with the turnover in F16 being the second highest turnover achieved by the Melbourne Casino in its 19 years of operation at Southbank. In F16 around a quarter of Crown Group's revenues were generated from international VIP gaming programs. The entire turnover in VIP International Program play in F15 was an all-time record for Crown totalling \$76.4B.
74. The Commission discusses later in this report the reasons for the increase in the VIP Program play in F15 and F16. In F17 there was a substantial decline in VIP Program play which followed as a result of the detention and imprisonment of Crown employees in China in October 2016.

VIP International department

75. Crown had operated in mainland China for about 20 years prior to the detention and imprisonment of staff in October 2016. Crown's VIP International Department was responsible for providing services to overseas VIP gamblers, including attracting overseas VIP gamblers to travel to Crown's Australian casinos. The international marketing division in the VIP International department was responsible for attracting overseas VIP gamblers.
76. In the relevant period prior to October 2016 there were five key senior executives employed by Crown that were responsible for the International Marketing division of the VIP International Department. An organisational chart is set out in **Annexure A** to this report.

Draft Confidential Report – not to be disseminated – version 28 May 2019

77. In the period prior to October 2016 Mr **Rowan Craigie** was the Chief Executive Officer (CEO) of Crown Resorts. Mr Craigie was also a director of CRL, CML and CRPL in the relevant period between 2014 and 2016. Mr Craigie ceased active employment duties with Crown in February 2017 and ceased being a CRL director on 28 February 2017. Mr Craigie was the most senior executive that oversaw all Crown operations, including the VIP International Department.
78. Mr **Barry Felstead** is the Chief Executive Officer (CEO) of Australian Resorts and has held this role since 2013. Mr Felstead is also a director of CML and CRPL. Mr Felstead had previously been the CEO of Crown Perth. Prior to October 2016, Mr Felstead reported to Mr Craigie. Mr Felstead was actively engaged in overseeing the VIP International department and was involved in key strategic decision making in relation to the VIP International department in the relevant period and currently. According to Crown's President of the International Marketing division (Mr Chen), Mr Felstead was very involved in international marketing and Mr Chen engaged with him on a regular basis. After 2013 Mr Felstead made numerous trips to China, he was there as the senior person to show face. He travelled to mainland China in the weeks before the detention of Crown staff in China in October 2016.
79. In the period prior to 13 October 2016 Mr **Jason O'Connor** was the Group Executive General Manager of the VIP International department of Crown. Mr O'Connor was employed by CML and based in Melbourne. Mr O'Connor is the holder of a casino special employee licence. Mr O'Connor commenced in this role on 1 February 2011, having previously worked in another capacity for Crown. Throughout the period he reported to Mr Felstead. According to the relevant position description, Mr O'Connor was responsible for the overall financial performance and integrity of the domestic and international VIP business, which involves developing and implementing the strategic vision and direction of the VIP International operation. Mr O'Connor's responsibility involved overseeing the International VIP Business of the Melbourne Casino, the Perth Casino and the London Aspinalls casino.
80. Mr O'Connor regularly travelled overseas to Hong Kong, Macau and China every eight to 12 weeks, as well as other locations including Singapore, London and Malaysia. Mr O'Connor stated that he travelled to mainland China twice a year. Mr O'Connor states that he spent approximately 50 per cent of his time engaged on issues related to the international marketing division because the division was responsible for the primary interface with customers. Mr O'Connor described the international marketing staff as the sales team.
81. Mr O'Connor estimated there were approximately 150 – 200 people in the VIP International Department in Australia and in the overseas sales (marketing) team and a further 250 people in London. Up to October 2016 four divisional managers reported to Mr O'Connor, including Mr Chen. The Divisions were International Business Development SE Asia, International Customer Service, International Business and International Marketing. Mr Chen took up about half of Mr O'Connor's time because Mr Chen was responsible for the primary interface with customers and they spent a lot of time focussing on what Mr Chen was doing.
82. Mr O'Connor was detained by Chinese authorities on 13 October 2016 whilst on a trip to China for Crown business purposes and was released in August 2017. Mr O'Connor remains employed by CML, although after being released from prison and returning to Australia he was on leave until February 2019. In February 2019, he

Draft Confidential Report – not to be disseminated – version 28 May 2019

returned to work in a non-associate role, with no Casino Special Employee licence related duties.

83. The international marketing division was responsible for international marketing and sales for the Australian and London casinos in the Crown group. **Mr Chen** was the President of International Marketing and he was based in Hong Kong. Mr Chen commenced with Crown in March 2012 and was employed by CRPL. According to the position description Mr Chen reported to Mr O'Connor, although Mr Chen regularly communicated directly with Mr Felstead about international marketing operations. Mr Chen's position description described his role as being responsible for broad leadership and the strategic direction to advance the company's VIP market segment, and this included Asian relationship management and development of and growth of Crown's VIP client base. Mr Chen described his role as managing the sales and marketing team, being a contributor to the strategy of the business unit and the profitability of the business. He stated that he was brought in to professionalise the business, to bring in an outside point of view, new process, new skills, new training and a fresh look at the business. Mr Chen stated that the primary purpose of his role was to meet the company's profit objectives. Mr Chen had a number of vice presidents and executive vice presidents reporting to him. These vice presidents were allocated marketing responsibility in different areas of Asia. There was a China specific area with an executive vice president reporting to Mr Chen. Mr Chen travelled to China from Hong Kong at least once a month. Mr Chen is no longer employed by Crown and left the company in March 2017. Mr Chen was never detained by the Chinese authorities.
84. The key stakeholders in Crown (outside the VIP International Department and executives above) with active involvement of interest in VIP in F15 were Mr Packer (Chairman), Mr Alexander (Deputy Chairman), Mr Johnston (Finance Director CPH), Mr Barton (Group CFO) and the 2 chief operating officers for Crown Melbourne and Crown Perth and Mr Ratnam.
85. The Crown international marketing division had staff located in Hong Kong, China and other Asian countries. These staff were employed by CRPL. The international marketing division actively marketed Crown to persons in mainland China. The staffing documents provided by Crown indicated that there were 34 positions in China as at F17. The positions included Regional Vice President, International Sales Managers, Directors of International Sales, and visa assistants, amongst other positions. The most common position in China was International Sales Manager.
86. Crown staff in China were organised in teams by regional area and sub-regional teams:
- The regional Northern China team comprised the sub regional teams of North (Shengyang, Jilin, Dalian), Middle North (Beijing, Shangdong, Shangxi, Tianjin).
 - The regional Central China team comprised the sub-regional teams of Central (Nanjing), Shanghai, and Middle East (Zhejinag, Hangzhou).
 - The regional Southern China team comprised the sub-regional areas of South (Guangzhou, Xiamen, Fujiang) and South West (Chengdu, Sichuan, Kunming).

Draft Confidential Report – not to be disseminated – version 28 May 2019

87. The reporting lines were as follows:
- Members of each regional sub-team reported to the Regional Vice-President, International Marketing responsible for the regional team their sub-region fell within;
 - The Regional Vice- Presidents reported to the Executive President China and Macau (A Gomez);
 - The Executive President China and Macau reported to the President International Marketing, Mr Chen.
88. The Crown employees detained in China, save for Mr O'Connor, were all staff in the international marketing division of Crown's VIP International department, located in China and employed by CRPL.
89. **Annexure A** sets out the reporting lines for the China based staff of the VIP International team as at October 2016.
90. The VIP International Department was within the Crown Melbourne business structure and the subsidiaries (like CRPL) were used as employing entities and to facilitate the operation of offshore offices.
91. The senior executives responsible for the international marketing division engaged in regular discussions. The key commercial decisions were explored and discussed by the VIP International leadership team, comprising Mr Felstead, Mr O'Connor, Mr Ratnam, Mr Chen, Ms J Maguire (General Manager – Commercial) and Mr R Theiler (Senior Vice President, International Business). Mr O'Connor was key decision-maker (unless issues involved approvals over \$5 Million), but on major strategic decisions (such as pricing, capital investments, critical customer relationships) Mr Felstead was often consulted and involved. For example, Mr Felstead decided to provide a Crown letter to Chinese police in July 2015.
92. Mr Chen had frequent telephone discussions with Mr O'Connor (often daily and generally around 2 to 3 times per week). Mr Chen had sporadic discussions with Mr Felstead, at an average around one per fortnight. They also met in person when the executives were in Hong Kong or some other overseas locations (or Australia) at the same time. They were also in regular email communication, with Mr Chen, Mr O'Connor and Mr Felstead regularly exchanging emails about the international marketing business.

Governance of Crown's VIP International Marketing in China

93. In assessing whether Crown is a suitable licensee and whether it is in the public interest for Crown to remain a licence holder under the CC Act, the Commission took into account Crown's action related to the marketing activities in China immediately prior to October 2016, including Crown's governance and risk management activities. The Commission considered the reporting arrangements to the Board about the VIP International Department and the strategic decisions made by Crown, including its business planning and risk management in the period in relation to its operations in China.

Draft Confidential Report – not to be disseminated – version 28 May 2019

94. Under the ASX Corporate Governance Principles and Recommendation as at the relevant time, the CRL Board had a range of responsibilities including, responsibility for the oversight of the executive management's implementation of the company's strategic performance, the financial performance of the company and, monitoring the effectiveness of the company's governance practices and ensuring that the company has in place an appropriate risk management framework.
95. Under the *Corporations Act 2001* all directors have a duty to act with the degree of care and diligence that a reasonable person might be expected to show in the role. This duty includes a responsibility to be informed. The Australian Institute of Company Directors notes many boards rely heavily on the information provided by senior management. Accordingly, boards need to ensure:
- they have sufficient information and the time to make informed decisions
 - they are being provided with all the information, the good and the bad
 - the information they receive enables an evaluation of the issue, and
 - the appropriate internal controls are in place to protect the integrity of the information provided.
96. The Commission has set out earlier in this report the senior executives responsible for the VIP International Department who reported to Mr Craigie, who in turn reported to the CRL Board and CML Board. **See Annexure B.** The Commission notes that a number of senior executives were also directors of either CRL or CML at the relevant time. Mr Craigie and Mr Johnston were directors of the CRL Board. Mr Craigie, Mr Felstead and Mr Barton were directors of the CML Board.

Reporting about the VIP International Department to the Boards

97. In the period from August 2014 to October 2016, the CRL Board received written management reports from the Crown Resorts CEO. These management reports provided very limited information regarding the operations of the VIP International Department. The management reports provided financial information regarding the VIP Program play contribution, turnover and win rate at each Australian casino and whether it is below or above budget. There was no specific information provided to the CRL Board in the management reports about any aspect of the VIP International department offshore operations, including information about the marketing activities, significant risks, any operational issues, foreign political or policy developments or any other matters relevant to the VIP International Department operating offshore. Notably, the CEO Report dated 19 October 2016 to the CRL Board made no reference to the events that had occurred in China with the detention of Crown staff.
98. Similarly, the management reports (in the current issues section) to the CML Board in the relevant period provided no information regarding the VIP International Department, other than the purchase of three jets and a couple of references to the financial performance of gaming machines and growth out of China and North Asian markets.
99. The financial management accounts provided to the CML Board (which were separate to the management reports) provided detailed financial information regarding the operations of the VIP International Department. This financial information included, amongst other things, the international program play turnover (by junket, rebate etc), costs (eg winnings, commissions, gaming tax and

Draft Confidential Report – not to be disseminated – version 28 May 2019

complimentaries), the direct contribution and then other costs such as Mahogany room payroll, golf course costs, aircraft and limousine expenses, international office payroll costs and other expenses) and the net contribution. This was broken down by month, year to date, full year, actual, budget and variances. From these reports the CML Board could review the budget and expenses associated with the international offices of Crown and the revenue generated from VIP International program play.

100. The Boards and relevant sub-committees received information regarding the VIP International Department in the Financial Plans and risk framework documents. These are discussed below under business planning and risk management.

Reporting of the Downturn in the Macau Casino Market

101. After President Xi Jinping came to power in China in 2012, he announced a crackdown on corruption. The crackdown had a substantial adverse impact on the financial performance of the Macau casinos, including the Melco casinos, and Macau junket operators in 2014, and in the years thereafter, because Chinese gamblers did not want to display their wealth by gambling in Macau where they may be the subject of monitoring and lead to possible detention for corruption related matters by Chinese authorities.
102. In addition, in 2015 and 2016 the Chinese government introduced restrictions on the removal of capital funds from mainland China to countries and territories outside China, including Macau. For example, in September 2015 the Chinese government introduced restrictions on cash withdrawals outside China on China Union Pay bank cards. Because UnionPay processes virtually all card transactions in China, the new limits applied to all Chinese credit and bank cards. The Chinese government also introduced visa restrictions for Chinese citizens travelling to Macau.
103. From August 2014, the media regularly reported on the impact of these Chinese government policies, particularly the anti-corruption crackdown, on the Macau gambling market. These media reports were circulated to Crown executives. In addition, market analysts also commented on the impact of the Chinese government policies on the Macau gaming market.
104. The impact of the Chinese corruption crackdown and other regulatory controls on the casino industry in Macau was well known by the CRL Board and CEO of CRL and senior executives of Crown. The impact on CRL was referred to by senior executives in various internal business planning documents, such as the F17 Strategic Business Plan Executive Review VIP International and the F16- F20 Strategic Business Plan Executive Review VIP International. This information was also included in a CRL board presentation in August 2014, in the CRL Financial Plans for F16 and F17 in respect of Melco which were presented to the Boards. This information was contained in various reports to the CRL Risk Management Committee and discussed at the Committee. The CML Board was also aware, as many directors are either executives of Crown or directors of CRL, of the impact of the anti-corruption campaign and money transfers was also referred to in an auditor report to the CML audit committee. The impact of Chinese government policies on Melco in Macau was also specifically referred to and were also discussed in the media.
105. Between July 2014 and late 2016 Crown reported the decline of the financial performance of its Melco interests every six months in its ASX announcements each

Draft Confidential Report – not to be disseminated – version 28 May 2019

February and August. In February 2015 Crown noted the decline in gaming revenue in Macau in the preceding period was as a result of a number of measures including regulatory measures implemented in China to crackdown on corruption being a major contributor, and that China has also tightened rules regarding obtaining a visa to travel to Macau and also regulations regarding the transfer of money from China to Macau. Other factors identified by Crown were the slowing economy in China, slowing property market and reduced bank liquidity. By August 2016 Crown had reduced its interest in Melco from 34.3 per cent to 27.4 per cent.

106. Crown's International VIP department was also aware of the impact of China's anti-corruption campaign on gambling activity in Macau and noted that Chinese gamblers were travelling to other locations to gamble. In October 2014, the VIP International department noted the changes to the market including that China was undergoing a multi-year anti-corruption campaign having a severe impact on the VIP segment, and causing some gamblers to game outside Macau or to stop gambling or game less. They also noted that the China economy is the engine of VIP, but the government was making it hard to move money and for citizens to be too open about spending money. It was noted as at March 2015 by the VIP International Department that Macau based junkets were consolidating and/ or closing junket rooms following the dramatic declines in the VIP market in Macau, that junkets were more cautious about moving funds across borders, players (especially high value players) were choosing not to demonstrate "*conspicuous consumption*" (particularly by gambling) and more casinos are chasing a declining market. As at April 2016, the VIP International department of Crown noted that the VIP players were maintaining a lower profile, with fewer high value players travelling to Macau and VIP rooms, and junket operators working in Macau started closing down, with the number of licensed junket operators shrinking 23 per cent over 12 months to January 2016.
107. The crackdown by China on corruption and capital flight of funds out of China resulted in a significant downturn in the gambling market in Macau, because Chinese visitors to Macau substantially reduced. There was also an economic slowdown in China, with economic growth at its lowest in 15 years, which affected the industry more generally.

Macau downturn an opportunity for growth in Australia

108. After identifying the down-turn in Macau, Crown considered what approach to take, and after recognising the trend of Chinese gamblers travelling to other countries to gamble, Crown decided to aggressively market to Chinese VIP gamblers to travel to Australia to gamble.
109. The media observed the significant shift of Chinese gamblers from gambling in Macau to gambling in casinos in other countries, including Singapore, Philippines, South Korea and Australia. CRL was aware of this trend and it was noted in August 2014 in the F14 financial reporting to the CRL Board that there had been an improvement in the F14 second half results for VIP volumes. This trend of increased travel by Chinese gamblers to other countries was seen as a business opportunity by casino operators in other locations, including Australia, to attract Chinese VIP gamblers to foreign casinos.
110. Although, initially in August 2014, Mr Chen suggested in correspondence to Mr Felstead there were two alternative approaches to the Macau downturn. The **Double Down Approach** – to maintain the aggressive targets, take advantage of the trends

Draft Confidential Report – not to be disseminated – version 28 May 2019

by promoting Australia as a confidential, alternative and attractive destination to Macau, aggressively give out credit, slow recruiting, and continue to invest in the promotional event strategy. He noted this strategy would be needed to chase the \$63 billion target. Alternatively, Crown could take the **Austerity (Profit Milking) Approach**. This approach would involve cutting projections, winding back expenses, freeze hiring, reduce promotional intensity, avoid giving credit of more than \$5 million to any one customer and rationalising staff. Mr Chen noted that which approach Crown follows “*really depends on the risk appetite of the Company*”. He noted the Double Down approach would expose the Company to a lot more risk, whilst the Austerity approach may be less risky and more achievable. By the end of August 2014, the challenges in the VIP International operational area were discussed with Mr Alexander and Mr Johnston on the CRL Board to determine Crown’s approach.

111. Ultimately Crown decided to pursue the Double Down approach, despite the increased risks with this approach.
112. On 19 September 2014, Mr Chen wrote to the VIP international offices about the “*biggest trend going on right now in the market is one of major customers (particularly China customers) avoiding Macau*”. He told staff “*This presents us a HUGE opportunity. We need to ACT FAST to seize this opportunity with both junkets, premium customers, and key players.*” He went onto encourage staff to take advantage of the flow of customers out of Macau. This email was circulated to Mr O’Connor, Mr Felstead and Mr Ratnam and others in the VIP International Department. In November 2014 Mr Chen wrote to the VIP International staff again noting that it was critical for the staff to take advantage of the movement of high end customers to Australia for as long as it lasts.
113. In late 2014 Crown experienced an influx of Chinese VIP players to its Australian casinos. For example, in the F15 half year results, it was reported that the VIP program play turnover experienced strong growth towards the end of the period with record monthly turnover levels being achieved in November and December 2014 at Crown Melbourne, resulting in overall turnover growth of 61.4 per cent for the half year, including growth of 86.4 per cent in VIP Program play revenue at the Melbourne Casino. At interview Mr O’Connor confirmed that this trend was considered a business opportunity for Crown.
114. In January 2015, after the trend of increased visitation to Australia was well known, Crown’s messages to the VIP International marketing team at the Crown Sales summit were to accelerate momentum; there was a sense of urgency to attract customers that were no longer travelling to Macau, to “*step it up a notch*” and “*sprint*” through to the finish of F15. The key takeaways to Crown’s VIP International marketing team were to accelerate momentum, “*win every battle*” and improve execution.
115. Coincidentally, despite the record turnover achieved in November and December 2014 for VIP program play, on 5 February 2015, a day before the announcement by the Ministry of Public Security about a crackdown on foreign casinos in China, Mr Felstead wrote to Mr Chen and Mr O’Connor about a recent Bloomberg article about the performance of an Australian casino competitor in relation to VIPs and instructed them to look at some new, innovative ways to grow the business while the Macau issue was still prevalent.

Draft Confidential Report – not to be disseminated – version 28 May 2019

116. On 20 February 2015 in *The Australian* publication in an article headed “*VIP Influx a windfall for Crown resorts*”, it was reported that “*Crown Resorts will continue to ramp up its marketing-pitch to high-rollers from China..*”. Further Mr Craigie was reported as stating that “*There is no doubt China will be the major source of tourism and high-end gaming expenditure for the world going forward. Australia still has a very small share of that market. It is possible for Australia to experience very good growth in VIP even if Macau is in decline.*”

Financial and Business planning by Crown

117. Crown conducts an annual business planning process from March to May. Each business unit, including the VIP International department, is responsible for preparing annual business planning documents for the forthcoming period. These business planning documents are presented and discussed at meetings of executives to assist in reviewing the performance of each business in the preceding period and developing the financial plan for Crown Resorts and Crown Melbourne and other businesses in the Crown group. Senior executives from the various business units, including the VIP International department, present their business plans to the broader executive team at those meetings. The VIP International department prepared a Strategic Business plan each year as part of the annual planning process. The VIP International Department documents in the period were typically described as Strategic Business Plan, Executive Review, VIP International. Typically, Mr Alexander was in the annual planning meetings.
118. From the annual executive business planning processes, the annual financial plan was produced and presented to a sub-committee of the Board and executives, including Mr Alexander and Mr Johnston.
119. In May each year the CRL Board and the CML Board are presented with the Financial Plan and Budget for the forthcoming three year period. Generally, the CML Financial Plan and budget forms part of the broader CRL Financial plan and budget. These are the documents provided to the board to endorse the strategic plan for the VIP International Department and associated budget each year.

Strategic Business planning about VIP International Department at Executive level

120. The Commission reviewed the Strategic Business Plan, Executive Review, VIP International documentation for F15 – F19, F16 – F20 and F17 and the F17 International Strategy workshop, VIP International, planning for F17 dated April 2016.
121. In the VIP International department business planning documentation, it was acknowledged that Crown could not market or advertise gaming in most of Asia. However, Crown executives developed extensive marketing strategies to attract VIP gamblers from Asia, including from mainland China.
122. These VIP International planning documents included a range of information, including the state of the market in China and the key sales and marketing strategies.
123. In relation to the **state of the market** in China the VIP International department planning documents for F16 – 20 and F17 (including the workshop document) included information referring to:

Draft Confidential Report – not to be disseminated – version 28 May 2019

- the sustained anti-corruption campaign commenced in approximately 2013 by the Chinese central government.
 - the Chinese government actions to close down the uncontrolled outflow of currency (F16), also described as the capital protection campaign (F17).
 - that these policy statements have been underlined by a series of high profile arrests and executions. (F16 only).
 - China’s economic slowdown (F17 only), and
 - the Chinese government continuing intense scrutiny of money movements (F17).
124. In putting the Melbourne F16 VIP International executive review presentation and the F16 Melbourne plan together, the VIP International department did consider China’s crackdown on foreign casinos (discussed later in this report) as a relevant factor and it was referred to in emails during the process of compiling the F16- F20 Melbourne Financial Plan. It was documented in the F16- F20 Strategic Business Plan, Executive Review presentation (March 2015) that stated “*The most recent development was the announcement that authorities are taking a stand against foreign casinos seeking to attract business out of China.*” There is no evidence that this information tempered Crown’s business approach in China in F16. There was no mention of China’s foreign casino crackdown campaign in the F17 executive business planning documents. The Commission did not identify any evidence that this information regarding the recent announcement of China’s foreign casino crackdown was escalated by the Executives in the business planning processes to the Boards.
125. In developing the **VIP International strategies** for F16, Crown executives took into consideration the increased visitation to Australia by VIP Chinese gamblers. This increase in visitation was referred to as an opportunity for growth in the F16 – 20 VIP Strategic Business Plan Executive Review VIP International, noting the “*phenomenon*” of customers visiting Australia in preference to Macau and Singapore and if it continued that the results will continue to be strong.
126. In relation to the strategies for the VIP International business, the VIP International department planning documents for F16 – 20 and F17 included information referring to:
- improving the sales team productivity
 - improving customer experience
 - managing credit/debt risk
 - implementing the platform junkets strategy, and
 - “*aggressively defending volumes*” (F17)
127. In the F17 planning documentation, in relation to the theme of “*aggressively defend volume*” the initiatives included upgrading the sales team, “*in language*” proactive contact with customers and appropriately weight bonus incentives to sharpen team focus on all three properties.

Draft Confidential Report – not to be disseminated – version 28 May 2019

128. Later in this report the Commission has explored how this VIP International department annual strategic planning discussions at Executive level (involving Mr O'Connor and Mr Felstead) were implemented in China to drive the marketing of Crown casinos to Chinese citizens to travel to Australia.

Business Planning at Board level – Financial Plans adopted by the Boards

129. CRL decided as part of its strategic business planning to aggressively market their Australian casinos to attract a greater number of Chinese VIP gamblers to Australia in F15, F16 and F17.
130. In F15 Crown determined to increase its marketing activity in mainland China to recruit Chinese gamblers to Australia. This is demonstrated in the comments by Mr Craigie in February 2015 to *The Australian*, and comments in the 2015 CRL annual report. In the F15 Crown Resorts annual report the Chairman commented on the strong growth in the International VIP program play turnover that had followed from the greater investment in the VIP International marketing and the outgoing boom in outbound Chinese tourism as a major positive for Crown's casinos. Similarly, the 2016 annual report released in September 2016 included comments from Mr Felstead that in F16 there was a marked rise in international visitors, particularly from China and that Crown Resorts' *"sustained focus on growing numbers from China has paid off"* with the resorts in Melbourne and Perth now among the most visited tourist destination in their respective states.
131. The F16 – F19 Crown Melbourne Financial plan adopted in May 2015, the CRL Financial Plan & Budget F16 – F19 adopted in May 2015, and the F17 – F20 CML Financial Plan and Budget adopted in May 2016 all noted that the International VIP gaming market was *"currently in a highly uncertain state, particularly in China and Macau."* There was no documented explanation as to why it was highly uncertain. Despite this, the plans stated that the business would continue to implement various strategies in relation to the International VIP business including:
- enhancing senior sales capability (F16 and F17)
 - promoting a suite of flexible and tiered offers in VIP market targeting the junket and premium player markets (F16)
 - introducing a platform junket strategy and increase property junket presence (F16). Actively work on VIP business mix and continue to drive platform junket strategy (F17)
 - focusing on growth in premium direct business particularly from mainland China and South East Asia targeted through personalised incentives, offers and experiences. (F16) Create unique and tailored VIP events for key VIP patrons utilising Crown's assets and scale (F17)
 - continuing the frequency of senior executive visits to Asia (F16) Increased presence in the region from senior management and F17)
 - yielding key popular periods effectively and target no peak periods by presenting many and varied reasons to visit (F17), and

Draft Confidential Report – not to be disseminated – version 28 May 2019

- maintaining the focus on debt risk and management and explore solutions to debt security (F16)/Advance debt security and recovery initiatives in mainland China (F17).
- 132. The CRL Financial Plan and budget documentation predicted limited growth in the VIP International Program play at the Melbourne casino in the Plan periods. In the CML and CRL Financial Plan and budget for F16 to F19 it was noted that turnover in F16 was expected to drop from the record levels achieved in F15 due to the current uncertainty in the VIP market, with a -15.7 per cent drop predicted, but growth maintained at 10 per cent thereafter during the Plan period. In the CRL Financial Plan and CML Financial Plan and budget for F17 – F20 turnover was expected to remain flat due to the uncertainty in the international VIP market, particularly in China and Macau with a predicted drop of .0.6 per cent in F17 and thereafter turnover growth of 5-6 per cent in the Plan period.
- 133. The Financial Plan and Budget documentation listed risks and challenges in relation to VIP Program Play and there is reference to *“the ongoing uncertainty in the VIP gaming market driven by events in China and Macau”*. In relation to the Melbourne casino, the F16 – F19 and F17 - F20 Financial Plans for Crown Melbourne, and the CRL Financial Plans for F16- F19 and F17 – F20 all noted the uncertain International VIP market, particularly in China and Macau and stated that Crown will maintain a close watching brief on the market while continuing to drive/implement key strategies. The Financial Plans did not state the causes of this uncertainty in the International VIP market for the Australian Resorts, although refers to the uncertainty in the VIP gaming market *“driven by events in China and Macau”*. The actual events were not described.
- 134. At interview, Mr O'Connor commented that the reference to uncertainty in the marketplace related to when the anti-corruption crackdown was having an effect, with the volumes at the Macau casinos in freefall and there were all sorts of questions about the long term prospects of the industry as a whole and Crown were seeing very volatile results in the businesses. He commented that it was very difficult to project accurately what people should expect from the VIP International part of the business, given it was in such a state of flux.
- 135. The Financial Plan and Budget documentation for CML and CRL dated May 2015 and May 2016 Crown made no explicit mention of any crackdowns in China and made no mention of any actions by the Chinese government that affected Crown's Australian casinos, but did refer to the impact on Crown's casinos in Macau (discussed below). It would appear that in the financial planning and budget processes the Boards were not given any detailed information regarding the actions of the Chinese government relevant to the business and strategic planning of Crown related specifically to the Australian casinos going forward, other than to refer to the uncertainty in the VIP gaming market.
- 136. The CRL Financial Plan documents clearly identified the impact of actions by the Chinese government in relation to the Melco interest, including the anti-corruption campaign, the capital controls and visa policies. These considerations however did not address the campaign against foreign casinos in China.
- 137. In March 2019 Crown provided the final CRL Financial Plan F16 – F19. The Financial Plan acknowledged the depressed market conditions in Macau and the deteriorating demand from China, as well as other restrictive polices including changes to travel

Draft Confidential Report – not to be disseminated – version 28 May 2019

and visa policies. This Financial Plan for Melco assumed the government initiatives around anti-corruption would continue in 2015 and 2016 and start to subside in 2017, but noted that a key risk to future growth was the introduction by the national government of new measures to control market growth, such as visa restrictions and further anti-corruption measures. Similarly, the CRL Financial Plan for F17 – F20 had detailed information pertaining to the interaction of events in China and Crown, although the emphasis was on Melco noting that the current Chinese government initiatives around anti-corruption will continue in 2016 with a view that that the market would return to growth in 2019.

International Marketing strategies in China

138. The business strategy of increasing VIP International gamblers from China to Crown's Australian casinos was actively pursued in F15, F16 and F17. As noted above, this resulted in CRL significantly increasing its VIP Program play turnover from \$37.1 billion in FY14 to \$52.3 billion in FY2015 to \$50.1 billion in F16 in relation to the Melbourne casino. Crown was planning on turnover of \$63.1 billion in F17.
139. The marketing strategies were primarily documented in the business planning documents prepared by the VIP International Department. For the purposes of this report we have identified some of the following significant strategies adopted in relation to international marketing activities in China.

Staffing strategies

140. Firstly, Crown **increased resources allocated to VIP International marketing**. Mr Craigie commented in the CRL F15 annual report that Crown had put additional resources into VIP International marketing in the F15 year and that helped deliver strong growth in program play turnover. Mr Craigie was quoted as saying in *The Australian* on 20 February 2015, "*The Australian and New Zealand markets are benefiting from the (Chinese corruption) crackdown. Having said that all the Australian operators have put additional resources into that market. It is a reward for effort.*"
141. The budget allocation to the China and Hong Kong offices increased. The budget increased as follows:

	F12	F13	F14	F15	F16	F17
China	2,320,346	3,117,739	2,693,843	3,630,864	4,470,808	4,971,773
Hong Kong	1,692, 827	2,508,367	4,930,268	6,247,057	5,161,718	6,813,027
Total	4,013,173	5,626,106	7,624,111	9,877,921	9,632,526	11,784,800

142. There was a 65 per cent increase in the budget from F14 to F17. At interview Mr Chen attributed the increase in budget to meet increased staff remuneration costs. The budget details provided by Crown showed a marked increase in payroll from F14 to F15. This increase was also commented on by the external auditor.
143. Secondly, the **staffing in China in the VIP International marketing department increased**. The staffing information provided by Crown showed that between F12 and F14 Crown allocated their staff to three regions in China (Beijing, Shanghai and Guangzhou) and a Hong Kong office responsible for East Asia. Between F15 and

Draft Confidential Report – not to be disseminated – version 28 May 2019

F17 Crown changed the model and there were seven nominal regions in China and a Hong Kong office responsible for East Asia and North China. The positions in China included international sales managers, director of international sales, assistant sales managers and visa assistants. At interview Mr O'Connor commented that as the business grew Crown put more people in China.

144. Thirdly, the **remuneration arrangements for the international marketing staff were highly incentivised based on gambling turnover**. The Crown VIP International sales staff were given unique short term incentive plans “*designed to reward performance, motivate desired behaviours and drive the VIP International Sales team to outstanding sales performance*”. The performance targets based on gambling turnover by region were the basis for these incentive plans and are discussed later in the section. The staff were highly incentivised to achieve increased gambling turnover by Chinese citizens travelling to the Australian casinos.
145. For F13, Mr Felstead approved a new VIP International Bonus Plan for VIP staff in the International Marketing Division. Staff were advised that under the new F13 bonus plan where International Marketing has a good year it should yield better bonuses than would have been earned under the F12 plan. The bonus payments for sales staff were linked to gambling turnover targets for a local regional area (market) and a target for a broader regional area. These targets directly related to the volume of gambling undertaken in the Australian casinos by patrons from international regions. The different targets varied from an acceptable performance target to a greater than elite performance target. The plan provided that a person could earn a 15 per cent salary bonus for acceptable performance, a 30 per cent salary bonus for strong performance, a 50 per cent salary bonus for superior performance, a 75 per cent salary bonus for great performance, a 100 per cent salary bonus (ie double) for elite performance and for greater than the elite performance target, an additional 1 per cent above 100 per cent for every 1 per cent over the elite performance target. These targets were set by month and given a weighting per month with an annual target for both the local regional target (with a weighting of 30 per cent) and the broader regional target (with a weighting of 70 per cent). In F13 the new short term bonus plan was changed so that there **were uncapped bonus remuneration arrangements in place for VIP international marketing staff**. There were also additional bonuses available, such as a new customer bonus and high turnover customer bonus. Any bonus payments under the F13 Plan were at the discretion of the CRL Remuneration Committee.
146. For F15 a new VIP Gaming International Short Term Incentive Plan was introduced for international sales staff. The F15 plan provided bonus (incentive) payments calculated based on a combination of the turnover performance of patrons from the local region and the broader region. The plan was similar to the F13 plan however the weighting for performance against the local region target was 70 per cent and the larger regional area target was 30 per cent. The bonuses remained uncapped. All bonus payments were “*subject to Crown Management approval*”.
147. In F17 Crown introduced the VIP Gaming International Short Term Incentive Plan FY17. The F17 Short Term Incentive Plan was similar to the F15 Short Term Incentive Plan, except the performance was assessed against targets based on Theoretical Direct Contribution attributable to players from both the local region and the larger region, at the Australian casinos and Aspinalls. The bonuses were uncapped and all bonus payments were “*subject to Crown Management approval*”.

Draft Confidential Report – not to be disseminated – version 28 May 2019

148. These short-term incentive plans, in conjunction with the substantial increase in VIP international gambling turnover in Crown’s casinos, and in some instances other contract bonuses, resulted in significant bonus payments made to international marketing sales staff in China. Below are some examples of the annual salary bonus payments (being a percentage of their base annual salary) paid to international marketing sales staff in the period between F14 to F16 in China.

	F14	F15	F16
International sales manager - Shanghai	15%	165%	369%
International Sales Manager – China South	32%	132%	147%
International Sales Manager - Shanghai	-	124%	610%
Director of International Sales- Central	65%	37%	84%
Director of International Sales- Beijing	197%	261%	21%
Director of International Sales - Shanghai	43%	7.5%	128%
Vice President	29%	248%	346%

149. In addition to the bonus payments, sales and marketing staff also received **annual base salary increases**. The attractive short term bonus schemes meant that the international sales and marketing staff in China and Hong Kong were highly incentivised to attract Chinese gamblers to the Australian casinos in the period.
150. The more senior executives at Crown had different contractual remuneration arrangements, with short term and long term incentive plans. For example, the President of International Marketing had his own personalised annual incentive plan guidelines for F13 to F17. The performance measures in these short-term incentive plans were mostly based on achieving 90 per cent or more of annual theoretical net contribution (i.e. profitability measure) targets, in relation to the two Australian casinos and London casino and the consolidated contribution performances of the casinos. The short-term bonuses were capped at 250 per cent of annual salary per year, where 150 per cent or more of the consolidated contribution target was achieved. In F16 the short-term incentives were simplified to achieving 90 per cent or more of the consolidated theoretical net contribution target, again the annual short term bonus was capped at 250 per cent. The short-term bonus payments were at the sole discretion of the CEO. The plans also contained long term incentive plans. These were paid over four years based on the achievement of VIP International annual theoretical net contribution targets over three year periods.
151. In the relevant period the President of International Marketing received bonuses on his base annual salary of 112 per cent in FY14, 245 per cent in FY15 and 235 per cent in FY16. In calculating the percentages, other allowances payable to the President of International Marketing for housing, car, medical fees, school fees, club fees and financial advice were not taken into consideration. In addition, the President of International Marketing received annual salary increases. The President was highly incentivised based on the profitability derived from VIP International patrons attending and gambling at Crown’s casinos.

Draft Confidential Report – not to be disseminated – version 28 May 2019

152. The Group Executive General Manager for VIP International had long term and short term incentive plans included in his contract of employment. The Commission did not obtain his short-term incentive plans, but notes that this employee received bonuses of 5 per cent in F14, 25 per cent in F15 and 53 per cent in F16 on his annual salary in those years. He would also be receiving benefits from the longer-term executive plans linked to share value and earnings across multiple casinos.
153. **The increase in bonus payments overall was significant and noted by the external auditor for CML.** In July 2014, the CML external auditor noted an increase in the expenditure for the provisions of bonuses from \$2.4 million to \$4.8 million due to the VIP International Sales team achieving the volume driven targets for FY14. The external auditor went on to note *“As we have deemed management’s determination on the bonus provision as at 30 June 2014 to be reasonable, we have not identified this account as an area of audit focus.”* In July 2015, the external auditor noted the increase in the provision for bonuses from \$4.8 million to \$21.1 million, noting the significant increase is due to Crown Melbourne achieving their targets for FY15. This was not specifically attributed to the International Sales team, however given the record turnover in F15 and that bonuses to VIP International sales staff was based on bonuses, the Commission consider this substantial increase was largely paid to the VIP International sales staff. Although, at interview Mr Chen attributed the increase in budget to meet increased staff remuneration costs. The external audit reports were in the papers for the CML board audit committees in July 2014 and August 2015.
154. Of interest, Mr Chen perceived that the remuneration payable to the Crown staff in China should reflect the risks of their employment in China. For example, in June 2016 when Mr Chen was asked to comment on a new pay scale model, he stated that *“the China data looks to me to be skewed very low especially since the China jobs should all have a significant risk premium.”*
155. Fourthly, **the performance targets for the VIP International sales staff increased each year**, which was directly relevant to the bonus payment remuneration, in circumstances **where there was a contracting VIP market.** The bonus payment short term incentive plans required staff to achieve a local regional (market) target and achieve a large regional area target. In the period, China remained in the North East larger regional area. The turnover targets for the North East Area, for minimum acceptable performance were

F12	F13	F14	F15	F16	F17
37,750,000,000	36,100,000,000	33,970,000,000	43,630,000,000	52,724,500,000	62,220,000,000

156. The turnover targets for the North East Area, for elite performance were –

F12	F13	F14	F15	F16	F17
N/A	46,829,900,000	47,880,000,000	53,949,800,000	65,343,500,000	72,084,000,000

157. Crown advised that the target for the North East Asia region was based on previous final results adjusted for market conditions and other factors likely to affect the business from the region.

Draft Confidential Report – not to be disseminated – version 28 May 2019

158. The local regional (market) areas changed over the period from FY13 to FY17, so comparisons of the targets are more complex. Crown states that the method of calculation of these targets varied between roles as well as from financial year to financial year, as set out in the applicable incentive plans. The targets set by Crown for the staff required increases in performance every year. These targets were linked to the performance bonuses and staff were reminded of this daily with the VIP daily scorecards sent by email to them each morning.
159. The President of International Marketing had a different set of targets set out in his personalised incentive plans. The terms of the plans changed each year. The bonus payments were subject to the discretion of the CEO- Australian Resorts, although as demonstrated above he received substantial bonus payments every year.
160. The VIP International Strategy Workshop Planning for F17 held in April 2016, indicated that the F17 target was \$63.1 billion turnover (\$48 billion for Melbourne and \$15.1 billion for Perth). It was noted in the VIP International Strategy Workshop VIP International Planning for F17 that *“Board expectations are for continued growth in face of rapidly contracting market.”* The planning document also posed the questions *“How do we hit a \$63.1B turnover target when the statistical forecasts suggest that we could be at \$43.0B? Need to close \$20.1b gap. How do we ensure we grow productivity and gain share faster than market is falling?”* The target for F17 demonstrated an ambitious program to continue to increase sales to gamblers travelling to Australia from China, despite a contracting market.
161. There was also a strong focus on **increasing sales capability within the VIP marketing team**. This was a common theme of Mr Chen as a way to increase sales. The plans to increase sales capability was multifaceted and included sales training for staff (Crown sales university), coaching and mentoring, and recruiting experienced sales executives (particularly persons from outside the casino industry) to market Crown.
162. In Mr Chen’s self-assessment of his performance in F15 he commented that there was a need to shift the mix of sales team away from almost all purely service-oriented staff to much more sales-oriented staff. Mr Chen also referred to recruiting and strengthening the team by hiring five new sales talents from outside the industry, noting that 100 per cent of new hires had been personality profiled to support their “sales” orientation. Mr Chen also noted that he launched the new Crown Sales University.
163. The VIP International Strategy Workshop, VIP International, Planning for F17 sets out in significant detail the sales management framework and the sales strategies for F17. It emphasises *“Being a person who simply provides good service and keeps in touch with customers is not sufficient – need to know how to SELL.”* It noted that the casino industry has developed service people and not sales people and a key focus was to develop the industry’s first *“professional”* sales team. The records show the Mr Chen actively recruited sales persons from outside the industry to enhance the sales approach by Crown in China.
164. Finally, the **culture in the VIP International marketing** team was focussed on staff achieving growth in sales by continuously reinforcing the targets to be achieved for bonus payments to be payable. Combined with the increase in targets and change to remuneration, Mr Chen introduced a culture more focussed on targets, with daily reinforcement of targets and the remuneration potential for staff.

Draft Confidential Report – not to be disseminated – version 28 May 2019

165. At interview Mr Chen described that before he arrived people did not know how they were performing and what the targets were. So Mr Chen instituted daily score cards. Mr Chen described that the sales staff would wake up in the morning and they would have an email with the daily score card on how they were doing relative to target and an estimate of what their bonus would be if the year ended that day. Mr Chen commented that he was a big believer in you can't change what you can't measure - *"So if growth was important to the company, we were going to measure growth and make sure everybody knew what the targets were."* With the introduction of the F13 VIP International Bonus Plan for staff, Mr Chen stated in correspondence to staff that they would receive a daily performance report to *"assist you track your ongoing regional turnover performance to ensure you remain on track to hit your targets."* A sample of the new daily performance report was circulated to staff with this correspondence.
166. Crown provided a sample of the daily scorecards for each month from September 2012 to July 2017 that were sent to Crown's international sales staff. The scorecards provide daily detailed information regarding the actual gambling turnover by each local regional area and each large regional area and for VIP International, by month to date, quarter to date and year to date. The daily scorecard also set out the pro rata performance targets based on gambling turnover by performance category from acceptable to elite for the local regional area, large regional area and for VIP International by month to date, quarter to date and year to date. This scorecard gave staff daily comprehensive information as to how the actual gambling turnover performance was tracking against targets, and whether the performance was within the category of acceptable, strong, superior, great or elite for bonus purposes. This scorecard also included the year to date bonus estimator. The estimator showed, if the bonus was calculated that day whether a person would fall within acceptable strong, superior, great or elite performance. For F17 the scorecards were adjusted to also report contribution and performance against the contribution targets.
167. In September 2014 when Mr Chen wrote to staff noticing the trend in Chinese gamblers travelling overseas rather than to Macau when encouraging staff to take advantage of the opportunity to that "This may be the best chance in years for folks on this team ...to make great bonuses." From September 2015 until July 2017 the sample daily scorecards had numerous messages in red repeatedly throughout the scorecards stating *"no bonus push harder!!"*, *"no bonus payable push harder!!"* and *"Not at Elite push harder!!"*. These messages indicate daily reinforcement to push for sales to reach the highest performance assessment category for the highest bonus payable.
168. The impact of Mr Chen's approach and the culture of the VIP international marketing team was reflected in an email on 26 June 2016 from Mr Chen to Mr Felstead. Mr Chen commented that a staff member had given feedback that all Mr Chen cares about is money. Mr Chen described his own approach as *"I have committed myself to doing what's right for the company, coaching the team relentlessly, and pushing for higher and higher performance."* He then went on to state that he had *"taken on the risks of being prosecuted in China, threatened bodily harm by customers, and abused health-wise by the demand of entertaining in this job. I spend 75% of my nights away from home, give up most public holidays, yet get questioned by the Company when I seek days in lieu for the many holidays I have to give up. I make myself available 24x7 in a way that is unrivalled by anyone on the team. This is to*

Draft Confidential Report – not to be disseminated – version 28 May 2019

say that I think I have proven that I am not just about money.” Clearly Mr Chen pushed himself hard to achieve the sales expected from the marketing team.

169. Of most concern, however, is that Mr Chen contemplates in June 2016 (only four months before the detention of staff in October 2016) that his conduct may make him liable to prosecution for breach of China’s criminal gambling laws. His concern was directly communicated to Mr Felstead in this email. There is no documented response, other than Mr Felstead forwarded the email to Mr O’Connor. There is a documented response, from Mr Felstead on 27 June 2016 that he would consult with Mr O’Connor about the history of Mr Chen’s employment and bonus payments and Mr Felstead forwarded the email to Mr O’Connor. Mr Felstead made no comment about Mr Chen’s comments about the possibility of prosecution in China.

Sales strategies

170. The sales strategies included introducing a **new platform junket strategy** in F15 and F16. In January 2015, a Sales Summit VIII Synthesis was held with a target of \$63 billion recorded and “unlocking the junket platform” strategy was presented. This strategy involved creating a new category of junkets called “platform junkets”. The turnover from these platform junkets was to be credited to Crown staff differently to smaller junkets. The goal was to get everyone working together internally to support the super junkets to lower the credit risk to Crown and grow business faster. The junket platform model applied to the “super” junkets like Sun City and Jimei. Crown also sought to grow smaller junkets, including promoting F15 reactivation offers. Mr Chen was committed to delivering this new platform junket strategy, as evidence in his email to Mr Felstead on 5 February 2015. Further, the VIP International Business Update as at 19 June 2015 noted that eight ‘platform’ junkets had been identified, including Suncity, Jimei, Chinatown which are “large, reputable, deemed credit worthy and are able” to finance customers. It was stated these junkets can provide a new marketing channel and access to new customers. Mr Chen also considered this strategy would result in faster time to turnover being generated and no time was wasted on junket/credit applications and collections. It noted this strategy was introduced in February 2015 and the sales team were actively pushing players to the platform junkets. In July 2015 Mr Chen noted that he had rolled out the Platform Junket. The external auditor also noted this strategy was utilised by Crown management as a method of mitigating credit risk (i.e. for doubtful debts) whilst building the customer base.
171. Crown also marketed “the hell out” of **major events**. The VIP Business Updates for F15 listed a calendar of events throughout F15, with an event every month in Melbourne and most months in Perth and London. These events included Golden Week, Baccarat events, poker events, events linked to Chinese New Year and links to local sporting events (e.g. horse racing events). There were also specific gaming events promoted for example Lucky Chase promotion, Jingleballs and Goldenball. The F16 events included ICC Soccer and Soccer Ball, the Jordan Speith experience, Lucky Chase qualifier 1 & 2 and the Perth baccarat series. These events were in addition to other annual events, such as the Melbourne Spring Racing Carnival and Chinese New Year. In F17 the proposed events included Lucky Chase, Jingle Balls, Golden Ball, Soccer Balls, Aussie Millions (poker). The turnover for these events was recorded. The major events were used as marketing tools to attract Chinese citizens to Crown’s Australian casinos.

Draft Confidential Report – not to be disseminated – version 28 May 2019

172. The strategies to attract Chinese gamblers to Australia using major events was reflected in the **marketing roadshows** conducted by Crown in China and other parts of Asia. Crown described the roadshows as in the nature of “*customer goodwill visits*”. Mr Felstead explained that the senior executives (including himself) would on occasion do roadshows if they were promoting an event, for example a golf tournament. This was a common thing and other casinos send out senior people to show face to customers. For example, documentation provided by Crown stated that the March 2015 roadshow was designed to promote both Lucky Chase and Golden week/Golden Ball and to target platform partners as part of the new Platform Strategy to get new in-market targets.
173. The roadshows included visiting Crown’s best customers and junket agents or sub-agents. Senior executives attended selected roadshows to assist in promoting events. The roadshows were usually held six – eight weeks prior to an event to drive the event sales.
174. In F15 Crown conducted eight roadshows. These roadshows proceeded as scheduled despite the events that occurred in China in 2015 and the concerns expressed by staff about the actions of the Chinese authorities (discussed later in this report). The timeline sets out the dates of these roadshows. In F16 Crown conducted nine roadshows in mainland China. These roadshows were for several days and occurred each month, save for January, February and April 2016.
175. In VIP business planning for F17 Crown planned to hold a roadshow every six to eight weeks in advance of key events, with four major executive workshops and nine other targeted roadshows (promotional efforts). In total 13 roadshows were planned. There were four major executive workshops to support peak periods in late August 2016, mid – October 2016 and beginning of December 2016 and mid-March 2017. In F17 Crown conducted the two roadshows in August and October 2016.
176. It was during the October 2016 roadshow that Crown employees were detained by Chinese authorities. In October 2016 Mr O’Connor was in China as part of a marketing roadshow when he was detained. The records indicate that Mr O’Connor was in China as part of the mid-October 2016 roadshow planned from 10 to 21 October to promote Christmas Holidays and Jingle Balls.
177. Another aspect to enhance sales offshore, including China, was the **travel of senior executives overseas to overseas markets**. The continued frequent travel by senior executives to Asia was referred to as a strategy in the Financial Plans for F15, F16 and F17 (see above). Senior executives regularly travelled to China in 2015 and 2016, usually associated with a roadshow. In 2013 it was noted that senior figure exposure to the Asian market is valuable for a number of reasons:
- it maintains relevant and ‘face’ for high value customers
 - it motivates and encourages internationally based sales staff and allows effective communication and travelling opportunities
 - it allows far better learning and understanding of prevailing market conditions
 - it allows direct promotion of the properties, and
 - it allows negotiation and closing of key commercial deals to secure business.

Draft Confidential Report – not to be disseminated – version 28 May 2019

178. The F14 VIP International Business plan envisaged that Mr Felstead would make eight trips annually, Mr O'Connor would make eight trips per annum, and another two executives would also travel 14 times (combined) per annum. At interview Mr O'Connor stated that he travelled to mainland China typically twice a year. When he travelled he would meet new clients and "bigger" clients to facilitate the sales staff in securing meetings with the higher value customers. In recent years, he met customers on every trip. The August 2014 presentation to the CRL Board noted that strategies to address revenue growth and visitation included *"continued senior management visitation to Asia targeting Chinese premium players."*
179. In F17, Mr Felstead last travelled to China 10 days before the detentions on 13 October 2016 and Mr Chen had also travelled to China in September 2016.
180. **Telephone betting by proxy.** In April 2015 Crown approached the Commission about a proposal to introduce VIP International telephone betting by proxy. The Commission responded to Crown noting that there was no legislative prohibition preventing Crown's proposal, however the Commission had concerns about the integrity of the proposal and set out certain requirements regarding appropriate internal controls to be implemented if Crown decided to implement its proposal. The VIP International telephone betting strategy was referred to in the F15 – F18 CRL Financial Plan as an additional opportunity for the Melbourne casino. In an email dated 10 July 2015 from Mr Chen to the government relations consultant (about the questioning of Crown's staff by Chinese police) he also requested advice about how the Chinese government would view telephone betting by proxy, noting Crown was concerned *"about China government reaction and potential reputational damage. Also we are concerned if this provokes a negative reaction from the Chinese government, it would put our staff at risk in China. ...The market opportunity is huge, but we also recognize that their (sic) may be risks involved."* Ultimately, it appears this Crown sales strategy was not implemented in China.
181. This appears to be the only new marketing and sales strategy in China in the period January 2015 – October 2016 that Crown sought the advice from the government relations consultant about the possible reaction of the Chinese government. This email demonstrates Crown's awareness of the risk to its staff in China in undertaking gambling related activity in China and seeking not to put its staff at risk as part of its business planning, unfortunately it was in a very limited instance.

Public statements by CRL in Australia about its business strategy in China

182. In the period prior to the detention in October 2016, Crown made numerous repeated public statements about its business strategy to attract Chinese citizens to travel to Australia. Crown publicised its increased resources in China and the sustained focus by Crown Resorts on growing numbers from China, and announcing the increased revenue that Crown had generated from this strategy by increased visitation to Crown casinos by visitors from China.
183. For example:

Draft Confidential Report – not to be disseminated – version 28 May 2019

- On 20 February 2015 (14 days after the MPS foreign casino crackdown announcement) *The Australian* in an article “*VIP influx a windfall for Crown Resorts*” noted that “*Crown Resorts will continue to ramp up its marketing-pitch to high-rollers from China ...*” and published statements by the CEO of Crown Resorts about Crown putting additional resources in China and the benefits for the company and the Australian casino market resulting from China’s anti-corruption crackdown.
- In the F15 Crown Resorts annual report the Chairman commented on the strong growth in the International VIP program play turnover that had followed from the greater investment in the VIP International marketing and the outgoing boom in outbound Chinese tourism as a major positive for Crown’s casinos.
- In August 2016 Crown was referred to in an article “*Chinese win big for Australian casinos*” by Forbes noting more than a third of Crown Melbourne’s revenue comes from international visitors, including a significant proportion from China. The article goes on to note that Crown Melbourne ‘currently with 1,600 rooms, plans to add a further 400 rooms “*to meet future visitor demand, particularly from Chinese,*” the Company tells Forbes Asia’.
- In the 2016 CRL annual report, Mr Felstead noted that in FY16 there was a marked rise in international visitors, particularly from China and that Crown Resorts’ sustained focus on growing numbers from China has “*paid off*” with the resorts in Melbourne and Perth now among the most visited tourist destination in their respective states. The annual report also noted that more than a third of revenue generated by the Australian casinos was generated by international visitors, predominantly from mainland China.

Criminal Proceedings in China

Criminal law in relation to gambling in China – Article 303

184. The Chinese criminal law has specific prohibitions in relation to gambling. Article 303 of the *Criminal Law of the People’s Republic of China*, according to Crown, states:

“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 he shall be jointly fined.”

185. The judgement by the Shanghai Baoshan District People’s Court of the People’s Republic of China (the Court) states:

Article 303 *Whoever, for the purpose of profit, assembles a crowd to engage in gambling or makes gambling his profession shall be sentenced to a fixed-term of imprisonment of not more than three years, criminal detention or public surveillance, and shall also be fined.*

186. Article 25, Clause 1 of the *Criminal Law*, according to Crown, provides that:

“A joint crime is an intentional crime committed by two or more persons jointly.”

Draft Confidential Report – not to be disseminated – version 28 May 2019

187. The judgement by the Court referring to Article 25 states:

Article 25 *A joint crime refers to an intentional crime committed by two or more persons jointly.*

China's Judicial Interpretation of Article 303

188. On 11 May 2005, the Supreme People's Court and the Supreme People's Procuratorate jointly issued the *Interpretation on Several Issues Concerning the Specific Application of the Law in the Handling of Criminal Gambling Cases*. The interpretation (as translated) of Article 303 stated, in part:

Article 1 *The existence of any of the following circumstances for the purpose of profit shall be classified as "gathering people to engage in gambling" as stipulated by Article 303 of the Criminal Law:*

- (1) Organising more than three persons to gamble and to gain a cumulative benefit of 5,000 RMB or more from the gambled money;*
- (2) Organising more than three persons to gamble where the total gambling stake is 50,000 RMB;*
- (3) Organising more than three persons to gamble where the total number of gambling participants is more than 20 persons;*
- (4) Organising more than ten citizens of the People's Republic of China to gamble abroad and to extract a commission and referral fee in doing so.*

189. According to a legal article, "*Gaming in China: overview*" as at 1 November 2016, a person breaches the 2005 Interpretation in the following circumstances:

- assembling more than three persons with intent to gamble, to engage in gambling and obtaining commission of a sum equal or more than RMB5,000
- assembling more than three persons to engage in gambling and the aggregate gambling exceeds RMB50,000
- assembling more than three persons to engage in gambling and the number of people involved in the gambling activities exceeding 20 persons
- organising more than ten Chinese citizens to engage in gambling activities overseas and obtaining a commission and/or introducer fee in return.

190. The importance of the *Interpretation on Several Issues Concerning the Specific Application of the Law in the Handling of Criminal Gambling Cases* (the Judicial Interpretation) is discussed further below.

Crown's Interpretation of Article 303

191. In correspondence and in a presentation to the Commission, Crown stated that it obtained legal advice on Article 303 and the Judicial Interpretation, and this legal advice 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 received a 'referral fee' or similar kind of reward*. During the investigation, Crown emphasised that Crown staff did not organise more than 10 persons travelling in one trip from China to Australia to gamble and that this approach complied with Chinese

Draft Confidential Report – not to be disseminated – version 28 May 2019

gambling law, Article 303. For the purposes of this report we have described this interpretation as the “10 persons per trip interpretation”.

192. Crown stated to the Commission that prior to 2015 it had sought legal advice in China from a Chinese legal firm in relation to Article 303 on 14 June 2012, 19 February 2013 and 22 May 2013. Crown obtained further legal advice in 2015 which is referred to later in this report. At interview, Mr Chen (President of International Marketing) and Mr O'Connor (Group Executive General Manager, VIP International Department) both confirmed that Mr Chen initially sought legal advice in about 2012 regarding Crown's activities in China. Mr Chen stated that he would have discussed with Mr O'Connor and the internal legal department in Crown to get approval before engaging outside counsel.
193. Crown declined to provide a copy of any of its legal advice regarding the criminal anti-gambling laws in China to the Commission on the basis of legal professional privilege. Further, Crown chose not to waive its legal professional privilege in relation to any of the legal advice that Crown received regarding its operations in China.
194. Consequently, the Commission can make no assessment about Crown's stated reliance on this legal advice, the basis for any legal advice, whether the legal advice was qualified and whether Crown's actions complied with the advice it received. In addition, the Commission cannot determine who in Crown received the legal advice. Further, the Commission cannot assess whether the legal advice, the strength or any qualification of the advice changed, particularly after the detention of the South Korean casino marketing employees in June 2015 in China or after the Chinese police questioned Crown staff in China in July 2015.
195. Documentation provided by Crown indicates that Crown instructed its staff to follow the 10 persons per trip interpretation. For example, the Updated Project Wager memorandum dated 25 March 2015 from a government relations consultant referred to the importance of Crown's marketer's staying strictly within their legal guidance provided thus far from legal counsel concerning their assessment of relevant Chinese law restricting grouping to less than 10 persons, and an undated note of oral briefing points state that the promotion of gambling overseas is not illegal as long as you are not organising groups of 10 or more people and receiving a commission. The Commission only identified these two documentary references to this 10 persons per trip interpretation, although it may have been referred to in other documents but was redacted by Crown on the grounds of legal professional privilege.
196. It appears that Crown relied on a particular interpretation of Article 303, being that Crown considered there was no offence if a single person organised no more than 10 Chinese citizens in one trip to gamble overseas (the 10 persons per trip interpretation). The Judicial Interpretation is silent on whether it is per trip or cumulative over time. The legal article referred to above made no comment in respect of the temporal aspect.

Chinese authorities' interpretation

Draft Confidential Report – not to be disseminated – version 28 May 2019

197. The Chinese authorities adopted and enforced the Chinese criminal gambling law on the basis that a person cannot organise more than ten persons to travel overseas to gamble and persons cannot work together to organise more than 10 persons travelling overseas to gamble. If a person or persons together organised more than 10 persons to travel overseas cumulatively they would contravene China's anti-gambling law in Article 303. Importantly, Chinese authorities took into consideration where persons worked in concert to organise Chinese citizens to travel overseas to gamble, and this was considered by Chinese authorities as a joint crime. The Chinese authorities' interpretation of Article 303, in conjunction with Article 25, was reflected in the prosecuting agencies indictment, the judgement of the Court, a CCTV media report dated 13 October 2015 and information provided to the detained Crown staff. The CCTV media report was published a year before the Crown staff were detained by Chinese police.
198. The contents of the indictment and the judgement are set out in more detail below, the references to organising 10 or more persons to travel abroad to gamble included:
- the Chinese Indictment stated that the defendants *“separately formed a series of teams to organise more than 10 Chinese citizens to visit Crown Group's casinos in order to gamble; they received payment for this. All such behaviour has contravened Article 303 Section 1 and Article 25 Section 1 of the Criminal Law of the People's Republic of China.”*
 - the Court judgement stated that the Court was of the view that the defendants (all 19) *“organised more than 10 citizens of China to gamble abroad and gained a benefit in doing so, the conduct of which all constitutes gambling crimes, which shall be punished in accordance with the law.”* The judgements referred to each regional team of sales staff organising large numbers of gamblers in China to travel and gamble at Crown's gambling establishments under favourable terms such as by the inclusion of commission points, turnover rebates and providing gambling credit, visa processing, airport pick up, accommodation and other conveniences to gamblers. The defendants each received pro rata commissions in the annual period based on the regional sales team realising the turnover targets.
199. The interpretation of Articles 303 and 25 enforced by Chinese authorities was referred to by other sources:
- one Crown employee detained by the Chinese police told the Commission: that the Chinese authorities explained that it meant 10 or more citizens in your lifetime. That Crown employee roughly estimated that in one year the employee facilitated 30 Chinese citizens travelling abroad.
 - the media report on CCTV on 13 October 2015 titled *“Overseas Casinos Setting up Networks inside China”* stated that *“China's laws clearly stipulate that for anyone who organises more than ten people to go and gamble abroad on one occasion, or organises people to go and gamble abroad on multiple occasions and the accumulative number of people reaches ten, and when the gambling funds or commissions reach a certain amount, the public security organisations shall investigate the cases for suspected gambling crimes.”*

Draft Confidential Report – not to be disseminated – version 28 May 2019

- one Crown employee detained by the Chinese police told the Commission: *When I was charged, the police said that we had broken Chinese law in relation to organising groups of over ten (10) person to gamble overseas. The police said this number was calculated over a year.... I believe that I would have signed up over ten (10) new customers over twelve (12) months. And the whole sales team would have signed up 20 – 30 over twelve (12) months."*
200. There is no evidence that Crown considered that the combined efforts of its sales teams in China to market and then organise Chinese citizens to travel overseas to gamble would be contravening Article 303.
201. Further, the conviction and deportation of South Korean casino marketing staff in China occurred in August 2016, three months before the detention of the Crown staff. There is no evidence that Crown sought to clarify the legal basis of the conviction and deportation of the South Korean casino marketing staff, which may have informed Crown in its approach to operations in China.
202. Another foreign casino that the Commission spoke to was not aware of the 10 persons per trip interpretation. The senior employee of an international casino that had staff travel to China commented that the significance of 10 or more clients never came up in dealing with Chinese law, the understanding was that there was a prohibition on marketing of gambling which still applies today.

Criminal proceedings against Crown employees

203. On or about 13 October 2016 19 Crown employees (including two former employees) were criminally detained by Chinese authorities in China. Thereafter, on 11 November 2016, three Crown employees were released on bail, and the remaining 16 Crown employees remained in detention in China.
204. On 26 June 2017, all 19 Crown employees appeared in the Court and pleaded guilty to offences related to the promotion of gambling in China and were convicted by the Court of contraventions of Article 303, Clause 1 and Article 25, Clause 1 of the *Criminal Law of the People's Republic of China*.
205. The Court sentenced 16 Crown employees to terms of imprisonment, taking into account the period of time already served in criminal detention since 14 October 2016. Eleven of the 19 employees were sentenced to nine months of fixed terms of imprisonment, and they were released on or about 12 July 2017. A further five employees were sentenced to 10 months fixed terms of imprisonment, and those five employees were released on or about 12 August 2017. **Annexure B** to this report is a redacted copy of the English translation of the judgement of the Court.
206. In addition, the Court imposed fines on 16 of the 19 employees aggregated to RMB 8.62 million (approximately AUD \$1.67 million), which was paid ex-gratia by Crown.
207. The other three employees, who had previously been released on bail, were not fined or sentenced to a period of imprisonment.
208. Three of the employees who were convicted and sentenced were Australian citizens, one employee was a Malaysian citizen and the remaining employees were Chinese citizens.

Draft Confidential Report – not to be disseminated – version 28 May 2019

209. The Commission received a copy of the indictment against all 19 Crown employees and a copy of the judgement by the Court. The indictment and judgement were similar and very detailed and included, amongst other things, the following information:
- name, date of birth, ethnicity, educational qualification and household registration for each Crown employee
 - the period the person commenced working for Crown
 - date and location of detention and noted that each person was criminally detained. The indictment also stated that each person was criminally detained “*on suspicion of having committed gambling offenses.*”
 - the position of each employee in Crown, and the relevant duties the position involved, and the annual income for F16 of many of the employees
 - for Crown sales team staff members, where relevant, the indictment and judgement included details of the members of each regional sales team, the financial performance target for each regional sales team and the gambling turnover achieved by each regional sales team between 1 July 2015 to 30 June 2016, and
 - in relation to the sales persons, the indictment alleged that the sales staff gained commission points, bonuses based on turnover, and other benefits for organising, upon Chinese territory, for large numbers of gamblers to gamble at Crown Group’s casinos. They would set quotas on amounts gambled by each client, obtain visas, and arrange airport reception and accommodation.
210. The indictment and judgement also referred to evidence consisting of 17 folders of investigation files, six volumes of financial audit records, 24 discs and one portable hard disk drive. The indictment and judgement described the evidence having been gathered by the Chinese authorities, including but not limited to:
- the witness statements of 69 gamblers, with identification records, and transaction records of some of the gamblers
 - the itinerary of Mr O’Connor showing arrangements to meet gamblers and potential clients and recovering gambling debts
 - employment contracts and performance plans for employees of Crown
 - screenshots of Crown’s sales plans, profit targets and completion status, demonstrated an annual increase in Crown’s targets for China and completion status description for each team in China from June 2015
 - computer Judicial Expertise Forensic examination report, and emails, screenshots of text messages of the defendants showing how the team members of the Crown in China made arrangements or asked for instructions for staff recruitment, the itinerary of gamblers, the credit limits, handling of debts and acquisition of new gamblers in China as per the internal organization structure
 - seized mobile phones, notebooks, ipads, notebooks, mobile hard disk drives, USBs and bank cards from the defendants

Draft Confidential Report – not to be disseminated – version 28 May 2019

- confessions of the defendants.
211. The contents of the indictment and judgment generally reflected the regional team structure of Crown, the nature of the positions of each defendant, the concepts of targets and performance measures utilised by Crown, the remuneration and payment of bonuses to staff and other aspects of Crown's activities.
212. The indictment and judgement demonstrate that the Chinese authorities spent significant resources in gathering data in relation to the activities of each Crown employee, the organisational structure of Crown, the sales and marketing performance targets to be achieved by each region measured by turnover, the income of each employee and the gambling turnover achieved by each employee and region. This investigation focused on the activities of the Crown employees in the period 1 July 2015 to 30 June 2016 (F16). The initial questioning of two employees by Chinese police occurred in July 2015. The decision to detain and subsequently prosecute the Crown employees for contraventions of Chinese gambling law appears to have been a deliberate and considered decision, involving a thorough and detailed investigation by Chinese authorities.
213. The Commission requested Crown, using the Commission's information gathering powers, to provide documentation in relation to the criminal proceedings in China including, the verdicts, reasons for decisions, briefs of evidence, admissions, Court transcript and findings and statements, however Crown declined to provide this information on the grounds of legal professional privilege and declined to waive privilege in relation to these documents.
214. The Commission received the indictment and the judgement of the Court (including English translations) from Crown employees who had been imprisoned in China who responded to statutory notices issued under the Commission's information gathering powers.

Chinese legal system and convictions

215. In correspondence dated 17 May 2018 Crown made submissions about the Chinese justice system and the pleas of guilty by the Crown staff. It noted, amongst other things:
- there are fundamental differences between the justice system in China and western countries. In China prosecutors and judicial officers are employees of the State. There is no equivalent of the western law doctrine of separation of powers.
 - account needs to be taken of the circumstances of a conviction under the Chinese legal system when considering the implications in Australia.
 - it was clear to the detainees that the quickest and most assured means of being released was to accede to the charge and express respect for the justice system, irrespective of how the evidence might be evaluated or the charges might be defended under a western law system.
 - the guilty pleas should not be taken for Australian legal or regulatory purposes to mean that the detainees admit that they breached a foreign law, knowingly or otherwise.

Draft Confidential Report – not to be disseminated – version 28 May 2019

216. The possibility of staff employed by foreign companies being detained in China are well known. In the casino industry, China had taken criminal enforcement action and detained foreign casino staff in 2013 and in June 2015.
217. The Department of Foreign Affairs and Trade travel advisory to Australians travelling to China prior to October 2016 stated that gambling is illegal in mainland China and had specific advice for persons doing business in China. It noted that Australian nationals carrying out business in China who become directly or indirectly involved in a business dispute or criminal matter may be prevented from leaving the country until the matter is resolved and this has resulted in Australians being restricted from leaving China for extended periods of time, sometimes many years.
218. At interview, Mr Chen who was responsible for the staff in China referred to the difficulties of operating in China. He commented:
- "It's very difficult because there's - China has had a history of interpreting laws in a way to fit a political agenda or their own agenda. You know, things are very opaque, even when there is guidance from the Supreme Court, you know, how they choose to enforce it - can change overnight."*
219. The potential for a staff member to be detained was known to Crown when it had staff operating in China to promote its business. This potential outcome was certainly known to Mr Chen when in March 2015 he gave instructions regarding his salary in the event he was detained in China during a roadshow to China, and again when he commented in June 2016 in correspondence to the CEO of the Australian Resorts that he has *"taken on the risks of being prosecuted in China"*. These matters are discussed in more detail below.

What were the warning signs in China prior to October 2016?

220. In 2015 there were several significant actions by the Chinese authorities to enforcing Chinese criminal gambling laws with respect to the marketing operations of foreign casinos in China:
- in February 2015, there was an announcement of a Chinese government crackdown on foreign casinos activities in China seeking to attract Chinese citizens to travel abroad to gamble
 - in June 2015, numerous South Korean casino marketing staff were criminally detained in China
 - in July 2015, Chinese police questioned two Crown international marketing employees in China
 - in October 2015, a media report was broadcast on CCTV titled *"Overseas Casinos Setting up Networks inside China"* in relation to the arrest of the South Korean casino marketing employees and setting out the Chinese authorities' attitude to the marketing activities of foreign casinos in China.
221. These actions by Chinese authorities are described in more detail below.

6 February 2015 - Chinese Ministry of Public Security announcement

Draft Confidential Report – not to be disseminated – version 28 May 2019

222. On 6 February 2015, the Deputy Bureau Chief of the Chinese Ministry of Public Security (MPS) was quoted as stating:
- “Some foreign countries see our nation as an enormous market, and we have investigated a series of cases.”*
- “A fair number of neighbouring countries have casinos, and they have set up offices in China to attract and drum up interest from Chinese citizens to go abroad and gamble. This will also be an area that we will crack down on.”*
223. These statements were reported in numerous media articles such as: “*Corrected – China to crackdown on foreign casinos seeking Chinese gamblers*”, “*China’s President just declared war on global gaming*” and “*China clamps down on foreign casinos wooing Chinese gamblers*” and “*China cracks down on foreign casinos luring Chinese gamblers*” and “*What lies behind China’s clampdown on foreign casino’s*”.
224. The media interpreted these comments by the China’s MPS as a government crackdown on foreign casinos. For example, the Yahoo news article commented on these statements as follows; “*Chinese President Xi Jinping has officially declared war on the global gambling industry, warning foreign casinos that Chinese citizens will be gambling much less in China, neighbouring countries, and the US... In other words, Xi is telling companies around the world that saw their revenue triple when Macau opened up to foreigners that the Chinese gambler will not be following them abroad to countries like Singapore and the Philippines where billions have been spent on new projects to attract those same people. Asian companies have heretofore capitalised on the travelling Chinese gambler in the Philippines, Australia and especially Singapore. ... Now that’s set to take a hit ...*
- So Xi’s declaration is coming when companies around the world- from MGM to Las Vegas Sands, from Macau-based companies Melco to SJM Holdings – are at their most vulnerable.”*
225. Consistently with the foreign casino crackdown, at around the same time, there was an announcement by the police bureau in the city of Shen Yang (the capital city of Lianoning province) noting that since 2015 they will take strict action in relation to gambling. An extract from an announcement by the Shen Yang police department, stated in part: “*Our attack should focus on five targets.... Target 2: online gambling; criminal gangs organising Chinese citizens to travel beyond our frontiers for the purposes of gambling; gangs and their key personnel performing the role of local Chinese agents for casinos or gambling websites located beyond our frontiers.*”
226. The Chinese authorities’ crackdown on foreign casinos marketing to Chinese citizens in China commenced in February 2015 and was part of the crackdown known as “Operation Chain Break” to stop the flow of money from the Chinese mainland to foreign casinos.

June 2015 – Criminal Detention of South Korean casino marketing staff

227. The next significant event in China was the detention of numerous marketing staff working for casinos in South Korea.
228. On or about 20 June 2015, media commenced reporting that numerous (14) staff for South Korean casino operators, Paradise and Grand Korea Leisure, were arrested by Chinese authorities for allegedly marketing to Chinese gamblers. These media

Draft Confidential Report – not to be disseminated – version 28 May 2019

reports referred to the foreign casino crackdown announcement made by MPS in February 2015. It was subsequently reported that MPS branches in Beijing, Hebei, Shanghai and Jiangsu acted in June 2015 to detain 13 South Korean casino managers and 34 Chinese agents and executives of five South Korean casinos in China.

July 2015 - Chinese police question Crown marketing staff in China

229. In July 2015, two Crown staff members were questioned by Chinese police in relation to organising gambling.

Chinese police question Mr B

230. Mr B, a Crown international sales manager in China, was questioned by Chinese police on 9 July 2015 in Wuhan at the Xin Gouqiao police station. The written translated account of this questioning was the subject of an email from Mr B to Mr Chen on 15 July 2015. According to the written account, translated by a Crown employee in Melbourne, Mr B responded to various questions by police and told them he worked for Crown Resorts, that his job was “*applying for visas for clients*”, he works from home, he confirmed his employer has casinos in Australia, and he did not know if the clients gambled in Australia. When Mr B asked the Chinese police about why he was being questioned, the police would not explicitly respond but stated that the issue was “*that I have organised people to gamble in Australia.*” Mr B was asked by the Chinese police to provide a letter to confirm his employment.
231. On 10 July 2015 Mr B delivered a letter from Crown Resorts, issued out of Melbourne, to the Chinese police. The letter stated as follows:

To whom it may concern

This is to confirm that Mr ... (passport no..) is an employee of Crown Resorts Pte Ltd (Hong Kong), which is a subsidiary of Crown Melbourne Ltd and is part of Crown Resorts Limited group of companies (Crown Resorts) Crown Resorts is one of the leading hotel, resorts and entertainment companies and is listed on the Australian Stock Exchange.”

Signed by Tim Spearman as authorised signatory of CRPL.

Dated 9 July 2015

232. This employment letter was sent to Mr B, via Mr Chen on 10 July 2015. When Mr B delivered the letter to the Chinese police he was told “everything is alright” according to the translation by the Crown employee. The Commission translation of Mr B’s account stated that Mr B was told “that all was in order.”

Chinese police question Mr A

233. Mr A, a Crown director of international sales in China, told the Commission that in around July 2015 he was also spoken to by Chinese Police at his home about gambling. He stated that the police told Mr A that someone had told them that Mr A was organising gambling at his home. Mr A denied this to police and the police said that maybe the information was made up. He stated that the police did not ask him what he did or if he worked for Crown. This statement is consistent with an email from Mr Chen to the government relations consultant on 10 July 2015 which referred to “another staff member” being visited by police on a tipoff that he was organising tours for gambling. It is also consistent with other emails between Mr Chen, Mr

Draft Confidential Report – not to be disseminated – version 28 May 2019

O'Connor and Mr Felstead dated 10 July 2015 about another employee being questioned in China by Chinese police. Given, these communications it appears that Mr A was questioned by police prior to the questioning of Mr B.

13 October 2015 - Chinese Central TV media report – Overseas Casinos Setting up Networks inside China

234. On 13 October 2015, CCTV ran a TV media report "*Overseas Casinos Setting up Networks inside China*". The program was very detailed and addressed the Chinese government's approach to the activities of foreign casinos more generally, using the arrest of the South Koreans as the example. CCTV is the national broadcaster for China. Given the TV network is the official TV network for the Chinese government, this is a source which conveys the Chinese government messages and gives some insight into the reasoning and actions of Chinese authorities in relation to foreign casinos operating in China.
235. In **Annexure C** is the full transcript of the CCTV media report. This media report was a clear warning sign to all foreign casinos that were actively marketing in China. The media report contained significant references to the detention of the South Korean casino staff in June 2015.
236. For the purposes of this report, the Commission notes that the CCTV media reporting included statements made by Chinese authorities communicating two significant messages, which were relevant to Crown and its operations in China.
237. Firstly, the CCTV media report contained messages that the Chinese authorities were actively monitoring the activities of foreign casinos as part of its "chain breaking" campaign against gambling and the Chinese police are determined to crackdown on criminal activities around organising gambling "*to cut off the personnel chain and capital chain infiltrated by overseas casinos*". In this respect the media report ended with the following cautionary words:
- "It is common knowledge that gambling ruins families. Even if we are abroad, we must still remember this. In particular, to go and gamble in casinos that specialise in luring Chinese gamblers, it is certain that there will only be traps and no good luck. Otherwise, where do they get the money from setting the bait? And these casinos should also understand that they will definitely have to pay for ignoring and breaking the laws of China. The Chinese government will never tolerate such crimes. Chinese citizens who become aware of anything suspicious should report the matter to the authorities. If someone is involved in such an activity, the person will be severely punished."*
238. Secondly, the CCTV media report made reference to the criminal anti-gambling law and organising more than 10 persons to travel abroad to go and gamble. The media report included a statement that "*China's laws clearly stipulate that for anyone who organises more than ten people to go abroad on one occasion, or **organises people to go and gamble abroad on multiple occasions and the accumulative number reaches ten**, and when the gambling funds or commission reach a certain amount, **the public security organisations shall investigate the cases for suspected gambling crimes.***" This view of the law was contrary to the 10 persons per trip interpretation followed by Crown. Clearly, a CCTV media report cannot be relied on as an authoritative source for the interpretation of Chinese criminal law. However, as

Draft Confidential Report – not to be disseminated – version 28 May 2019

a statement made on State TV in China, it is an open source message as to the enforcement approach adopted by Chinese authorities.

239. This media report on CCTV was then reported by other media outlets.

Other activities by Chinese authorities after October 2015

240. Between November 2015 and October 2016 the Chinese government continued to enforce criminal gambling laws in China and take other steps, such as implementing capital controls to reduce the amount of capital flowing out of China.

241. In December 2015, Chinese police arrested 98 people connected to online gambling networks in China. The individuals arrested were suspected of *“involvement in an online gambling network that has opened more than 500 online casinos, attracting a million members and the investigation was ongoing.”* There is no record that Crown received any advice in relation to this event.

242. In January 2016, new tighter transaction limits on overseas withdrawals using UnionPay cards were introduced. In addition, implementation of existing control measures, such as fully completed documentation being required when banks made foreign currency transactions, were strengthened. This change was referred to by Crown in its business planning processes.

243. In April 2016, Asia Gaming Brief reported that Chinese police had arrested 218 suspects for allegedly luring Chinese residents to fake online casinos.

244. In August 2016, the South Korean casino marketing staff detained in June 2015 were found guilty and sentenced for breaching the criminal anti-gambling laws of China. They were sentenced to 15 months' imprisonment and then deported.

What was Crown's response to these warning signs?

Crown's submission overall

245. In summary, Crown states that it responded appropriately to these events in China. It had well qualified and experienced staff in the relevant key roles (principally Mr O'Connor and Mr Chen) and that advice was sought whenever it was prudent to do so from well qualified credentialed lawyers in China and a government relations consultant. Crown states that it understood at all times prior to the detention of the Crown staff that they were operating in such a manner as to not infringe Article 303 of the Criminal Law of China. Crown did not organise trips to Australian casinos of more than ten or more patrons at a time, and did not receive commissions or kick-backs. Crown submits that its staff in China acted in accordance with Chinese criminal laws. Senior executives, including Mr O'Connor and Mr Felstead, regularly travelled to China and attended customer meetings with staff. This gainsays any suggestion that the senior executives considered that there was any material risk of staff being detained and prosecuted, particularly for the aggregated conduct of all staff.

246. Crown states that the detention of Crown staff in China came *“out of the blue”*. Crown states that it received no warning from any enforcement agency in China, official or informal, that staff were considered to be breaching Article 303. Further, Crown submits that it is only with hindsight that the assessment of the risk of Crown group

Draft Confidential Report – not to be disseminated – version 28 May 2019

staff being detained in China made by Crown at the time (on the basis of external expert advice) can now be criticised.

247. The Commission has assessed the evidence available about Crown's response to each of these events in China.

Legal advice

248. In response to the MPS announcement in February 2015, the detention of the South Korean casino marketing employees and the questioning of Crown marketing employees by Chinese police, Mr Chen, on behalf of Crown, sought legal advice from a Chinese legal firm. This advice was requested on 9 February 2015, 22 June 2015, 9 and 10 July 2015. Mr Chen also sought legal advice from Crown's internal lawyers in Melbourne in relation to the police questioning of Crown employees in China.
249. The Commission requested copies of the legal advice provided to Crown. However, Crown has claimed legal professional privilege in respect of the advice provided by the Chinese legal firm and the internal lawyers, and declined to waive that privilege.
250. Notably, Crown did not seek any legal advice after the CCTV media report was published in October 2015 setting out a different interpretation of China's anti-gambling law or after the conviction of the South Korean casino marketing employees in August 2016 for contravening China's anti-gambling criminal laws.

Government Relations Advice

251. After each significant event in 2015 Mr Chen, on behalf of Crown, sought advice from an external government relations consulting firm in China. The government relations consulting firm describes itself as a firm that "*specialise in providing litigation, due diligence, asset recovery, and internal investigative service to multi-national corporations, law firms, investment banks, financial institutions, international organisations and non-profits*".
252. Mr Chen primarily communicated with one consultant at the firm. That consultant was an ex CIA officer. Mr Chen had previously engaged that government relations consultant when he worked at Caesars Entertainment prior to March 2012. Mr Chen stated that he would have discussed with Mr O'Connor the engagement of the government relations consultant firm prior to engaging them, although he could not recall it specifically. At interview Mr O'Connor stated that it would have been Mr Chen's decision to engage the government relations consultant because that was Mr Chen's responsibility, although Mr O'Connor would have supported Mr Chen if he proposed receiving advice.
253. In summary, throughout 2015, the government relations consultant advised that there was a foreign casino crackdown by Chinese authorities, but Crown could continue its marketing activities provided it was low key with small groups at a time and with little to no publicity and complied with their legal advice. The government relations consultant advised that the detention of the South Koreans casino marketing staff was due to the nature of the activities undertaken by the South Koreans. The government relations consultant advised Crown could continue with its activities, including after the CCTV report in October 2015. However, the government relations consultant did advise that the employment letter by Crown for Mr B that was given to

Draft Confidential Report – not to be disseminated – version 28 May 2019

Chinese police could be used by Chinese authorities as evidence in the future if they wished to take action against Crown in relation to Crown's marketing activities.

MPS announcement

254. The engagement in February 2015 of the government relations consultant was known as "Project Wager" and was described by the government relations consultant to *"conduct a quick turnaround assessment of the current situation related to corruption investigations in Macau, and their potential effect on your company personnel in Mainland China, pursuant to your request and at your direction."*
255. On 13 March 2015, the government relations consultant provided an informal interim update to Mr Chen in the form of a memo headed "Project Wager update: March 13, 2015", prior to a Crown marketing roadshow due to commence on 16 March 2015. The update refers to information from various sources including a journalist, sources in the Public Security Bureau (PSB) in China and a junket operator. The *"bottom line assessment"* to date was that Crown could proceed with marketing efforts but to keep them low key, with small groups at a time and no publicity. The consultant also noted that *"It would be well advised to avoid cell phone, and text message communications dealing with marketing efforts, and limit overall use to the degree possible while in the country. Concerning business cards, would also limit that to known, specific customers, and avoid distribution to random individuals."*
256. On 24 March 2015, the government relations consultant provided to Mr Chen the Final Memorandum on Project Wager. Mr Chen reviewed the memo and requested more guidance on the risk assessment and requested that the government relations consultant review the summary section and *"beef that up a bit."*
257. On 26 March 2015, the government relations consultant provided the "Updated Project Wager memo" to Mr Chen by email. In the covering email the consultant noted that *"I beefed up the areas requested per attached, and believe this covers areas of primary interest."* The memorandum contained information from a range of sources including the PSB, junket operators, marketing representatives, a journalist and media coverage. In relation to one media article it noted that in April 2013, Chinese state media reported that groups that profit through organising gambling trips to Macau with more than 10 mainland citizens will be charged with the crime of gambling in line with Chinese criminal law.
258. The memorandum included further detail regarding the risk assessment and made operational recommendations. The risk assessment noted, amongst other things:
- clearly enhanced attention from relevant PRC authorities concerning foreign casino marketing activities in mainland China.
 - the coming months likely will feature an increasing level of scrutiny by PSB, and possibly other authorities directed at foreign casino marketing and other personnel in the mainland, though its likely to be uneven in its application by authorities.

The operational recommendation included:

- there will be increased scrutiny on marketing efforts of foreign casinos in mainland China, but there does not appear to be clear guidance issued to the relevant Chinese authorities about how to carry this out and it's not clear how

Draft Confidential Report – not to be disseminated – version 28 May 2019

broadly the instruction was disseminated by the PSB, so it should be assumed it has likely wide distribution.

- it would still seem prudent to proceed with planned marketing efforts, but keep them low key, ideally with small groups at a time and little to no publicity.
- it will be very important for each marketer to stay strictly within their legal guidance provided by legal counsel concerning assessment of Chinese law restricting groupings to less than 10 persons.
- it would be well advised to avoid cell phone and text message communications dealing with marketing efforts to the degree possible and limit overall use in the country...with the recognition that your industry is now under a greater microscope, each person should assume that all communications are being monitored, or very well gathered later (digital email/texts/posts) should a specific investigation ensue. For this reason a phone call is better than a digital message, simply for the reason that it requires live monitoring to be productive for an investigation should one occur.
- suggest limiting distribution of business cards and marketing materials to known specific customers, and avoid distributing to random individuals.

259. In the final section of the memorandum, the government relations consultant noted, amongst other things that: for various reasons it is likely that the Chinese authorities will pursue this crackdown with greater than average vigour and with that would seem likely that provincial authorities tasked with putting together and carrying out a plan to more aggressively monitor foreign casino marketing activities will get their act together relatively quickly; and there will be a desire to show results within the coming two to three months. The memo then opined that it did not mean that all marketing efforts should cease within the period or thereafter, just that each marketing effort should be considered with the above environment in mind, ensuring strong adherence to Chinese law and company guidance on how your personnel are to conduct their marketing efforts in country, and maintain effective communication.

South Koreans

260. After becoming aware of the media reports, on 19 June 2015, Mr Chen again sought the advice of the government relations consultant, asking him to help verify the story and understand any implications. In the initial reply the government relations consultant noted that *“This is likely part of the program we knew was in the works”*. In response Mr Chen describes the key question is why *“them if they were undertaking normal activity like we do. Or can we verify those folks were doing something untoward”*. It is apparent from internal Crown emails that Mr Chen received oral advice from the government relations consultant.

261. On 24 and 28 June 2015, the government relations consultant gave written advice to Mr Chen. On 24 June 2015, the government relations consultant referred to their sources, including Beijing PSB contacts, a few junket operators, security staff in Macau and gave a summary of the information gathered from these sources. The sources gave various suspected reasons for the detainment of the South Korean casino staff, such as “over aggressive loan issues” related to debt collection, and the Korean government not co-operating with the China for joint operations on junket

Draft Confidential Report – not to be disseminated – version 28 May 2019

operators. The consultant noted that the two Beijing PSB contacts had become silent and declined to provide further comments.

262. On 28 June 2015, the government relations consultant advised that the PSB Beijing source referred to the Korean's "*extremely aggressive*" approach to business (compared to others in the sector), especially about bringing cash in and out of China and that the Koreans had been contravening Chinese currency laws for some time. The government relations consultant stated that he (the consultant) was convinced it was an isolated case "*though pursued in an environment we know is present which is more careful monitoring of activities and not allowing activities to become too high profile.*"

Chinese police interviews of Crown staff

263. In relation to the questioning of Mr B, on 10 July 2015, Mr Chen referred this incident to the government relations consultant. Mr Chen requested the government relations consultant to let him know if he hears of any new changes in policy or approach.
264. In response, the government relations consultant commented on the matter being "*well handled without incident*", but went on to note that "*we must also consider the request for the letter has the effect of contributing to an evidentiary pile that PSB could decide to draw upon in the future.*" There was an exchange about whether Mr B should provide the employment letter requested by the Chinese police and the government relations consultant advised that it's normal for them to ask for this and you need to comply, "*just saying that one unintended and unavoidable consequence of this is that it could be used by PSB in the future should they wish to point to a variety of marketing activities.*"
265. There is no other evidence that the government relations consultant provided any further advice to Crown in relation to any change in Chinese policy or any intelligence information from Chinese government sources about the questioning of its staff by Chinese police. Further, there is no evidence that the government relations consultant gave any advice about whether Crown should continue its current marketing activities.
266. At interview, Mr Chen also stated that when they were preparing the Reception Procedures, the government relations consultant advised that it is not unusual in China for people to get knocks on their door to ask questions about an ongoing investigation about something, it may be unrelated to your business, and because of the nature of the customers that Crown dealt with they were all important people in China. He went on to state that "*we*" knew a lot of them with businesses under investigation or may be people of interest and "*we*" were specifically told that it wouldn't be unusual for any of "*our*" people to be tapped on the shoulder. This advice is not documented in any of the government relations consultant correspondence provided by Crown, and appeared to be advice given at a time of preparing the Reception Procedures in June 2012, which was prior to February 2015 and the announcement of the crackdown on foreign casinos.

CCTV media report

267. At interview, Mr Chen described the October 2015 TV report as a "*another in a series of messages that have come from the Chinese government... over the 10 years I've been in the gaming industry*". That is why he sought advice from the government relations consultant.

Draft Confidential Report – not to be disseminated – version 28 May 2019

268. Mr Chen sent an email to the government relations consultant on 14 October 2015 headed “*Casinos outside our frontiers, establishing networks inside out frontiers*” to seek advice “*about the current state of affairs with regards to the activities we are undertaking in China*”, noting that Crown “*need to have a responsible understanding of (sic) the environment has materially changed, if there are any new laws or whether there were new risks we should be managing for.*” The following day Mr Chen requested a response, as the following Monday Crown was commencing a further roadshow.
269. On 15 October 2015, the government relations consultant replied and noted that they had made a number of inquiries with knowledgeable sources and “*all seems to be pointing to a dedicated effort against there Korean targets rather than broad based effort, though the backdrop remains as we’ve identified earlier that there is interest in monitoring all foreign casino marketing in the mainland.... your team should not feel overly concerned.*”
270. On 19 October 2015, the government relations consultant advised Mr Chen that its sources pointed to the recent arrests being very much pointed to the Korean entity, not part of a broader crackdown underway. They further advised that Mr Chen’s team should be in good shape for its activities that week (i.e. roadshow) though follow the same ground rules.
271. Mr Chen clearly relied on the advice of the government relations consultant at this time. At interview, Mr Chen noted that he relied on the consultant and “*he was pretty calm in all these things because he’s seen it in other industries. He’s seen a pattern of this over a long period of time... he tried to give, for my estimation as good advice as he could without you know being a knee jerk reaction one way or the other and putting it into context of what he had seen.*”

Reporting to the Senior Executives Responsible about the warning signs in China

272. Mr Chen, Mr O’Connor and Mr Felstead were all aware of the MPS announcement of the foreign casinos crackdown, the detention of the South Korean casino marketing staff, the questioning of Crown employees and the CCTV media report. They were all active in determining Crown’s response to these events. However, Mr Craigie, the CEO of Crown Resorts, was only notified of the criminal detention of the South Korean casino marketing staff. The escalation (or lack thereof) of information to senior executives and directors is set out in the Escalation Chart at **Annexure E**.

February MPS announcement

273. At interview, Mr Felstead and Mr O’Connor both stated that they were not aware of any separate crackdown on foreign casinos in China, however this is not supported by the documentary evidence available to the Commission. A media article about the foreign casino crackdown was circulated to Mr Felstead and Mr O’Connor, the crackdown was also referred to in the F16 VIP International executive business planning documentation in March 2015 and the subject of discussion at an executive meeting in February 2015.
274. Senior executives in Crown clearly interpreted the announcement by MPS reported in the media as a Chinese government crackdown on foreign casinos and considered there was a risk to staff in China. For example, Mr Chen interpreted the comments by the MPS on 6 February 2015 as a Chinese government crackdown on Chinese

Draft Confidential Report – not to be disseminated – version 28 May 2019

gambling abroad, as reflected in his comments in an email to staff on 9 February 2015 (discussed further below) and an email to Mr Felstead on 7 February 2015 (see below).

275. On 7 February 2015, a senior Crown executive manager at Aspinalls, after becoming aware of the announcement in China, asked Mr O'Connor whether there would be any adjustments to the F16 business plan and queried if there was any concern for staff working in China. Mr O'Connor responded acknowledging the impact on upcoming business planning, the plan to seek legal advice and the concern for staff wellbeing. In a subsequent email on 10 February 2015, the senior executive manager at Aspinall's advised that he had heard that MGM had sent out a directive to their managers not to travel to China to meet players or collect debts, which he stated "*makes a bit of sense*".
276. Over February 2015 and March 2015 Mr Chen took action, in consultation with Mr O'Connor and Mr Felstead, in response to the announcements by MPS on 6 February 2015. In that period the management conferred on the following matters:
- in relation to the media article published on Yahoo news "*Corrected- China to crack down on foreign casino seeking Chinese gamblers*" Mr Chen forwarded this article to Mr O'Connor with a cc to Mr Felstead. Mr Felstead replied by email dated 7 February 2015 that it would be "*another good challenge for you both.*"
 - in response to Mr Felstead's email dated 7 February 2015, Mr Chen identified the implications for Crown and sent these to Mr Felstead (with a cc to Mr O'Connor). These implications included raising the alert level on safety of staff, delaying plans to establish an office in China, and the need to reassess the threat level.
 - on 11 February 2015, in a meeting between Mr Felstead, Mr O'Connor, Mr Chen and Mr Ratnam it was noted in the outcomes that they would defer establishing an office in China (Agenda item four) in the interests of maintaining a low profile in China. Agenda item two headed "*Industry chatter re marketing crackdown*" listed the agreed outcome as "*Avoid travel to mainland for a while*". Agenda item three was redacted by Crown.
 - in February/March 2015 it was decided that it was not an appropriate time for Crown to have aircraft operate to mainland China.
 - as part of the annual business planning involving Crown's senior executives, the F16 – F20 Strategic Business Plan Executive Review, VIP International created in around March 2015 stated in the market overview – *The most recent development was an announcement that authorities are taking a stand against foreign casinos seeking to attract business out of China. This announcement was made about 1 months ago (and likely contributed to the softer than expected CNY period)*. The documentation associated with creating the review document had various references to the foreign casino crackdown being an issue going forward.
 - advice was given to staff in China, see below.

Draft Confidential Report – not to be disseminated – version 28 May 2019

277. On the evidence available, the final government relations consultant memorandum was given by Mr Chen to Mr O'Connor on 26 March 2015, but there is no documentary record of it being provided to Mr Felstead or Mr Craigie.
278. At interview Mr Felstead stated that he did not recall receiving a copy of the Final Project Wager memorandum. Mr Felstead did not consider it was the sort of document that should be sent to him. Mr Felstead commented that the document gave advice regarding marketing efforts being low key and dealing with small groups at a time with little or no publicity and from his viewpoint that was what Crown was doing. So he did not consider there was anything unique in the document.
279. During the investigation, Mr Craigie stated that the February 2015 MPS announcement and any external advice, including from the government relations consultant, related to it was not brought to his attention.
280. In summary, the senior executives determined that Crown continue its marketing campaign in China, although in line with the government relations advice.

Detention of South Korean casino marketing staff

281. The detention of the South Koreans was reported to all the senior executives from Mr Chen to Mr Craigie. In addition, the advice from the government relations consultant was provided to the all the senior executives.
282. At interview, Mr Chen stated that he was sure he would have discussed the arrest of the South Koreans with Mr O'Connor, but could not recall the specifics. At interview, Mr O'Connor confirmed he was aware of the detention of the South Koreans and he discussed it with Mr Chen, and that it was likely they discussed it with Mr Felstead.
283. On 20 June 2015, prior to receiving the written advice from the government relations consultant dated 24 June 2015, Mr Chen emailed Mr O'Connor, Mr Felstead and Mr Ishran. He advised that the government relations consultant confirmed the arrest of the Koreans did occur, that the newspaper cleared the story with the PSB prior to release and the government relations consultant was waiting to hear the reason for the detainment. Mr Chen comments "*one would hope that this action was related to the folks doing things they should not have been doing, not for simply doing marketing activities.*" The following day Mr Ratnam emailed Mr Chen and commented that a trip to China for the roadshow will be an important sign to staff, with which Mr Chen subsequently agrees, pending on advice and no material change in China policy. Mr Chen also noted this was a topic that would be raised by staff at the "all hands" (a staff meeting) and he will make sure they were prepared.
284. In September 2018, Crown provided to the Commission an email chain showing that the advice of the government relations consultant dated 28 June 2015 was forwarded on the same day by Mr Chen to Mr Felstead, Mr O'Connor and Mr Ratnam, and later circulated to other senior executives by Mr Felstead including Mr Craigie and Mr Johnston (Finance Director of Consolidated Press Holdings Pty Ltd and CRL Board member) and Mr Ken Barton (CFO and CML Board member).
285. At interview, Mr Chen stated that he also spoke with customers and colleagues in the industry about the detention of the South Korean casino employees. Mr Chen commented that if the information from the government relations consultant and other sources was that the South Korean operators were working in a similar way to Crown then it would have meant that Crown would exit the market. He stated at interview

Draft Confidential Report – not to be disseminated – version 28 May 2019

- that the advice from the government relations consultant was that the South Koreans were an isolated case.
286. At interview, Mr O'Connor could not recall it being escalated to a higher level for risk planning purposes because *"It is consistent with our view of what happened at the time where we sought advice, we sought the facts, and we determined that they were detained because they were stupid, to be crude about it. They were very stupid, and we were not, and were not and would not do what they were doing."*
287. At interview, Mr Felstead commented that he was aware of the arrest of the South Koreans and commented it was fairly well known amongst casino circles, but he explained that he had heard in relation to the Koreans *"which was relayed by quite a few sources"* that the Koreans were acting in a very, very overt manner in terms of how they dealt with Chinese customers. There were also rumours that they were moving money from China to Korea.
288. According to Mr O'Connor, Crown did not change any procedures or policies after the detention of the South Koreans because Crown had long had guidelines in place based on their understanding of the legal framework. Crown continued its marketing activities and the roadshow proceeded as scheduled.
289. At interview, Mr Craigie confirmed that he discussed the South Korean arrests with Mr Felstead at the time and the briefing he received was that the South Koreans were engaged in inappropriate practices (prostitution and foreign currency violations) but the thrust was that it was peculiar to South Koreans practices as opposed to casino operators across the board.
290. In Crown correspondence dated 17 May 2018, Crown stated that the detention of South Korean staff was considered and discussed up the reporting line to Crown Resorts' CEO (Mr Craigie). *"Ultimately, everyone was comfortable that appropriate legal and strategic/government relations advice had been sought and that it was reasonable to conclude that the Koreans had not been targeted for general casino marketing activities of the kind undertaken by Crown group staff and staff of other western licensed casinos, but for other serious and flagrant conduct."*
291. In all the circumstances, the senior executives decided to continue marketing in China in accordance with the advice given by the government relations consultant. This event did not inform or alter Crown's business planning or international marketing strategies because the senior executives formed the view (informed by the consultant) that the criminal detention of the South Korean casino marketing staff was due to the nature of their activities in China.

Chinese Police questioning of Crown staff

292. In summary, the Chinese police questioning Mr A and Mr B was reported to Mr Chen, Mr O'Connor and Mr Felstead. It was not reported to Mr Craigie. Mr Chen and Mr O'Connor also received a translation of Mr B's account of his interview by police. Mr B travelled to Australia but no-one spoke with Mr B about his experience with the Chinese police. Further, Mr Chen did not escalate the government relations advice about the police questioning. Mr Felstead requested information about the marketing activities of other foreign casinos in China, and thereafter Mr Felstead, Mr O'Connor and Mr Chen determined that Crown continue with its marketing activities in line with its business and marketing strategies. Mr Craigie told the Commission he should have

Draft Confidential Report – not to be disseminated – version 28 May 2019

been advised about the Chinese police questioning the Crown marketing employees in China.

Internal reporting of Mr A questioning by Chinese police

293. In relation to the questioning of Mr A, Mr A stated to the Commission that he told Mr Chen that he had been questioned and Mr Chen told Mr A and others not to worry and just to continue on with our jobs.
294. The documentary evidence provided by Crown refers to this event of Mr A being questioned, in emails from Mr Chen to the government relations consultant and an internal legal adviser dated 10 July 2015 wherein there is a reference to another (unnamed) staff member in Wuhan was visited by local police in a tip off he was organising tours for gambling.
295. In relation to the Chinese police questioning of Mr A, at interview Mr Chen initially could not recall that Mr A had been questioned by Chinese police but stated that he would have reported it internally to Mr O'Connor by telephone, but does not specifically recall Mr O'Connor's response. Later in the interview, Mr Chen recalled Mr A reporting the event to him, he recalled Mr A told him that "*He had a knock on the door*" and that Mr A was asked a question by Chinese authorities about his work which he answered, and Mr Chen did not think there was anything more after that. Mr Chen described it as a "*non-event*". Mr Chen could only recall that Mr A was asked about what he did for work, but does not recall Mr A's response to the Chinese authorities.
296. At interview, Mr Felstead stated that it was news to him that another Crown staff member (Mr A) was visited by the local police. At interview, Mr O'Connor could not recall the questioning of staff in China. However, information was circulated to Mr O'Connor and Mr Felstead about the questioning of Mr A. An email dated 10 July 2015 provided by Crown to the VCGLR in March 2019 indicates that Mr O'Connor had told Mr Felstead about the questioning of Mr A, as it noted that another employee was questioned by Chinese police. This evidence is consistent with Mr Chen's evidence that he told Mr O'Connor about the police questioning of Mr A and indicates that Mr O'Connor notified Mr Felstead.
297. On the evidence available, Mr Chen did escalate the questioning of Mr A by Chinese police to Mr O'Connor and this was reported to Mr Felstead.
298. There is no evidence that Crown took any specific action in response to Mr A being questioned by Chinese police.

Internal Reporting of Mr B questioning by Chinese police and employment letter

299. The documentary evidence shows that Mr Chen, Mr O'Connor and Mr Felstead were all aware that Mr B had been questioned by Chinese police and were actively involved in responding to this event. There is no evidence that Mr Craigie was ever advised of the police questioning of Mr B.
300. In relation to the police questioning of Mr B, Mr Chen stated at interview that he did not recall discussing the request for the employment letter with Crown executives. He did pass the request on to HR and Legal, and the Legal and HR team prepared the employment letter.

Draft Confidential Report – not to be disseminated – version 28 May 2019

301. At interview, Mr O'Connor stated he had a vague recollection of a staff member being questioned, but can't remember who, where and specifics of what he was asked to do. Mr O'Connor could not recall the questioning of Mr B being brought to his attention at the time. Mr O'Connor considered it was something that should be brought to his attention, as an unusual request and HR would normally bring it to his attention. Mr O'Connor had no recollection of the letter for Mr B to give to the Chinese police.
302. The documentary evidence indicates that Mr O'Connor was aware of the questioning of Mr B by Chinese police and that Mr B had been accused of organising gambling tours and that Mr B denied this and told the Chinese police he worked for Crown Resorts and assisted in organizing leisure trips.
303. At interview, Mr Felstead stated that he believes Mr Chen or Mr O'Connor brought to his attention that Mr B was questioned by Chinese Police. Mr Felstead recalled that it was his understanding that the focus was in relation to a particular player but he did not recall a lot of details about it. Mr Felstead also stated he did not recall receiving an email about it.
304. Crown provided a number of emails sent to Mr Felstead dated 10 July 2015 in relation to the questioning of Mr B. In the various emails, Mr Felstead was informed that Mr B had been questioned by China police on 9 July 2015 and that the police had been told by a tipster that Mr B was organising gambling tours. The emails state that Mr B told the Chinese police he worked for Crown Resorts and denied organising gambling tours but assisted in organising leisure trips for customers. The relevant email chains dated 10 July 2015 to Mr Felstead have substantial redactions on the grounds of legal professional privilege, consequently the Commission cannot ascertain from these documents what else Mr Felstead was told when his permission was sought for a Crown HR executive to issue a letter for Mr B to give to the Chinese police. Crown declined to waive privilege on this part of the email chain, although did disclose the instructions given by Mr Felstead.
305. In reviewing the email chain, it can be ascertained that a senior legal adviser at Crown in Melbourne discussed with Mr Felstead the request for an employment letter and then asked Mr Felstead in writing to authorise the HR manager to sign the employment letter on behalf of CRPL and Mr Felstead replies that it is fine by him. An employment letter was then prepared in the terms described above.
306. Mr Felstead's explanation, that the police questioning of Mr B related to a particular player, is not supported by any documentary evidence provided by Crown. Mr Chen clearly assessed the police questioning was in response to a tip off about Mr B organising tours for gambling and this information was forwarded to Mr Felstead. Further the English translation of the account given by Mr B of the questioning by the Chinese police makes no reference in the record of the questioning to any gambler of interest to Chinese police, the questioning was all about Mr B's employment. Further, the translation by a Mr B's account identified that for the Chinese police "*the issue is that I have organised people to gamble in Australia.*" This is in contrast to a previous incident in September 2014 when a Crown employee was interviewed in China by Chinese police about a specific customer.

Internal reporting of written account of Mr B's interview by Chinese police

Draft Confidential Report – not to be disseminated – version 28 May 2019

307. On 10 July 2015, Mr B sent an account of his interview with Chinese Police to Mr Chen. This account was forwarded to the Crown internal legal department. However, according to the documentary materials provided, this account by Mr B was not translated into English (by a Crown staff member) until 15 July 2015. On 15 July 2015 the English translation of Mr B's account of the police interview was forwarded to Mr Chen and cc to Mr O'Connor.
308. On the evidence available, an officer from the Crown internal legal Department received by email the translation of the account of Mr B's interview, although there is no evidence that she gave any advice in relation to the translation of the interview or was asked to provide any advice.
309. There is no evidence before the Commission that after the translation of Mr B's interview was received by Crown executives, that Crown took any action. Of concern is that Mr B appears to have given incorrect information to the Chinese police, denying that he organised gambling tours to Australia, and telling them he assisted travellers to apply for visas and that he did not know if the travellers to Australia gambled. However, the documentary evidence shows that Mr B was a Crown international sales manager and his remuneration bonus payments were based on gambling turnover of the travellers to Australia. Of interest, this accurate information was contained in the Chinese indictment and Court judgement.
310. At interview, Mr Chen was asked about what he expected his staff to respond to questioning by Chinese authorities. He replied *"that we help customers travel to Australia on holiday at Crown, help them process their visas. All of which is true"*. After further questioning, he commented that he did not think staff would offer up that they were promoting gambling. He stated that he expected his staff would be truthful with authorities but commented that people are very sensitive in China because in China you don't know what authorities will or will not do, it is not like a western society and government where the law's clear, so people are pretty cautious. When asked what direction he would give to staff, he replied that that the only directions they gave were in the Reception Guidelines documents. The Reception Guidelines state *"During interview, you should answer questions strictly based on facts (ie the facts that you actually know). You have the right not to answer such questions as "what is your guess?" or "what do you think it might be?"*.

Mr B travel to Melbourne – 13 July 2015

311. On 13 July 2015, Mr B travelled to Melbourne, but according to Mr Chen this was a planned trip and unrelated to being questioned by Chinese police the previous week. On the evidence available, there is no evidence that any Crown persons in Melbourne met with Mr B to discuss or gather further information about being interviewed by Chinese police.

Executive assessing marketing activities of other casinos

312. On 10 July 2015, after Mr Felstead became aware that Mr B had been questioned by Chinese police, Mr O'Connor emailed Mr Chen and noted that Mr Felstead, in response to the news about Mr B being interviewed, had asked for Mr Chen to sketch a summary of what other casinos are doing in relation to their sales staff in China. Mr O'Connor noted that he understood that MBS (Marina Bay Sands) and Sky City still had staff in China but Echo staff were recalled to Hong Kong several months ago. Mr O'Connor followed up this email several days later. On 13 July 2015, Mr Chen replied

Draft Confidential Report – not to be disseminated – version 28 May 2019

that *“looking like everyone is marketing. Will confirm later”*. No further documentary evidence was provided about what Mr Chen advised Mr O’Connor or Mr Felstead regarding the activities of other foreign casinos in China.

Failure to report government relations consultant advice

313. There is no documentary evidence available to the Commission that the advice from the government relations consultant was escalated to Mr O’Connor or Mr Felstead. At interview Mr Felstead and Mr O’Connor stated they did not recall receiving the government relations advice. At interview, Mr Felstead also stated that the advice from the government relations consultant that the letter could contribute to an evidentiary pile was *“news to me.”*
314. At interview, Mr Chen stated that he could not recall relaying the government relations advice about the possibility of the employment letter adding to an evidentiary pile to Mr O’Connor, Mr Felstead or other executives. Mr Chen did not consider the advice about the employment letter contributing to the *“evidentiary pile”* was an escalation of risk, because in Mr Chen’s view it was a pretty innocuous letter that *“would have been a flea on the side of an elephant”* in the context of all the other data the Chinese authorities would have had on Mr B’s activities.

Mr Craigie’s evidence about the police questioning of Crown staff in China

315. When interviewed by the Commission, Mr Craigie stated that he was not aware that Crown staff had been questioned by Chinese police or that a letter was given to Chinese police. When interviewed, he commented that it was the first time he had seen the advice from the government relations consultant dated 10 July 2015 and it should have been elevated to him and probably above. He stated that it should have been elevated because it was a police investigation, very different from a newspaper article. Mr Craigie went on to say *“nonetheless the fact that the police have interviewed Crown staff, that would normally have been – should have been escalated to Jason to Barry to me and that is the sort of thing that’s of concern.”*

No changes actioned

316. After seeking legal advice, government relations advice and making enquiries about the marketing activities of Crown’s competitors in China, it appears that the information regarding the police questioning of Crown’s employees in China was not escalated above Mr Felstead and did not inform any Crown decision making about business planning or risk management, such as possible mitigating action that could be taken to protect Crown’s business and its staff. Further the advice from the government relations consultant that the Crown employment letter given to the Chinese police could contribute *“to an evidentiary pile that PSB could decide to draw upon in the future”* was not escalated by Mr Chen and was not taken into consideration for any strategic business or risk management purposes.
317. Of note, by this stage in July 2015, Crown senior executives would have been aware that Crown had just achieved record VIP gambling turnover in F15 largely based on the visitation of Chinese VIP gamblers to Australia.

Media August 2015

318. In August 2015, in World Casino News, it was reported that *‘Beijing launches operation Chain Break to crack down on casino promoters.’* This online article

Draft Confidential Report – not to be disseminated – version 28 May 2019

referred to a report by Bernstein Research and reported that at that time the Chinese government showed their hand at targeting casinos in South Korea, and the Philippines, not just Macau junket operators, and stated that “*Operation Chain Break is reportedly trying to break the Chinese money flow from going into foreign casinos.*” This article also noted that that “*the Chinese government’s crackdown also targets tour agencies that help gamblers apply for visas overseas*”. A similar article referring to the Bernstein Research was published in Asian Gaming Brief on 11 August 2015.

319. On 12 August 2015 Mr O’Connor received the *Gaming Industry Report*. This media report referred to the Bernstein Research and information in the China News that police in several Chinese cities had implemented “Chain Break”, the operation against foreign casinos. The report noted that “*Beijing wants to break the foreign casinos’ money chain flows and clamp down on the individuals who scout gamblers from China*”. This media report referred to Bernstein reporting on the Chinese government doing yet another crackdown on junkets and exerting pressure on junket operations that aim to lure gamblers into South Korea and other regional markets. There is no evidence Crown was aware or took any action in relation to this more recent media and report by Bernstein Research. Mr O’Connor communicated to a colleague after receiving the report “*It’s comforting reading this... from Beijing! Best to keep my head down.*”

CCTV media report

320. During the investigation, Crown made the following comments:
- Mr Chen saw the CCTV media report but did not note the translation in relation to 10 patrons. Mr Chen referred the link to the program to the government relations consultant and its responses were, in substance, that nothing had changed.
 - Mr Felstead, Mr Craigie and Mr O’Connor did not see the program and there was no point in them doing so as they did not speak Mandarin. No translation was done because neither Mr Chen or the government relations consultant considered it at the time to be of any particular significance.
321. It appears that only Mr Chen seemed to take note of this particular CCTV media report, once Crown staff in China made their concerns known to him about it. There is no evidence that the CCTV media report was translated for the benefit of Crown’s senior executives, and it appears that the Melbourne senior executives relied on the advice of Mr Chen and the government relations consultant.
322. Mr Chen described the media article as “*another in a series of messages from the Chinese government*” it was a news article talking about the casino industry specifically so “*we*” wanted to get advice on whether things had changed. Consequently, Mr Chen referred the matter to the government relations consultant.
323. At interview, Mr Chen stated he did not recall the specific commentary in the media report regarding the organisation of 10 persons going overseas on numerous occasions with an accumulated number of 10 people being a basis for suspected gambling crimes. It appears that this part of the media report was never taken into consideration by Mr Chen or the government relations consultant.
324. At interview, Mr O’Connor and Mr Felstead stated that they could not recall being aware of the CCTV media report or Mr Chen bringing this TV media report to his

Draft Confidential Report – not to be disseminated – version 28 May 2019

attention. However, on 15 October 2015 Mr Chen wrote to staff about Crown seeking advice about the CCTV media report and he copied this to Mr O'Connor. Mr O'Connor forwarded this correspondence to Mr Felstead and Mr Ratnam.

325. On 20 October 2015, Mr O'Connor forwarded by email to Mr Chen information about Korean employees and several Chinese agents being arrested in China for advertising South Korean casinos to Chinese players. The email noted that in June, Chinese police started an investigation into five South Koreans casinos for illegally advertising to Chinese gamblers. Mr Chen replied to Mr O'Connor (cc Mr Felstead and Mr Ratnam) and outlined the advice received from the government relations consultant about this being a targeted effort against the Korean casinos, and not a broad based effort against foreign casinos. Mr Chen referred to various reasons why Korean casinos were targeted (e.g. overt efforts in promotion of gambling and movement of money). Mr Chen commented that the government relations consultant has advised that our team should not be concerned beyond the need to take normal precautions as per our standard protocol. He further stated that they continue to monitor the situation carefully and will advise us if anything changes. Part of this email was redacted. Mr O'Connor replied seeking information about the mood of the team in China - this is discussed below.
326. It appears that the senior executives in Melbourne, relied on Mr Chen's advice, based on the advice of the government relations consultant and took no further action. They decided not to escalate the matter.
327. The CCTV media report was not escalated to Mr Craigie. When interviewed, Mr Craigie stated he had not seen the CCTV media report previously, although Mr Craigie commented that the CCTV media report and the related advice from the government relations consultant should have been escalated.

Marketing continued in 2015

328. Crown continued to undertake regular roadshows in China throughout 2015 and 2016. As noted above the number of roadshows increased over time as part of the aggressive marketing campaign by Crown.
329. For example, despite the foreign casino crackdown in February 2015, the Crown roadshow proceeded in China from 16 March to 27 March (and other Asian countries). This roadshow was designed to promote Lucky Chase, May Golden week /Golden Ball and the new Platform strategy.
330. Mr O'Connor and Mr Chen were clearly concerned about the safety of Crown staff undertaking marketing in China at that time as demonstrated in the emails referred to below. On 20 February 2015, Mr O'Connor queried Mr Chen about whether the roadshow should proceed asking "*Are we comfortable with folks travelling through PRC at the moment?*" The Commission did not receive a copy of any response from Mr Chen to this email. The travelling road show in March 2015 to mainland China did proceed. Further, on 4 March 2015 Mr O'Connor emailed Mr Chen to query whether "*we should reconsider going into PRC*" for an upcoming roadshow due to commence on 16 March 2015. However, the roadshow did proceed from 16 to 27 March 2015 with various senior Crown executives, including Mr Chen, travelling through major cities in China to promote Crown.

Draft Confidential Report – not to be disseminated – version 28 May 2019

331. On 23 March 2015, after receiving the initial update advice from the government relations consultant, Mr Chen gave Mr O'Connor instructions as to the payment of his salary, in the event he was detained in China. Mr Chen was mindful of the possible consequences of the crackdown, including detention, as at 23 March 2015 when he gave instructions about his remuneration in the event he was detained in China (whilst there on a Crown roadshow), which he said in the email at the time was out of an abundance of caution. Mr O'Connor acknowledged the email instructions. Despite these concerns the marketing roadshow proceeded in China.
332. Similarly, after the detention of the South Korean casino marketing staff the Crown roadshow proceeded on China between 22 and 27 June 2015.
333. The roadshows undertaken in 2015 and 2016 are set out in the timeline in **Annexure D**. Crown continued to follow the guidelines from the government relations consultant. For example, in August 2016 when planning the next roadshow, Mr Chen advised against another Crown executive attending the roadshow noting *"China remains sensitive and we do not want to show up to meetings with more than a couple of folks."*
334. Crown also continued to send gambling related promotional material to China for staff to distribute in China. For example, in June 2015 Crown sent promotional invitations to various cities in China. The personalised invitations stated that successful patron was required to participate in a new gaming program with a minimum \$1 million front money. However, from early June 2015, shipments of gambling promotional material were no longer sent to China directly but directed to the Hong Kong office, to be taken and distributed in China by Crown staff
335. From the evidence, it appears that Crown continued with its marketing activities in China, subject to the government relations advice that had been given to staff about being low key, little to no publicity, meeting in small groups and being careful with texting, phone calls and handing out business cards.

Staff concerns and Advice to Staff

336. The Crown staff in China were aware of the actions by the Chinese authorities, with the announcement of the foreign casino crackdown in February 2015, the detention of the South Korean marketing staff in June 2015 and the CCTV media report. Crown provided staff in China with advice in relation to these matters. However, there was no advice given to staff about the questioning of Crown staff by Chinese police in July 2015.
337. During the investigation, Crown advised the Commission that because Crown did not have an office in mainland China, there was less formality in communications with staff located there, than staff based in Australia. According to Crown, briefings on compliance aspects evidently occurred primarily by teleconference, rather than by email. Crown also stated that for reasons of confidentiality, Crown understands that many written communications made by staff in China were via platforms such as 'WeChat' and 'WhatsApp', rather than by email. Communications on such platforms are not retained on Crown's centralised IT systems. The Commission took this into consideration in relation to the communications between senior management and Crown staff in China.

Draft Confidential Report – not to be disseminated – version 28 May 2019

338. It is evident that Crown staff in China raised their concerns about the actions of the Chinese authorities with their immediate supervisors. Mr Chen was responsible for providing advice to staff about Crown's response. One witness stated that Mr Chen made all announcements to staff when issues happened and advised how the staff were to handle it.

MPS announcement

339. The staff were clearly very concerned about the media reporting of the MPS announcement in February 2015. The most senior Crown executive in China responsible for managing staff in China, the Executive Vice President China and Macau, forwarded an email headed "Shen yang news" with a link to one of the media articles "*Corrected – China to crackdown on foreign casinos seeking Chinese gamblers*" requesting Mr Chen to check with the lawyers on the seriousness of this for the team based in China, noting many staff had called and expressed concern when the news came out in the social media. The response to the email from Mr Chen back to Mr Gomez was redacted by Crown.

340. The concern of staff was reflected in an email from a staff member in China to Mr Gomez referring to update news from the Shen Yang city police bureau noting that since 2015 they will take strict action, noting "*One of us 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.*"

341. The advice to staff in February and March 2015 from Mr Chen was as follows:

- On 9 February 2015, Mr Chen emailed staff about a range of matters including the MPS announcement. He noted that "*a number of articles came out this past weekend regarding the Chinese government seeking to crack down on Chinese gambling abroad.*" Mr Chen reassured staff and notified them that Crown had engaged lawyers and political consultants to provide advice, that Crown will apply for work permits in Hong Kong and Singapore for all China staff, which was a precautionary measure to allow staff that work out of an overseas location and are on business travel in China and recirculated guidelines if Crown staff are requested for an interview by a government official. Part of this advice was redacted.
- On 25 February 2015, Mr Chen gave staff an update by email. The copy of the email provided to the Commission has been heavily redacted on the grounds of legal professional privilege. The part of the unredacted email included a range of information including:
 - that there had been no change in the law, "*we are comfortable that our current work is in compliance with current laws in China*"
 - that it is a sensitive time and that it is "*important that we exercise discretion and be sure not to bring undue attention to ourselves during this critical period*"
 - guidelines for the next two months for activity inside China including:
 - arrange for no more than three Crown representatives at any meeting;

Draft Confidential Report – not to be disseminated – version 28 May 2019

- staff are not to be engaged in any activities where staff are knowingly facilitating money laundering; and
 - staff should not carry any promotional materials that contain gambling content. Promotional materials regarding resorts, Australian lifestyle, experiences and lucky draws are fine.
 - Attached a “*Reception Procedures in case of a government investigation in China*” (hereafter referred to as Reception Procedures). The Reception Procedures sets out instructions to staff if Chinese authorities “*arrive to conduct an investigation*”. The instructions primarily relate to what to do if Chinese authorities arrive at a Crown office. Crown advised this document was created in June 2012.
342. At interview Mr Chen stated that the Reception Procedures document would have been part of his early efforts to try and bring rigor to understanding on what the laws were and how “we” should respond as a company. He stated that Crown received legal advice in putting the document together. He said the document was to signal to staff that Crown had done its homework to try and understand what the rules were and the company was there to support the staff.
343. The Commission observes that Crown’s Reception Procedures indicates that Crown had contemplated that Chinese authorities may at some time approach staff as part of an investigation, and therefore provided instructions to its staff in this regard. It is difficult however to understand the applicability of most of the instructions to the staff operating in China as they related to what to do if Chinese authorities attend an office, and Crown did not have any offices in mainland China, rather the Crown staff worked from home and met customers in public locations (e.g. coffee shops).
344. On 13 March 2015, Mr Chen had a telephone conference call with the Crown international marketing staff. Crown has provided undated notes of the matters Mr Chen discussed at the meeting. These notes are consistent with the advice given by the government relations consultant on 13 March 2015, prior to the March 2015 roadshow. These notes highlighted the advice received (although the legal advice was redacted). According to the notes the staff were advised, amongst other things, to have small private dinner parties and coffee meetings, not to be too overt. The external consultant advised that they proceed with marketing efforts but keep them low key, with small groups at a time and no publicity, to avoid cell phone and text messaging dealing with marketing and no gambling promotional material. The staff were also advised that: - “*the promotion of gambling overseas is NOT illegal so long as you are not organising groups of 10 or more people and receiving a commission for doing so. This means what we do is legal.*”
345. On 13 March 2015 Mr Chen circulated the Reception Guidelines by email again to staff.

Detention of South Korean casino marketing staff

346. On 20 June 2015 Mr Chen sent an email to all VIP International offices advising staff that Crown was aware of the recent news regarding the detainment of the Korean casino marketers in China. He advised staff that advisers are working urgently to fully understand what has transpired so that we know how we ought to respond. He hoped to have more details for when they were planning to meet in Singapore in the

Draft Confidential Report – not to be disseminated – version 28 May 2019

following week and “*rest assured the security and well being of our staff is of utmost importance.*” He stated that he can confirm the detentions did occur but does not know the cause. He commented that as discussed before “*our normal activities should not cause any issues*”. Mr Chen observed that “*It may well be that these Korean sales staff were engaged in activities that went “buying” (sic) their normal duties*” and reminded everyone of the protocols if approached by officials.

347. On 20 June 2015 Mr Chen anticipated that staff would raise the incident at an “*all hands*” meeting (which the Commission assumes is the staff meeting in Singapore in the week after 20 June) and that the detention of South Koreans would be discussed at that meeting and Mr Chen assured his managers that “*I will make sure we are prepared to address this*”. There is no record of the advice that was given to staff at the meeting or what concerns staff raised at the meeting.
348. At interview, another witness (a Crown employee in China) stated that she heard the news of the detentions through the news and she discussed it with her colleagues. The witness stated there was a conference call organised by Mr Chen and senior management for the China South team. The witness stated that there were new protocols about meeting customers, especially the numbers, and getting material to China. At the conference call, they reviewed the protocols that staff were given in early 2015 and were reminded not to be involved in money laundering. Although later in the interview the witness recalled only two staff teleconferences, one in early 2015 and one in September/October 2015.
349. On 21 June 2015, a Crown executive in Melbourne emailed Mr Chen and commented that a trip to China for the roadshow will be an important sign to staff. The next marketing roadshow was due to commence on 22 June 2015.

Police questioning - No Advice to staff

350. There is no evidence that Crown executives took any proactive action to advise staff that Mr A or Mr B were questioned by Chinese police in July 2015.
351. When interviewed, one witness who was an employee in China, stated that she was not aware that Mr A and Mr B (or any other Crown staff) had been questioned by Chinese authorities. The witness stated that they were “*surprised*” that Mr B was questioned by police and the staff weren’t told. In the witness’s view, she should have been told about the staff being questioned.
352. When interviewed, Mr Felstead stated that the staff should have been aware that another staff member was questioned. He commented that the staff talk and “*I’m sure they would have been aware of this.*” When advised that two persons interviewed by the Commission did not know of the police interviews, Mr Felstead commented that he couldn’t comment but he assumed people talk and would have been aware.
353. When interviewed, Mr Chen stated that he did not formally advise staff that Mr B had been interviewed. He then commented that “*we had a very collaborative team that this information would have gone around.*”
354. Mr Felstead and Mr Chen told the Commission that they assumed that the information regarding the interviews would have “*gone around*” to Crown staff in China. Their assumption that it would have “*gone around*” was incorrect. More likely, Mr Chen did not notify staff as he was concerned about the level of alarm that may be caused amongst the staff. In the email dated 10 July 2015 to an internal legal

Draft Confidential Report – not to be disseminated – version 28 May 2019

adviser in Melbourne, which included a copy of Mr B's account of his police questioning, Mr Chen notes "*We don't want to spread it too widely so as not to alarm anyone.*" When questioned about this email at interview, Mr Chen stated that in the industry there are a lot of rumours and people are quite emotional – "*Sales people will pack up all their stuff on a rumour and leave town, China for a while, come back in and so what we tried to was try and get facts...*". When asked who he thought would be alarmed, Mr Chen referred to "*anybody*" and then to the staff in the field needing to have context to interpret a document. It appears that Mr Chen did not advise staff of the police questioning of their colleagues for fear the Crown China staff may leave.

CCTV

355. This CCTV media report caused significant concern to Crown's staff in China. Mr Chen was clearly aware of the concerns of the staff who were aware of the media report. Mr Chen observed that the news report had "*shaken*" many of the team members and advised Mr O'Connor that there are "*definitely heightened concerns*" by the team but he would hold a conference call to address questions. At interview Mr Chen acknowledged that as a result of the media report "*certainly people were concerned*" and Mr Chen wanted to get advice on whether things had changed.
356. One employee witness told the Commission, "*When the Chinese police arrested the South Koreans in June 2015 for allegedly inciting Chinese people to gamble in their country, and the Chinese government warned on state TV that they were targeting sales people from outside China who were promoting and organising gambling in China. I and other colleagues were nervous but Crown took no action.*" He also stated that he was really annoyed that Crown management did not listen to his and other staff concerns and the fact the Chinese government had warned on state television and in other outlets that our activities were being monitored.
357. Mr Chen advised the staff by email on 15 October 2015 that "*we have seen the recent CCTV news story on the detainment of Korean casino marketers*" and Crown had engaged advisers and were awaiting advice regarding any changes to China law or policy. In the mean time staff were advised to continue to take sensible safeguards and precautions including: keeping meetings with guests to small groups with no more than three to four Crown staff in any one meeting; and avoid any overt sales and marketing activity.
358. On 20 October 2015, Mr Chen held a phone hook up with staff to discuss the recent crackdowns in China against the Koreans casinos. The teleconference was in English and Mandarin. There are no documentary records of what advice was given to staff at that teleconference meeting.
359. Mr Ratnam, a senior executive based in Melbourne, offered that he was happy to fly in to show support and that he will spend the December roadshow in China.
360. One employee witness stated that in December 2015 there was further legal training by telephone on two occasions from the Chinese legal firm regarding Chinese gambling laws and staff were warned not to meet with groups of customers or potential new customers and only to meet them on a one to one basis. The witness also stated that a government relations consultant went to Beijing who said that what they were doing was legal and there was no risk associated with their activities.

Draft Confidential Report – not to be disseminated – version 28 May 2019

361. The staff level of concern would indicate that they had interpreted the CCTV media report as not only a report of the South Korean arrests but a broader message by Chinese authorities to all foreign casinos marketing to Chinese citizens in China.

Reporting to the CML and CRL Boards

362. There was no formal reporting to the CRL Board or CML Board of the warning signs in China.
363. **MPS announcement:** Despite widespread media reporting, the CEO Crown Resorts, CRL Board and the CML Board (save for Mr Felstead) were never informed of the announcement by the Chinese government of a crackdown on foreign casinos marketing in China to attract Chinese citizens abroad to gamble.
364. Further, the CEO Crown Resorts, the CEO Australian Resorts, CRL Board and the CML Board were never notified of the government relations advice in March 2015 regarding the implications of the announcement of the crackdown on foreign casinos by Chinese authorities for Crown and its activities in China. The CEO Australian Resorts did not consider that it was advice that that should be sent to him. The CEO of Crown Resorts did not recall receiving the advice or the advice being given to the CRL Risk Management committee or any other area of Crown responsible for corporate governance.
365. **Detention of South Koreans casino marketing staff:** The CRL Board (save for Mr Craigie and Mr Johnston) and CML Board (save for Mr Rankin, Mr Craigie, Mr Felstead and Mr Barton) were not formally advised of the detention of the South Korean casino marketing staff in June 2017. Although, it is likely that directors were or may have been aware of this from media reports.
366. The CRL Board and CML Board (save for Mr Felstead) were not notified of the government relations advice regarding the detention of the South Koreans. Mr Chen did advise Mr Felstead of some of the advice. Mr Chen also gave Mr Felstead the second government relations advice on 28 June 2015, which he circulated to two senior executives, one of whom was a member of the CRL Board and one who was a member of the CML Board. This advice on 28 June 2015 pointed to the South Koreans being an isolated case, *“Though pursued in an environment we know is present which is more careful monitoring of activities and not allowing activities to become too high profile.”*
367. There is evidence of an informal report to Mr Rankin by Mr Barton (CFO Crown Resorts) regarding the detention of the South Koreans casino marketing staff. Mr Rankin at this time had been announced in December 2015 by CPH to be a director and to become Co- Chairman of CRL, but was awaiting regulatory approval. The email on 24 June 2015 to Mr Rankin included an Asia Update stating that 14 marketing employees from South Korean casino companies were arrested in China the previous week for allegedly marketing to Chinese gamblers. It also states that *“The Chinese gov’t has been vocal for some time, warning casinos in neighbouring countries not to market to Chinese citizens.”*
368. On 24 June 2015 Mr Rankin replied that *“We should be on high alert for this type regulatory action in China. Specifically the training of new in country sales staff should be reviewed and be extensive.”* This message was forwarded by Mr Craigie to Mr Felstead. There is no evidence that Mr Rankin’s comments were acted on.

Draft Confidential Report – not to be disseminated – version 28 May 2019

regarding an extensive review of training or any increased “high” alert for regulatory action by Chinese authorities.

369. **Police questioning:** The CEO Crown Resorts, CRL Board and CML Board (save for Mr Felstead) were never advised of the questioning of two Crown employees by Chinese police in China and the provision of an employment letter to the Chinese police in July 2015. The advice from the government relations consultant about the letter of employment “*contributing to an evidentiary pile*” that could be used in the future was not given to the Group Executive for the VIP International department, CEOs or the Boards.
370. **CCTV media report:** The CEO Crown Resorts, CRL Board and CML Board (save for Mr Felstead) were not advised of the CCTV media report in October 2015 and the associated reporting. The CEO Crown Resorts, CRL Board and CML Board (save for Mr Felstead) were not advised of the government relations advice regarding the CCTV media report.
371. **Other actions:** There was no formal reporting to the Boards of the other actions by Chinese authorities, including the actions taken against online gambling companies in December 2015, and the charging, sentencing and deportation of the South Korean casino staff in August 2016.

Monitoring of Events in China between November 2015 and October 2016

372. The Commission notes that whilst the Financial Plans stated that a close watching brief on the market in China would be maintained, it is apparent that this did not involve actively seeking or receiving any external advice from the government relations consultant in the period October 2015 to October 2016. The Commission specifically asked Crown to provide documentary evidence of any communication between Crown and any external advisers in relation to its activities in China in that period. In response, Crown provided relevant communications, other than communications with its legal advisers. The Commission did not identify any communications with external advisers, including the government relations consultant, in the period.
373. At interview, Mr Chen commented that he was not aware that there was no record of any advice from the government relations consultant between October 2015 and October 2016. Mr Chen commented that for a long time informally he would pick up the telephone and call his adviser and see if he heard anything or there was a rumour. In relation to the absence of any records of advice between October 2015 and October 2016 Mr Chen stated that would only occur if there wasn't any significant signal in the market that we wanted to investigate.
374. At interview, when the watching brief was discussed with Mr O'Connor he commented on the impact of the anti-corruption crackdown and that it was very difficult to project accurately what people should expect from the VIP International part of the business, given it was in such a state of flux. The reference to the watching brief was just to watch and see what happens, there was nothing formalised about that watching brief.
375. It is apparent there was monitoring by Melco of economic conditions in China, as noted in the reports against material risks given to the CRL Risk Management committee, however this reporting was focused on the financial risks to Melco. The

Draft Confidential Report – not to be disseminated – version 28 May 2019

Commission notes that the reports against material risk that were given to the CRL Risk Management Committee between November 2014 and June 2016 stated that Melco was monitoring economic data and commentary relating to the PRC and Macau gaming market. However, this monitoring was for the purpose of addressing unfavourable changes in Australian and international economic conditions that may adversely impact on the financial performance of Crown’s businesses. It appears that CRL and CML were reliant on Melco to undertake the monitoring activity of the Chinese government economic policy. However, the reporting focused on the impact of Chinese government economic policy on Melco, rather than the impact on Crown’s Australian business interests or Crown’s staff in China.

376. There is no evidence of any monitoring of events in China (such as enforcement of gambling laws against casinos or online casinos) relevant to the Australian casinos. Although the financial performance of the VIP International gamblers in the Australian casinos was closely monitored in the financial reporting to the Boards.
377. Throughout 2016 Crown remained sensitive about their activities in China and the possibility of detention as detailed below:
- In June 2016, Mr Chen in an email to Mr Felstead about Mr Chen’s employment commented amongst other things, that *“I have committed myself to doing what’s right for the company, coaching the team relentlessly, and pushing for higher and higher performance.”* He then went on to state that he had *“taken on the risks of being prosecuted in China, threatened bodily harm by customers...”* This statement was made four months before the detention of Crown staff, although Mr Chen was not detained. This was the second reference by Mr Chen to the possibility of being detained in China due to the work he undertook for Crown. There is no evidence that Mr Felstead responded to this statement by Mr Chen. Clearly, this statement demonstrates that Mr Chen had made clear to Mr Felstead his understanding that he may be prosecuted in China due to the business strategies being implemented by Crown in China.
 - In June 2016, Mr Chen in an email exchange with Mr O’Connor about remuneration for Crown staff commented that for *“China jobs should all have a significant risk premium”*.
 - Crown continued to distribute gambling related promotional material in China. For example, in June 2016 Crown produced a gaming and non-gaming version of a promotional magazine. The non-gaming version was sent directly to China, but the gaming version was sent to the Hong Kong office and would then be given to China staff when they travelled to Hong Kong to take back to China. The gaming version included details of numerous gambling events at the Melbourne and Perth casinos, as well as other events (e.g. sporting, rock concerts etc.) in Melbourne, Perth and London
 - In July 2016, Mr O’Connor sent to HR staff Mr Chen’s instructions from March 2015 about his salary arrangements if he is detained in China, noting *“It’s probably wise for someone else, in addition to myself, to hold this information.”*

Draft Confidential Report – not to be disseminated – version 28 May 2019

- In August 2016 when planning the next roadshow, Mr Chen advised against another Crown executive attending the roadshow noting “*China remains sensitive and we do not want to show up to meetings with more than a couple of folks.*”
- On 5 October 2016, Mr O'Connor emailed Mr Chen, Mr Felstead and Mr Ratnam, about information he had received that a large American casino operator had withdrawn their staff from China and other Asian countries and that China marketing staff are based in Hong Kong and permitted to see customers on a one on one basis. There is no record of any advice Crown sought in relation to this news or what action was taken. Mr O'Connor subsequently travelled to China on 9 October 2016. Information before the Commission indicates that the large American casino operator did not have staff but had contractors based in China in 2016. There is no other evidence that the American casino operator did withdraw any staff in China.

Commission assessment of governance

Failure to report

378. The above warning signs from Chinese authorities, including the questioning of Crown's employees, were never reported to the CEO of Crown Resorts (save for the detention of the South Koreans) or the CRL Board or the CML Board or their various sub-committees.
379. In short, the senior executives responsible for international marketing did conduct assessments after each of these events, based on external legal advice and government relations advice in China, but concluded that Crown should continue aggressively marketing to Chinese citizens in accordance with their business strategy. Based on the advice from the government relations consultant, Crown executives were aware that Chinese authorities were closely monitoring the activities of foreign casinos, but formed a view that Crown could continue its activities in China provided Crown remained “*low key*” with little to no publicity in China.
380. On the advice of the government relations consultant and sources in the marketplace, the senior executives formed the view that the detention and criminal proceedings against the South Korean marketing staff and the October 2015 CCTV media report were specific to the activities of the South Korean casinos – and considered they had engaged in conduct that was outside the usual practices of foreign casinos, and therefore the attention of authorities was solely directed at the South Koreans casinos and not to other foreign casinos (like Crown). Similarly, they assessed the CCTV media report as pertaining only to explaining the detention of the South Korean casino staff and not having any broader application.
381. During the investigation, Crown submitted that the questioning of Crown's staff by Chinese police was not significant. The senior executives did not appear to realise the significance of Crown staff being questioned by police about organising gambling in China, only weeks after the detention of South Korean casino marketing staff and after the announcement of a crackdown on foreign casino's marketing to Chinese citizens in China. This was compounded by the President for International Marketing not escalating the repeated advice from the external government relations consultant

Draft Confidential Report – not to be disseminated – version 28 May 2019

in July 2015 that the provision of an employment letter from Crown could contribute to an “*evidentiary pile*” that could be used in the future by Chinese authorities. The government relations consultant stated: “*we must also consider the request for the letter has the effect of contributing to an evidentiary pile that PSB could decide to draw upon in the future.*”

382. The failure to report these activities by Chinese authorities, especially the questioning of Crown staff by Chinese police and related advice, to the CEO of Crown Resorts and the CRL and CML Boards (and sub-committees) demonstrates a governance failure. The CEO of Crown Resorts stated to the Commission that, in his view, the questioning of Crown’s staff in China and the CCTV media report should have been escalated to him.
383. Crown submits that it is only with hindsight that the assessment of the risk of Crown Group staff being detained in China can be criticised. The Commission does not accept this analysis.
384. Whilst Crown were in similar circumstances to other foreign casinos in receiving the public messages from the Chinese authorities in February 2015 and October 2015, and the evidence of the Chinese government’s implementation of its warnings with the detention, criminal proceedings and deportation of South Korean employees, there was a significant difference – being the specific questioning of Crown employees by Chinese police and the specific advice that this evidence being gathered by police could be relied upon in the future. The Crown CEO of Australian Resorts did not notify the most senior Crown executive – the CEO of Crown Resorts about the questioning of Crown employees and the provision of a letter to the Chinese police. Further the CEO of Australian Resorts, the Group Executive General Manager of the VIP International Department and the President of the International Marketing Division took no action to inform Crown’s staff most at risk in China – even to warn that they might be questioned by Chinese police.
385. In the Commission’s view, the interviewing of Crown’s staff by Chinese police was a significant event. At its simplest, Chinese police were questioning Crown staff about allegations of organising gambling activity and in one instance requested a letter from their employer, Crown, a company operating casinos in Australia and Macau at the relevant time. Whilst the police did not refer to specific Chinese criminal laws, gambling is an unlawful activity in China and staff being questioned by police in relation to organising gambling, is a significant matter.
386. There are a number of factors that indicate that Crown should have more thoroughly reassessed its operations in China and the potential risks to Crown and its staff in China, after receiving the news that Mr A and Mr B had been interviewed by Chinese police in July 2015. These factors are:
- the criminal laws in China regarding gambling.
 - the crackdown against foreign casinos announced in February 2015 by Chinese authorities.
 - the detention of a large number of South Korean casino marketing staff by Chinese authorities in June 2015

Draft Confidential Report – not to be disseminated – version 28 May 2019

- Mr A and Mr B being interviewed within weeks of the Chinese authorities detaining a large number of South Korean casino marketing staff in China.
- the English translation of Mr B's interview available to Crown which identified that part of the police investigation was an allegation that Mr B was organising people to gamble in Australia.
- the advice from the government relations consultant since March 2015 about the close monitoring of the foreign casino industry in China by Chinese authorities.
- the English translation of Mr B's interview showing the inaccuracy of Mr B's responses about his role and Crown's awareness of the potential for the Chinese government to monitor all their communications which would reveal this inaccuracy, and
- the repeated government relations consultant advice that the employment letter could add to an evidentiary pile to be used in the future against Crown.

387. All of the above factors, were known by the senior executives, Mr Chen and Mr O'Connor, save for the last factor was not known to Mr O'Connor. Mr Felstead was also aware of many of these factors. It is concerning that the questioning of Mr A and Mr B by Chinese police did not result in any substantial reconsideration by executives about the possible significance of this event for Crown and reporting these police interviews to Mr Craigie and the Boards. This was not an event involving another casino operator – this was a direct action related to Crown's activities and its employees in China.

388. In addition, the CCTV media report was an important warning sign. Of particular concern, is that the CCTV media report referred to a number of activities undertaken by foreign casinos, including Crown, although referencing it to the South Korean detention example, that the Chinese authorities expressed concern about. These activities included:

- sending casino managers directly to China to recruit gamblers.
- casinos offering free travel and accommodation and sightseeing to travel overseas to gamble.
- a commission based business model where the casino will take a percentage of the money gambled, if the gambler wins or loses.
- that the South Korea casinos had divided China up into several major regions and set up regional representatives. Their job was to recruit Chinese agents and personnel who will in turn try and get customers for the casino.
- persons recruiting gamblers are paid commissions and rebates based on the amount of gambling activity.
- the South Korean casinos creating files for each customer, the details will be collected and sorted by casino managers despatched to China, then reported to the company. The casino staff meet with customers over meals and ask their industry and try to get more intimate and then return the information to the company.

Draft Confidential Report – not to be disseminated – version 28 May 2019

389. Clearly the response of the staff to this CCTV report, being “*nervous*” and “*shaken*” as described by one employee witness and Mr Chen, indicated that the staff considered the CCTV media report was a message of broader application to all persons in China working for foreign casinos, including them. Given most of the staff were Chinese citizens, their interpretation of the report gives some support to the view that the media report was of significance to all foreign casinos operating in China. If Crown and the government relations consultant had considered the CCTV media report in a broader context, it would have been clear that it was a warning to Crown (and other foreign casinos) about particular practices they were conducting to recruit Chinese citizens to travel abroad to gamble. This may well have given cause for serious consideration by the senior executive management at Crown about whether these practices should continue, or be altered. In addition, it may have resulted in the media report being referred to Crown’s external legal firm to provide advice in relation to the 10 persons in a lifetime interpretation of China’s anti-gambling laws.
390. Furthermore, Crown’s staff in China repeatedly raised their concerns with their immediate managers in Crown’s International Marketing division about the public actions of the Chinese authorities and these concerns were known to Crown’s senior executives, the CEO of Australian Resorts and the Group Executive General Manager of the VIP International Department. Crown staff were reporting their concerns about the Chinese authorities’ actions in 2015, contemporaneously with events and not with hindsight. As one Crown employee told the Commission, he was “*really annoyed*” that management did not listen to his and other staff concerns and the fact that the Chinese government had warned on state television and in other media outlets that our activities were being monitored, as he believes if this had occurred, he and others would not have been arrested.
391. The Commission concurs with the evidence of Mr Craigie that he should have been told about the police questioning of the Crown employees in China, the CCTV media report and the advice from the government relations consultant. This failure to report and escalate, in the Commission’s view, represents a substantial governance failure.
392. The Commission cannot predict what action Mr Craigie or the relevant Boards would have taken if this information regarding the warning signs, the China staff concerns and government relations advice had been escalated. However, if that information had been considered and reviewed with full and proper reporting of the events in 2015 in China and associated advice this would have been highly relevant in the strategic decision-making and risk management of Crown of its operations in China by Mr Craigie and the Boards. The CEO of Crown Resorts and the Board may well have sought further advice from other government relations consultants, the legal advisers or other sources and reassessed its business strategy in China and its risk management approach in China. Crown may have reassessed its 10 persons per trip interpretation as a basis for its marketing activities. This may not have led to the withdrawal of Crown staff from China but may have initiated changes to Crown’s business strategies in China to reduce the risks to Crown and its staff, such as ceasing marketing roadshows and reducing the number of marketing staff in China.
393. As there was no formal reporting to the CRL Board or CML Board of the warning signs in China, Crown continued to pursue its business strategy to aggressively market Crown’s casinos to Chinese citizens in China throughout 2015 and 2016 and

Draft Confidential Report – not to be disseminated – version 28 May 2019

to publicise the success of this business strategy. The governance failure in the CEO of Crown Resorts and the CRL and CML Boards not being fully informed by the senior executive regarding the situation in China, resulted in the Boards endorsing a business strategy aimed at maximising profits for Crown and publicising this business strategy without understanding the warning signs from the Chinese authorities and the potential risks to Crown's staff and its business operations in China.

394. Exactly one year after the CCTV media report was broadcast, Chinese authorities detained Crown staff in China.

Publishing Crown's business strategy contrary to China's public messages

395. The failure to report the warning signs to Mr Craigie and the Board, meant that CRL published numerous public statements in Australia about the success of its business strategy to attract Chinese gamblers without understanding this was contrary to the public messages being given by the Chinese authorities.
396. These public statements were published by the CRL Board in the absence of knowledge about Chinese authorities' messages about monitoring the activities of foreign casinos in China, the messages about enforcing China's criminal gambling laws as part of "Operation Chain break", and the government relations advice to Crown in China to remain low key and with little to no publicity. If the CEO of Crown Resorts and CRL Board had been fully informed of all the events in China in 2015 and the associated advice, this could have informed the decision-making process in relation to public statements in Australia and may have resulted in consideration of what public statements (if any) would be made about the activities of Crown in relation to VIP gamblers in China. Instead, the CRL Board and executives in Australia were actively promoting Crown's ambitions and success in attracting persons from China in its public statements.
397. The Commission is mindful that the 2016 annual report was released on 19 September 2016 only a few weeks before the detention of Crown's staff in China on 13 October 2016. These were very public statements regarding Crown's success in attracting Chinese visitors and its vision to maintain that market share and to grow it. These statements were accessible worldwide, including accessible by the Chinese authorities. Presumably these public statements were available to Chinese authorities, who had made their own public statements about their efforts to combat the efforts of foreign casinos to lure Chinese citizens overseas to gamble.
398. This highlights the importance of the Boards and those speaking publicly on behalf of Crown being fully informed by the senior executives, and with this information to decide whether public statements about its business strategy in another country are advisable after having regard to local country conditions and the best interests of the business and its staff in that country.
399. It would seem that Mr Felstead, a director of CML, was the only person speaking publicly who was aware of the events in China, however this did not stop him from making various comments in the annual reports about the success of attracting Chinese gamblers to Australia.
400. Ultimately the business strategy to aggressively market to Chinese citizens to travel to Australia to gamble and to publicly announce the success of this strategy was contrary to the Chinese authorities' warnings and failed to appreciate and show

Draft Confidential Report – not to be disseminated – version 28 May 2019

respect to the messages from the Chinese authorities and Chinese law. This appears to be a lesson learned by Crown - after the detention, one of the two priorities of the Crown representative travelling to China was to make sure Chinese authorities understood Crown's respect of Chinese laws.

Crown's risk management of China operations before the detention

401. The ASX Corporate Governance Principles and Recommendations include principle 7 which states that a listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.
402. CRL has a documented risk management framework. Crown stated to the Commission that its risk management framework and practices were and remain sound.
403. After considering the evidence, the Commission is not satisfied that the risk management framework operated effectively to manage the risks to Crown's business and staff working in China.

CRL Risk Management

404. The CRL Risk Management policy provides that while the CRL Board assumes ultimate responsibility for the risk management of Crown, it has delegated the oversight responsibility for risk management and internal control of major risks to the Crown Risk Management Committee. In the relevant period the CRL Risk Management Committee comprised three CRL board directors (including Mr Craigie). In F15 and F16 the CRL Risk Management Committee met twice each year. This committee met in November 2014, May 2015, October 2015 and June 2016 prior to the detention in October 2016.
405. Under the policy each wholly owned operating business unit (Crown businesses) had its own risk management committee. Each risk management committee is responsible for maintaining and reviewing the risk profile of its business on a regular basis and responsible for reporting to the CRL Risk Management Committee twice per year. In addition, Crown has Risk Registers in place across Crown Businesses, which catalogue material risks to each business, both financial and non-financial.
406. Each Crown business is responsible for identifying, assessing and managing material risks to their business through their risk management committee. The risk management committees include senior managers of the relevant business and each Crown business provides reporting to risk management in its regularly monthly reporting.
407. The CRL Risk Profile dated 20 May 2013, 15 May 2014, 13 May 2015 and 22 June 2016 includes item 12- material breaches of gaming and other relevant legislation/regulations and attributed a significant risk rating. The controls listed were:
 - adherence to and awareness of relevant legislative and/or regulatory policy including training of relevant employees/contractors where applicable
 - employee/contractor/supplier probity checks
 - legal compliance programs/gaming compliance committee monitoring

Draft Confidential Report – not to be disseminated – version 28 May 2019

- internal audit function at property and online business level
 - in 2016 a further control was added – ongoing communication with government and regulators in relevant jurisdictions to ensure regulation is clear and that proposed activities are compliant (and perceived by regulators to be compliant).
408. The CRL Risk Profiles provided by Crown did not include any item for Foreign Political Policy, although it is listed as a risk in the CML Risk management plans. Further, in May 2014 a further risk was added to the risk profile – “visitation” – the risk of decline in visitation to Australian resorts which was rated as significant and various controls were listed.
409. The Minutes of the CRL Risk Management Committee for meetings held prior to October 2016, save for 13 May 2015, made no reference to the announcement and implementation of various Chinese government policies, as described earlier in this report, relevant to activities by foreign casinos in China. The minutes for the CRL Risk Management Committee meeting on 13 May 2015 noted in relation to the volatility of premium gaming – *“The Committee considered the possible correlation between China’s recently launched anti-corruption campaign and increased visitation to Australia. The committee also noted the proposed changes in government policy on foreign property acquisition and recommended this be monitored to assess what impact (if any) this might have on Asian visitation and gaming volumes.”*

CML Risk Management

410. In accordance with the CRL risk management policy, CML had its own executive Risk Management Committee and annual risk management plan and risk profile. The executive committee reported to the CML Board audit committee which oversees the risk management for CML. Crown provided the CML Risk Management Plans for F15 (dated November 2014), F16 (dated November 2015) and F17 (dated November 2016).
411. The Commission was interested particularly in the F16 CML Risk Management plan as it was adopted in November 2015 after the series of events in 2015 in China as described above. More broadly, the CML Risk Management Plans reflected Crown Melbourne’s material risk outlook for the forthcoming financial year and the plan is monitored and reported by Crown Melbourne’s Risk Management Committee. The CML F 15 and F16 Risk Management Plans included the following relevant risks and controls:

Risk Title	Controls	Risk rating
Material Breach of Gaming and other legislation/regulations	<ul style="list-style-type: none"> • Ongoing communication and engagement with government and regulators • Adherence to and awareness of relevant legislative / regulatory policies including training of relevant employees/contractors where applicable; <ul style="list-style-type: none"> ◦ Legal & regulatory compliance program • Employee/contractor/supplier probity 	High

Draft Confidential Report – not to be disseminated – version 28 May 2019

	<ul style="list-style-type: none"> • checks and performance monitoring • Management monitoring and investigation of disciplinary actions issued by the Commission and where applicable the determination of remedial action to reduce exposure • Internal audit (F16 only) • Ongoing/periodic internal compliance/review processes (F17 only) 	
Foreign political policy	<ul style="list-style-type: none"> • Annual strategic planning and business planning processes including management monitoring and review of premium gaming strategy • Management monitoring of financial performance and trends • F15 only – contingency planning 	Significant

412. In F15 and F16 the Foreign Political Policy risk was defined as “*The impact on Crown Melbourne’s performance from political actions in a country from which a significant volume of international business is derived (e.g. Chinese Central Government policy restricting one or more of currency movement, real estate development, international travel of politicians and dignitaries).*” There were no changes to the risk management documentation between F15 and F17 to take into account the changes in Chinese government policy and the actions implementing these new policies.
413. The F15, F16 and F17 CML Risk Management plans, also included other risks such as Volatility of Premium Gaming, Premium Gaming Bad debts and Competition International which were all rated as significant risks. One common control related to these risks were management monitoring of financial performance and trends, as well as other limited strategies usually reliant on management action or observation to address these risks. There was little change to the controls for these nominated risks between F15 and F17.
414. The F15 CML Risk Management Plan included a risk of visitation (i.e. the risk of a decline in visitation). The controls for this were reliance on management’s annual strategic planning and business planning, monitoring of financial performance and trends and monitoring of competitors, as well as marketing initiatives, capital improvements and maintenance of the property. In August 2016, only four months prior to the arrest of Crown staff, the CML Audit Committee revised the Corporate Risk Profile and deleted the Visitation risk. This risk did not appear in the F17 Risk Management plans for CML.

How did the risk management framework fail?

415. The Commission is mindful that the Chinese authorities’ actions in 2015 fall within the Foreign Political Party risk and the Material breach of legislation in Crown’s Risk profiles. The Commission considers the events that were warning signs in China in 2015 were indicative of an increasing risk to the staff in China and to Crown’s business in China, such that it would impact on Crown Melbourne’s performance.

Draft Confidential Report – not to be disseminated – version 28 May 2019

416. In addition, Crown senior executive management was aware that the Double Down strategy to attract Chinese gamblers to Australia would come with far greater risks than the past and would expose the Crown to a lot more risk. This did not trigger any changes to the risk assessment and framework for Crown's business and staff in China.
417. The formal risk management system was simply not engaged at all prior to October 2016 in relation to the events in China and the potential increasing risk to its staff and business. Therefore, the Commission considered why this increasing risk was not effectively addressed in Crown's risk management mechanisms.
418. **Lack of reporting to the executive or Board risk management and audit committees:** The statements of the Chinese authorities of the crackdown on foreign casino marketing activities in China in February and October 2015, the detention and arrest and conviction of South Korean casino employees and the questioning of Crown staff in China in 2015 were not escalated to the CRL Risk Management committee, Crown Melbourne Risk Management committee, CML audit committee or considered in the CRL Risk profile considerations or CML Risk Management Plans for F16 and F17. The actions by Chinese authorities in 2015 in relation to foreign casinos marketing activity in China were not addressed in any papers (including the Report against Material Risk submitted at each meeting) to the Risk Management Committees at CML or CRL level. In addition, the risk assessments provided by the government relations consultant in China was not included in any reporting to the CRL or Crown Melbourne risk management committees. For example, the risk assessment given on 26 March 2015 in the Updated Project Wager memo was not escalated to the risk management committees.
419. There was reference to China's anti-corruption campaign in reports to the CRL Risk Management committee. This committee received Reports against the Material High risks. For example:
- the November 2014 minutes noted that the Chief Financial Officer noted the corruption crackdown in China, it was difficult to differentiate the impact of these from the softening of the Chinese economy when analysing the current Melco performance and that of the Macau gaming industry generally.
 - the minutes for the May 2015 meeting noted that the Committee discussed the possible correlation between China's recently launched anti-corruption campaign and increased visitation to Australia.
 - the material high risk reports also referred to the economic risk for Melco being related to the visitation of players from China. For example, the November 2014 report noted that Melco is negatively exposed to PRC government initiatives to combat corruption, and the associated impact on some premium players (potentially leading to reduced revenues and increased bad debts). MCE (Melco) continues to monitor the economic data and commentary relating to the PRC and Macau gaming market. Similarly, the October 2015 and June 2016 Material High risks reports noted the PRC economic conditions and anti-corruption stance continue to have adverse impacts on Melco performance.
420. The CML Audit Committee received limited information in reports regarding the anti-corruption crackdown. The CML Audit Committee regularly considered the provisions

Draft Confidential Report – not to be disseminated – version 28 May 2019

for doubtful debts and referred to the increase in turnover, the increase in international competition and impact on the collectability of debts. The external auditor's reports regularly canvassed the risks of doubtful debts. In the auditor's report submitted for the August 2015 meeting, the auditor noted the increase in provisions for doubtful debts and commented "*The increase in turnover coupled with increased Chinese government scrutiny on corruption, money transfers and detainments has led to a natural increase in the riskiness of the debtors collectability.*" This same report also noted the "*increased Chinese government scrutiny on corruption, money transfers and detainments has potentially lead to VIP players directing their business to other locations, including Australia.*" The auditor also noted that the market continues to be impacted by stricter government measures on junkets by authorities in China, US and Macau.

421. Each of the Material Risk Reports in the period focused on promoting Crown Melbourne as a key initiative to guard against the risk of volatility of premium gaming. At no point did this strategy take into account the risks of such marketing activity in China. The focus appeared to be on the financial risks to the Crown Melbourne business rather than other non-financial risks to Crown, including staff in China.
422. The warning signs in China were not reported to the Committees as the executive management did not consider the events in China regarding foreign casinos were relevant to any material risks to Crown or its staff. For example, in Crown's letter dated 27 November 2017 to the Commission it notes that the detention of South Korean casino staff in 2015 was not reported to, or the subject of a report by, the Risk Management Committee because it was concluded at management level that nothing material had changed as a result of those detentions. This correspondence did not identify which "management" reached this conclusion.
423. The risk management reports to the CML Audit Committee listed in respect of the Foreign Political Policy risk that "*there have been no major developments in the reporting period*", for the periods, November 2013 to June 2014, November 2014 – June 2015, November 2015 to June 2016.
424. In addition, the risk assessments provided by the government relations consultant in China was not included in any reporting to the CRL or Crown Melbourne risk management committees. For example, the risk assessment given on 26 March 2015 in the Updated Project Wager memo was not escalated to the risk management committees.
425. The most senior executive, Mr Craigie, who was a member of the CRL Risk Management Committee, was not aware of all of the government relations advice in March 2015, June or July 2015 (other than to remain low key and that the South Koreans were an isolated case due to their conduct) or the full extent of events in China (e.g. questioning of two Crown employees by Chinese police) to make informed decisions in relation to whether matters should be escalated in the risk management framework with a view to assessing the mitigation controls and risk ratings.
426. Mr Felstead was intimately involved in risk management processes, including receiving quarterly reports on the risk matrix, receiving verbal reports and reviewing the draft risk management plans prior to submission to the CML Audit Committee. It appears that Mr Felstead made no changes to the risk matrix or to the risk management plan, in light of his knowledge about events in China. Mr Felstead also

Draft Confidential Report – not to be disseminated – version 28 May 2019

stated that as the resources in China increased there was no change to any risk policies or procedures and they believed the risk policies and procedures were adequate. Interestingly, when the MPS announcement in February 2015 of a foreign casino crackdown was forwarded to Mr Felstead, he replied to Mr Chen and Mr O'Connor – “*Another good challenge for you both.*”

427. **No separate risk management plans, procedures or profiles for VIP International department operations and staff overseas:** The VIP International Department did not have its own separate risk framework, rather its risks were captured with a number of risks in the risk management plans for each casino entity.
428. The Crown employees imprisoned in China were employees of CRPL. Crown advised that CRPL was a corporate entity required for local regulatory purposes and its administrative functions performed by Crown. The requirement in the policy for risk registers “across all Crown Businesses”, does not mean for each separate corporate entity. It appears this company was not treated as a Crown business for reporting and risk purposes and therefore did not have a risk register. Mr Felstead explained that CRPL had no risk register he assumes because there was a risk register in Melbourne and Perth and they were adequate for the CRPL business because the people were fairly closely managed by people out of Melbourne. Mr Craigie advised that CRPL did not have a risk register as it was not an operational company, the operation was at Crown Melbourne level.
429. The lack of effective risk management plans and processes to protect staff working overseas was demonstrated by an exchange in May 2016 between Crown personnel. In May 2016 Crownbet was promoting a special to new customers of Crown for opening an online sports betting account. Crownbet forwarded this email to the Regional Vice President – China East Region Sales team and he onforwarded it to members of the sales team in China encouraging them to promote this to their customers. One sales team replied noting that “*Internet gambling is illegal in China. Sales Team will take high risk! So please (sic) think carefully.*” The Regional Vice President responded to the concern of the China sales team member commenting on how the person could develop the regions if they were “*too worried about something within the grey line*” and suggested they think seriously about their role. This exchange demonstrates a lack of risk management procedures specifically directed to mitigating any risks to offshore staff and when the risk is raised by a staff member, the response by the manager failed to acknowledge the potential risk but to challenge the staff’s commitment to their sales role.
430. **Documented Mitigation control not applicable to overseas operations:** A number of the mitigation controls assigned to mitigate the relevant risks were simply not applicable to Crown’s operations in China. For example, ongoing communication and engagement with government and regulators was a control for the risk of material breach of the legislation was not applicable. The evidence from Mr Chen and other executives was that Crown could not engage in such communication with the Chinese authorities.
431. **Documented Mitigation controls relied on the judgement of senior executives and were ineffective:** The foreign political policy mitigation controls involved annual business planning and monitoring of financial performance. These controls were only effective if senior executives assessed based on the financial performance information and other information that there had been a change in Foreign Political

Draft Confidential Report – not to be disseminated – version 28 May 2019

policy and that they responded by taking this into account in their business planning. However, the business planning only took into account the February announcement of Chinese officials in the March 2015 VIP Strategic Business plan presentation. Although this did not appear to give cause to change the business strategy being pursued by Crown in China. Otherwise the crackdown of foreign casinos and other events in China were not addressed in the business planning framework. The monitoring of financial performance, did occur in regular reporting and the CML Financial Plans documented the uncertainty in the VIP International market (in particular China and Macau) and that this would be closely monitored. However, there is no evidence of any close monitoring of the market, in terms of China's policies about foreign casinos and the impact on the Australian casinos. The focus appears to have been on financial risks by monitoring the financial performance of the VIP business from China rather than monitoring other non-financial indicators which may affect the risk to the Crown staff and business.

432. Further, with the increasing resources being devoted to Crown's activities in China and the push for further growth, there appears to be no evidence that the potential risks associated with this strategy, given the uncertainty in China, were considered by the executive. Mr Felstead commented that they did not change any risk policies or procedures with increased staff in China as Crown believed the risk procedures and policies were adequate.
433. The documented mitigation controls in the risk management documents were completely ineffective if the executive did not identify any material changes affecting risk.
434. **Internal audit controls were not applied to relevant risks:** The internal audit mitigation strategy was not implemented in relation to the VIP International business operations in China. The Commission asked for Crown's Internal Audit Plan relevant to its overseas operations including, marketing, junket operations and premium gaming strategy. Crown provided CML Internal Audit Plans for F14 – F16, F15 – F17, F16 – F18 and F17 – F19. These internal audit plans do not include any internal audit activity in relation to the VIP International marketing part of the business.
435. In relation to the Foreign Political Policy material risk the notes in the internal audit plans state that the internal approach was that "*No internal audit work proposed. Compliance and/or risk exposure is managed using other strategies*". Mr Felstead observed that the China operations could have been the subject of an internal audit, but Crown needed to be nimble and needed to move quickly when you think something is going on which is out of the ordinary. Although, Mr Craigie observed that he considered that the internal auditor was not going to have much to say about political risk and it was not an area that fell naturally into internal audit.
436. These plans did not include any proposed audit activity for other related material risks, such as volatility of premium gaming, competition international or visitation. They all noted "*No internal audit work proposed. Compliance and/or risk exposure is managed using other strategies*".
437. In Crown's letter dated 16 February 2018, in relation to the assessment of the Foreign Political Risk in the CML Risk Management Plans, it states that following discussions with former employees of Crown who were involved in the internal audit function at the relevant time, that the position in relation to the foreign political risk

Draft Confidential Report – not to be disseminated – version 28 May 2019

was if Crown perceived there to be a material change in foreign political policy that might impact the business, strategies would be developed to mitigate the risk or respond to the particular risk that had arisen, however no material risk was identified, so accordingly there was no need to put strategies in place.

438. **The actual mitigation controls implemented by Crown were not documented and were not subject to any independent veracity checks:** The controls that Crown relied on to mitigate Foreign Political Policy risk and material breach of legislation in China were advice from external advisers (a legal firm and a government relations consultant) and advice from Mr Chen, President of International Marketing. These controls were not documented in the risk management plans.
439. The Commission can make no comment about the engagement and the reliability of the legal advice from the **legal firm** as no relevant information has been provided by Crown. The Commission observes that the 10 persons per trip interpretation of Article 303, was not the interpretation applied by the Chinese authorities.
440. The selection of the **government relations consultant** was decided by Mr Chen based on his previous experience with the consultant in his previous employment. The government relations consultant was a person from the USA with a CIA background in China. There may have been an over-reliance by Mr Chen and the other senior executives on the advice of the government relations consultant. Additionally, it appears there was no process to verify whether they were the most appropriate government relations consultant to advise Crown in relation to Chinese government policy, law enforcement and activities. Further, there was no mechanism to test the advice being given by the government relations consultant in the period, for example seeking advice from another firm operating in China.
441. The most significant source that Mr Felstead and Mr O'Connor repeatedly relied on for the risk assessments on the ground in China was **Mr Chen**. At interview, Mr Felstead considered that for risk assessments Mr Chen was in the best position, because he was on the ground, he was a regular visitor to China and had a team in China. Mr Felstead considered there was no danger relying on Mr Chen because Mr Chen travelled to China and is *"a Harvard educated gentleman, incredibly intelligent, incredibly strategic, he would not put himself or his team at risk for money."* Mr O'Connor commented that he relied on Mr Chen very heavily and placed a lot of trust in him. Mr O'Connor also commented that Mr Chen was highly educated, Harvard educated, worked for blue chip consulting organisations and spent time living and working in Hong Kong, Macau and China. Mr O'Connor also referred to Mr Chen's linguistic skills and that he was *"connected both within the industry and outside the industry, politically"*.
442. At interview, Mr Chen acknowledged that he was a contributor to the risk assessment process and he emailed matters up the chain, yet risk management was not part of his position description. When interviewed, Mr Chen did not know there was a risk management policy and had no input or discussion regarding the Foreign Political policy risk in the CML risk management plans and did not see these plans. He escalated risk matters to Mr Felstead and Mr O'Connor, but he was not involved in the decision on what to report to the risk management committee (e.g. re South Korean arrest).
443. In relation to the reliance on Mr Chen, Mr Chen is a US citizen, born in the USA and had previously worked in the USA and in Hong Kong since 2007. His previous

Draft Confidential Report – not to be disseminated – version 28 May 2019

experience in the gambling industry was for five years, in a corporate development role to identify new investment and casino development opportunities in Asia, establishing the company presence in Asia, developing relationships with government and lobbying government and setting the overall strategy in Asia. He had no involvement in the operational side of gambling in that role. He had worked for one year in Shanghai for a management consulting firm where he was an “Engagement Manager”. It appears that Mr Chen had limited experience working in China, having only spent one year living in Shanghai, had no risk assessment training and had no political connections in China and only indirect relationships. Further, Mr Chen was based in Hong Kong, not mainland China. Mr Chen was responsible for marketing across Asia with a large number of staff located in a number of Asian countries marketing to a high number of VIP gamblers. There is evidence that Mr Chen had an extremely heavy workload heading up the International Marketing division. It appears there was an over reliance on Mr Chen given his work experience, work location, position responsibilities and workload. Further, Mr Chen’s primary purpose was to drive business profits by marketing to Asian citizens and not as a risk adviser.

444. **CRL profile no mention of foreign political policy risk:** The CRL risk profile did not include the risk of foreign political policy in 2013, 2014, 2015 or 2016.
445. **No checks or balances on mitigation controls:** There was no evidence of any “checks and balances” mechanisms internally in Crown or externally to assess the adequacy and effectiveness of the mitigation controls in place regarding the operation of marketing and sales team of the VIP International department in Hong Kong and China to ensure it was not at risk due to changes in Chinese political policy or non-compliance with Chinese criminal gambling law. Those who were overseeing and monitoring the risks in China were also responsible for driving the business strategy in China, and there was no independent mechanism in Crown to objectively assess the risks to Crown’s operations and staff in China.

Doing business in China

446. During the investigation, Crown and its senior executives, such as Mr Chen and Mr Felstead, referred to the difficulty in operating in China as the “*country is ripe with rumours, most of which transpire to be untrue*”. Mr Chen was well aware of this and he explained the need to verify these matters and “*vet everything that we felt was material*” through speaking with others in the gambling industry, speaking with customers and seeking external advice from lawyers and government relations consultants. Similarly, Mr Felstead at interview highlighted hearing things about government actions and having experienced staff in China with “*their ear to the ground*” and speaking with customers and others in the industry.
447. Crown adopted some strategies specifically taking into account the challenges of doing business in China.
448. In conducting business in China, Crown was well aware that the Chinese authorities could be monitoring their staff in China, including phone calls, SMS messages, emails etc. as part of the crackdown and gave instructions consistent with the advice of the government relations consultant in March 2015.

Draft Confidential Report – not to be disseminated – version 28 May 2019

449. Crown also took other precautions such as holding teleconferences, rather than emails to circulate information and communicated via internet services such as WeChat and WhatsApp which required live monitoring by authorities rather than electronic records of communication.
450. At times Crown also used code words for telephone discussions when a staff member was in China. For example, on 23 March 2015 Mr Chen instructed Mr O'Connor to use various code words during a telephone discussion, whilst Mr Chen was in China during a roadshow with instructions "*No mention of gambling, or commissions or money movement.*"
451. Further Crown was well aware their staff were at risk. In October 2014 in a Marketing Kickoff Workshop for senior marketing staff it was noted that sales teams in many countries (especially China) are operating under constant threat of being detained, questioned and harassed with regards to their customers and their activities. The staff were given advice about the procedure if Chinese authorities attended an office and interviewed them, although the Crown staff in China all worked from home so this advice was of limited utility and inexplicable in the circumstances. Further, Crown staff were advised to meet potential and existing customers in small groups in public places, such as coffee shops, coincidentally these activities were able to be publicly observed and monitored by Chinese authorities.
452. All of these steps indicate a clear awareness and knowledge by Crown of the monitoring and detention by Chinese authorities and the precautions taken by Crown in light of potential of monitoring and detention by Chinese authorities.
453. In the Commission's view, the known challenges for business operating in China only heightens the responsibilities of Boards and their executive to have effective and reliable risk management plans in place after a thorough risk assessment which specifically address the risks to the business and its staff in its operations. The risk management plans of Crown did not adequately and effectively address the risks to Crown's business and its staff in China.

Crown's comments regarding other casino industry participants in China

454. During the investigation, Crown referred to the activities of its competitors, other foreign casinos, such as Star and SKYCITY, commenting that the other foreign operators did not consider withdrawal of their staff from China was warranted prior to October 2016.
455. As part of the investigation, the Commission spoke with executives of two other foreign casinos. Other foreign casinos took different approaches when operating in China. They provided the following information:
- A large American casino operator that operates in Nevada and Macau did not have staff in China, but had independent contractors working in China. The independent contractors were registered through the Nevada Gaming Board. The Nevada Gaming Board keeps a register of independent contractors that can be checked to see the scale of operations. The American casino operator stated they are also required (like other Nevada casino operators) to obtain legal advice from the other jurisdiction and risks assessments in relation to the overseas jurisdictions they were operating in. The representative of the

Draft Confidential Report – not to be disseminated – version 28 May 2019

casino operator also stated that they are conservative in their marketing and “recruit” Chinese players from their casinos in Macau to then travel to Nevada. The casino operator did not have any staff approached or questioned by officials. If that had occurred then the casino operator would have notified the Nevada Gaming Board, as it is part of mandatory reporting.

- A large Asian casino operator did not have any staff based in China, but their staff travelled in and out of China from an Asian location (outside China) approximately four times a quarter. The casino staff were advised, based on legal advice, that marketing or advertising gambling was prohibited. The staff were instructed they were only to market the resorts and develop relationships. There were no instructions to staff about patron groups of less than ten travelling from China to an Asian location.

456. The overseas operators that the Commission spoke with all confirmed they did not receive any verbal or official warning from Chinese authorities. Further, they confirmed that at the time the assessment in relation to the Chinese authorities' actions against the South Koreans concluded that the action was taken because the South Koreans operated outside the “norm” and in a significantly different manner. The other foreign casino operators did not change their mode of operations after the arrest of the South Koreans or during the crackdown. However, there is no evidence that their employees were questioned by Chinese police and appear to have adopted a more conservative approach in China than Crown.

457. Of interest, the Commission noted the immediate response of a large overseas casino operator when the initial MPS announcement was made. On 7 February 2015, Steve Wynn, CEO of Wynn Resorts, a large North American Casino operator, was reported as saying about operating in China:

“China remains a big question mark. We have more questions than answers.....We have learned in the last 12 years to behave in China, and that is to listen carefully to what the leadership says and to conform with the program as we are their guest.”

458. The Commission consulted with the Nevada Gaming Board who referred the Commission to the specific legislative provisions under Nevada State law that regulate the activities of licensed casino operators when conducting gaming outside Nevada (known as “Foreign Gaming”). Foreign gaming is defined as conduct of gaming outside the State. These provisions include prohibitions against violating foreign laws concerning the conduct of gaming (see NSR463.720), reporting requirements about operations in any foreign jurisdiction (see NSR463.710), and prohibited practices in relation to foreign gaming (NSR463.720).

Changes implemented by Crown after August 2017

Crown’s operations in China since the release of Crown employees in August 2017

459. Crown states that in response to the detention of its staff it has made a number of changes to its operations.

460. These changes were described by Crown in a presentation to the Commission in August 2017 and more recently in a power point presentation headed “VIP International – Operating Procedures, June 2017 (revised June 2018)” setting out aspects of the new model of business operations. This latter document is

Draft Confidential Report – not to be disseminated – version 28 May 2019

comprehensive in setting out clear policies about Crown's International VIP engagement and activities with citizens outside Australia. It details in clear terms the range of permissible and impermissible activities for staff differentiating between Chinese customers, customers in other relevant Asian countries, the United Kingdom, Australia and Hong Kong.

461. **Removal of gambling marketing staff from China:** The most significant change implemented by Crown is that Crown's VIP International Department no longer has any staff based in mainland China who have duties which include gaming marketing engagement with persons in China, and Crown staff are not engaged in any gaming – related activity on the ground in mainland China. Crown has stated to the Commission that Crown is not proposing to have anyone engaged in dealings with actual or prospective gaming customers “*on the ground*” in mainland China for the foreseeable future.
462. From October 2017, Crown has one person located in mainland China who is the Business Development Manager, Hotels Conferences and Conventions (China). This role is responsible for maximising sales for Crown hotels within the Asian market segment and developing strategic partnerships within the market sector. The staff member has completed a representations and warranties document to warrant that she will not engage in any gambling related activity in mainland China during her employment with Crown.
463. In addition, Crown has engaged a small number of education agents in mainland China. CML, trading as Crown College International, has entered contractual arrangements with “*approximately six*” local agents in major cities in mainland China to recruit overseas students to study at Crown College in Melbourne. Crown has six courses registered with CRICOS, including Certificates in Commercial Cookery, Patisserie and Diploma in Hospitality Management. Crown has also engaged more than 20 education agents in Australia to attract Chinese international students to Crown College. Crown states that education agents are not involved in, and their functions and roles do not relate to Crown's gaming business or marketing Crown's gaming business.
464. **No travel to China:** There is a general prohibition against staff travelling to China. Since August 2017, as at September 2018, one Crown staff member had travelled to mainland China for education purposes, and eight employees of a Crown construction contractor travelled to China. Prior to each trip, Crown has sought security advice from an external contractor about the proposed travel to mitigate the risks of staff and contractors travelling to mainland China.
465. **Centralisation of international marketing staff in Hong Kong:** In August 2017 Crown informed the Commission that it had centralised its Asian operations in Hong Kong, and closed its Macau office and other Asian offices “*for the time being*”. The Commission notes that Crown previously operated offices in Malaysia, Vietnam, Singapore, Indonesia, Macau, China and Taiwan.
466. **Introduction of new marketing and sales protocols:** Crown has refreshed its operating protocols so as to mitigate the risk of staff being investigated or detained by

Draft Confidential Report – not to be disseminated – version 28 May 2019

law enforcement agencies in other jurisdictions for actual or suspected breaches of local laws. The refreshed protocols include:

- the nature and extent of interactions that staff may have with patrons from mainland China and 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.

467. The new protocols are very detailed and guide both outbound and inbound sales, marketing and initiating contact with persons in Asian countries about gaming activities at Crown and documenting these activities.
468. Since the release of staff, Crown has continued to engage with Chinese citizens. Crown staff in Australia and Hong Kong have phone call and messaging contact with Crown VIP customers whilst customers are not in Hong Kong or Australia, and such contact may occur whilst a customer is in mainland China. The discussions or text messages may include upcoming events, gaming related content such as terms of play for a future visit to Australia or London or repayment of an outstanding gaming debt. Crown was unable to advise the Commission about the frequency or volume of such calls or contact with customers in China.
469. In response to the Commission’s request for information in relation to how Crown currently attracts premium players from China and attracts junkets with players from mainland China, Crown provided the following limited information. Crown continues to contract with junket operators licensed in Macau who organise trips to Australia for premium players, including Chinese nationals. Crown staff deal directly with some VIP customers, including Chinese nationals, by mobile phone and electronic messaging. The fundamental difference since October 2016 is that no one from Crown or on Crown’s behalf is involved in any contact with any actual or prospective gaming customers “*on the ground*”.
470. In undertaking these steps, Crown states that it has been conscious of the risk of offending Chinese authorities and Chinese citizens. Crown states that it recognizes 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.
471. **External advice:** Crown has advised that since the release of its staff in China, Crown has not sought external advice regarding its gaming activities in mainland China as it has had no such activities. Crown has sought legal advice about its activities in China and its global operations more generally, and its Australian legal firm has in turn obtained input from an international consultancy firm for the purpose of advising Crown. The Commission did request that Crown provide a copy of its most recent advice received from the international consultancy firm regarding its activities in mainland China. However, Crown declined to provide this information to the Commission on the grounds of legal professional privilege.

Draft Confidential Report – not to be disseminated – version 28 May 2019

472. **Compliance officer:** Crown has employed a compliance officer in the Hong Kong office. The compliance officer role is to offer specialised regulatory and compliance advice and support to the VIP International team to ensure adherence to VIP procedures and processes. The Crown correspondence to the Commission stated that the compliance officer is to keep staff in the Hong Kong office informed of the laws, regulations, policies and guidelines with which they are required to comply in carrying out their duties for Crown. The position description and letter to the Commission state that the compliance officer reports to the Manager for Program Compliance, who in turn reports to the Group General Manager – Regulatory and Compliance. The compliance officer commenced in April 2018 for six months to October 2018. As at September 2018, Crown advised that the further contract and position description are currently being prepared, but had not yet been finalised.
473. The compliance officer reports at least monthly, generally by teleconference, either ad hoc or monthly meetings with senior executives, including the Group General Manager- Regulatory and Compliance, Group General Manager- International Business Operations, Senior Legal Counsel and Manager – Program Compliance. The Commission requested copies of the most recent compliance reports to their supervisor but was advised by Crown there were only telephone reports from the compliance officer.

Risk Management since August 2017

474. In relation to risk management, Crown stated that the fundamental change made since October 2016 is not to have any staff, contractors or agents in gaming related activities “*on the ground*” on Crown’s behalf in mainland China. Crown states that it believes that this effectively eliminates the risk of any repeat of detention of Crown staff in mainland China. This change in approach was approved by the CRL Board.
475. The Commission asked Crown to provide a detailed description of any strategies and/or changes that Crown has implemented since October 2016 to minimise the risk that Crown employees or contractors or agents are detained in China for breaches of Chinese criminal gambling laws, including whether the risk framework or risk documents were changed as a result of the detentions. In response, Crown referred to the cessation of Crown having staff, contractors or agents engaged in gaming related activities “*on the ground*” on Crown’s behalf in mainland China. Further, Crown referred to the restructure of the VIP operations described above and the prohibition on travel to mainland China.
476. The Commission considered information gathered during the course of the investigation and the Sixth Casino Review and contrasted the CML F16 Risk Management plan (endorsed in November 2015) and the CML F 17 and F18 Risk Management Plan (endorsed November 2016 and November 2017 respectively). The F17 CML Risk Management Plan included two new controls in relation to foreign political policy:
- adherence to and awareness of relevant legislative and/or regulatory policy, adoption of Crown Resorts Anti-bribery and corruption policy and training or relevant employees/contractors where applicable, and
 - maintenance of close and productive relationships with key stakeholders, including key law enforcement agencies and other authorities.

Draft Confidential Report – not to be disseminated – version 28 May 2019

477. These changes do not appear to have any particular application to the events that occurred in China.
478. The F18 CML Risk Management Plan included a new control for Foreign Political Policy risk. This new control included "*Obtaining expert legal advice in foreign jurisdictions.*" This control had not been documented but had been followed by the VIP Department prior to October 2016. This risk remains listed as significant.
479. There is no evidence that the CRL risk profile has been amended since October 2017 to include Foreign Political Policy risk for CRL, although remains in the CML risk management plan.
480. Given the failings in the risk management framework, described above, that contributed to Crown not identifying the risk to its business and staff in China, the Commission is concerned, that whilst Crown has made positive operational changes in relation to its activities in China, there has been no analysis of its risk framework and systems and consequently no changes to its risk management processes. The Commission has concerns that Crown has not looked more broadly at the risks systems in place to identify and mitigate risks adequately and to be able to respond to emerging or increasing risks associated with changes in the environment in which it is working when they arise. Consequently, **the Commission recommends** that Crown engage an independent risk expert, approved by the Commission, to review Crown's risk management framework, including all relevant documentation and processes, and provide an assessment of the effectiveness of the risk management framework (including the identified risks and mitigation controls) in relation to its operations in all Asian countries. The risk assessment should be provided to the Commission, along with any revised Crown risk management documentation, including risk profile, risk appetite, risk management plan and risk policies, charters of risk management committees that have been implemented as a result of the review. This recommendation should be implemented by 31 December 2019.

Governance and Reporting by the VIP International Department

481. The VIP International Department continues to report to Mr Felstead. Currently there are three senior executives reporting to Mr Felstead about VIP operations, the Group General Manager International Business Operations, Senior Vice President of International Business and the President of International VIP Development. The international development branch is based overseas and currently has 15 staff. Mr Chen ceased employment with Crown in March 2017. Mr O'Connor was on leave since being released from detention in August 2017, although in February 2019 he returned to Crown in Melbourne in a non-associate role which has no special casino employee duties.
482. In 2017, Crown restructured its VIP International operations in Asia by implementing a new business model. On 27 April 2017, the CRL Board minutes state that "*It was resolved that the China update, including the development of the updated VIP business model be noted.*" The Commission notes that the rest of the discussion that was minuted in the CRL Board minutes was redacted on the grounds of legal professional privilege. Further, the Commission notes that no written papers were provided to the CRL Board for the China Update agenda item, rather the board

Draft Confidential Report – not to be disseminated – version 28 May 2019

papers refer to a *“a verbal update will be provided at the Board meeting”*. The CRL Board received oral advice only about the new VIP International operation model. The decision to introduce a new VIP International business model was made at this meeting.

483. There is no evidence that Crown has made any changes to its reporting arrangements from the VIP International department to the Executive Chairman or the CRL or CML Boards.
484. During the Sixth Review, in April 2018, the Commission spoke with Professor Horvath, an independent director on the CRL and CML Boards. The issue of corporate governance was discussed. In the course of that interview Professor Horvath commented that as a Director for nine years he had had no reason to suspect that the Board had been misled by management and that Crown *“haven’t had a stuff up”*. After the Commission referred to the events over the preceding 18 months and that others may perceive that there may have been stuff ups and there had been major issues involving the operation of the company, Professor Horvath observed that was not the view of the Board. He commented that the view of the Board is that it is kept appropriately informed by management of the relevant risks. He stated that there had been no material change in the information brought to the Board and the Board was fully informed from the moment the detentions occurred and were fully informed before then of material risks. He stated that he did not think there has been a material change to the way the Board operates since the detention.

Crown’s strategic and leadership changes

485. After the detention of the Crown employees, substantial changes were made to the CRL business strategy and the leadership of CRL. These changes were documented in detail in the Sixth Review of the Casino Operator and Licence Report published in August 2018. In brief, the following major changes occurred:
- Mr Rankin ceased as the Chairman of CRL on 31 January 2017 and Mr Craigie ceased as CEO of Crown Resorts on 28 February 2017. These men were replaced by Mr Alexander, previously the Deputy Chairman of the CRL Board, who commenced as Executive Chairman of the CRL Board on 1 February 2017. Mr Rankin and Mr Craigie subsequently resigned as Directors of CRL.
 - Mr Packer resumed as a Director of CRL, subject to regulatory approvals. This was first announced to the Board in January 2017 and formalised in August 2017. Mr Jalland was also subsequently appointed as a Director of the CRL Board, after obtaining the necessary regulatory approvals.
 - CRL sold its investment in Melco, being its investment in three Macau casinos and a Filipino casino. CRL reduced its shareholding in Melco by approximately 16 per cent in December 2016 and completed the sale of all its Melco interests in May 2017.
 - On 15 December 2016 CRL announced the closure of its Las Vegas Alon project, and the possible sale of the Las Vegas site. On 29 January 2018 Crown announced it sold its interest in land in Los Angeles, the proposed site of the Alon project.
 - CRL announced it would not proceed with the previously announced strategy of demerging the company’s international assets.

Draft Confidential Report – not to be disseminated – version 28 May 2019

486. These changes reflect that CRL transitioned from its strategy of building a global gambling company, with interests in Australia, Macau, Philippines, United Kingdom and the United States of America to a company, as set out in its 2015 Annual report, focussed primarily on its casinos and other wagering interests in Australia, as noted at the annual general meeting in October 2017 and its 2017 Annual report. At the time CRL announced its plans in December 2016 to reduce its interest in Melco and to not proceed with the Alon project, it stated that these steps were being taken to reduce Crown's net debt by approximately \$800 million, return funds to shareholders, via a special dividend and undertake a share buy-back. These substantial changes in strategic direction and leadership occurred between the detention of employees in China and the release of employees from China. As noted in the Sixth Review of the Casino Operator and Licence report, at the CRL annual general meeting in October 2017 Mr Packer stated that the detention of Crown employees in China "*forced the directors' hands to a large degree*" to exit the Macau market.

Governance - Crown's lack of analytical review and lack of explanation

487. Crown stated that the detention of Crown staff in China was "*out of the blue*". Crown submitted to the Commission that it does not know why its staff were singled out for enforcement action. Crown stated that the reasons have been the subject of media speculation and conjecture, but the reality is that there is no statement, official or informal, from relevant Chinese authorities.
488. At interview, the Commission asked Mr Craigie, Mr Chen, Mr Felstead and Mr O'Connor why they thought Crown staff were detained in China. None of the senior executives of Crown could provide an explanation or were prepared to give any view with hindsight.
489. One Crown witness (a former Crown employee in China) stated that he believed it happened because Crown was becoming too big in promoting Crown Casinos within China. He commented that there were over 100 people promoting overseas casinos in China at that time, but Crown were the "*Big Fish*" and the Chinese government wanted to make an example out of Crown.
490. Crown has not publicly made any statement regarding the circumstances that led to the detention of its staff in China.

The Commission asked Crown to provide a copy of any papers, reports or other documentation prepared for/or by the senior executive management and/or CRL Board setting out any analysis of the circumstances that resulted in the detention and conviction of staff, or recommendations to implement new or revised arrangements in, policies, procedures, strategies or other initiatives. Crown responded that there were no papers, reports or other documents setting out an analysis of the circumstances that resulted in the detention and conviction of its staff, although Crown has relied, since October 2016 on legal advice on how best to respond to the detentions and related matters (including the class action). In terms of any recommendations, or new or revised policies Crown referred to the information above regarding the operational changes in relation to the VIP Department.

491. On the evidence presented, Crown states that the arrests and detention of its staff were unforeseeable, yet to date Crown has not undertaken any critical analysis and evaluation of its operations, decision-making and strategy and what actions by Crown

Draft Confidential Report – not to be disseminated – version 28 May 2019

might have contributed to the situation that eventuated. Whilst Crown has acted to make substantial change to mitigate the risks by removing staff from China and restricting travel to China – this can be only part of an effective response to such a significant event.

Conclusions regarding disciplinary action

492. The regulatory framework for the Melbourne casino is prescribed in the CC Act, the *Gambling Regulation Act 2003* and the *Victorian Commission for Gambling and Liquor Regulation Act 2011*.
493. The grounds for disciplinary action are set out in section 20 of the CC Act. The relevant grounds applicable under section 20 are that the casino operator is no longer suitable to hold the casino operator licence or it is no longer in the public interest that the casino operator licence remain in force. There is a very high threshold required to be met for a regulator to determine that a licence holder is no longer suitable to hold a licence, or that it is no longer in the public interest that the casino licence remain in force. Conduct of the most egregious kind may meet such a threshold. If one of these grounds are established, then the appropriate disciplinary action would be to cancel the casino operator's licence held by CML. Cancellation of the licence is the most severe disciplinary action open to the Commission and would have drastic ramifications for all Crown employees, contractors, suppliers, shareholders and businesses operating in the casino complex and for the Victorian community, with substantial financial, economic, employment and tourism consequences.
- Suitability**
494. In assessing whether CML remains suitable to hold the casino operator licence the Commission was guided by the purposes of the suitability assessment and the matters set out in section 9 of the CCA. The key purposes of the system of licensing, supervision and control is:
- ensuring that the management and operation of casinos remains free from criminal influence or exploitation
 - ensuring that gaming in casinos is conducted honestly, and
 - promoting tourism, employment, and economic development generally in the State.
495. The CC Act does (in section 9) provide substantial guidance as to the matters to be examined. In relation to the casino operator and its associates, these are whether:
- they are persons of good repute, having regard to character, honesty and integrity
 - they are of sound and stable financial background, and
 - their business associations are appropriate having regard to character, honesty and integrity and the desirability and satisfactoriness of their financial resources.

In relation to the casino operator alone, these are whether:

- it has a satisfactory ownership, trust or corporate structure
- it has financial resources that are adequate to ensure the financial viability of the casino and has the services of persons who have sufficient experience in the management and operation of a casino

Draft Confidential Report – not to be disseminated – version 28 May 2019

- it has sufficient business ability to maintain a successful casino, and
 - each director, executive officer and secretary and any other relevant officer is a suitable person to act in that capacity.
496. The Commission has considered all the circumstances surrounding the detention, conviction and imprisonment of Crown staff in China as described above .
497. The Crown executive management and Boards were informed and understood that Crown in Australia had seen a record increase in VIP gamblers from China. Based on this information, Crown implemented a business strategy to take advantage of this trend and dedicated significant resources, staff, and marketing activities to reap the profits from these Chinese citizens travelling to Australia.
498. However, Crown’s executive management, relying on external government relation advice and legal advice, failed to monitor and identify the warning signs that the Chinese authorities were cracking down on foreign casinos marketing in mainland China to attract Chinese citizens to gamble overseas. Crown’s executive management did not appear to identify the changing environment in China, and as discussed above, the most significant manifestation of this policy change was in July 2015 when Crown staff employed in mainland China were interviewed by Chinese police regarding organising gambling, and police requested an employment confirmation letter from Crown.
499. The failure by senior executives responsible for international marketing in China to identify and monitor the changing regulatory environment in China regarding the activities of foreign casinos, led to a failure in governance as the CML Board and CRL Board were not informed of the changed conditions in China. Further, the risk management systems were not engaged for various reasons, but primarily because the executive management did not appreciate the changed environment in China in relation to the activities of foreign casinos which increased the risks to its staff and business in China. Rather, the Boards approved increasing resources for Crown’s marketing activities (including staffing, budgets and targets) in mainland China to enhance the returns for the company, but were not briefed of the potential risks to Crown’s staff and business in mainland China, and therefore made decisions without being properly informed. Furthermore, Crown publicly announced in Australia the success of its business strategy to attract Chinese citizens to its casinos, which may have increased the prominence of Crown in China and the risk to its staff and its operations in China. Better reporting to the Board would have allowed it to reconsider its strategy in China.

Public Interest

500. Section 20(1)(e) provides that there is a ground for disciplinary action where, for specified reasons, it is considered to be no longer in the public interest that the licence should remain in force. The expression “*public interest*” has a specifically defined meaning in the CC Act:

public interest or interest of the public means public interest or interest of the public (except in section 74) having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations.

Draft Confidential Report – not to be disseminated – version 28 May 2019

501. Therefore, the Commission is not satisfied that a ground for disciplinary action is established under section 20(d) or (e) of the CC Act.

Other disciplinary grounds

502. There are no other disciplinary grounds under the CC Act to take regulatory action against Crown in relation to the imprisonment of Crown staff in China. Crown did not contravene any provisions of the CC Act or other Victorian gambling legislation and other grounds for disciplinary action are not relevant.
503. The Commission considered in light of the findings above, that no regulatory action should be taken under the CC Act.

Recommendations

504. The Commission has made a number of recommendations, after having regard:
- to the significance of the events that resulted in Crown staff being imprisoned in China
 - the importance of a casino operator, and its staff, complying with all laws in all jurisdictions in which the casino operator is undertaking casino related activities; and
 - acknowledging the public interest for the Victorian community to have confidence that the casino operator is an accountable, trust worthy and credible corporate citizen.

Recommendation 1: The VIP International Department of Crown (and other departments of Crown that conduct activities in China or other Asian countries) to provide the CML Board and CRL Board regular six monthly written reports. These reports should provide information about:

- Crown's operations in China and other Asian countries, (including the nature and extent of operations)
- the current events and foreign political policy relevant to marketing and other Crown activities (including activities of contractors or agents etc) in China and other countries
- the protocols (and any changes) in operation related to marketing, regulatory developments and compliance and other activities in those countries
- any engagement with law enforcement or other government agencies in those countries (if any)
- expert external advice received by Crown regarding its operations in those countries,
- the level of gambling turnover from citizens from those countries, and
- other matters relevant to Crown's operations in those countries.

These reports should commence at the earliest opportunity, or by 30 June 2019 at the latest.

Recommendation 2: The compliance officer in Hong Kong (and in any other overseas offices) provide regular six monthly written reports to CEO of Australian Resorts and the CRL Risk Management Committee regarding the activities of the compliance officer in Hong Kong to ensure compliance by Crown with all laws in the Asian region. These reports should be incorporated into Crown risk management framework. These reports should commence at the earliest opportunity, or by 30 June 2019 at the latest.

Draft Confidential Report – not to be disseminated – version 28 May 2019

Recommendation 3: That Crown engage an independent risk expert, approved by the Commission, to review Crown’s risk management framework, including all relevant documentation and processes, and provide an assessment of the effectiveness of the risk management framework (including the identified risks and mitigation controls) in relation to Crown’s activities and operations in all Asian countries. The risk assessment should be provided to the Commission, along with any revised Crown risk management documentation, (including its risk profile, appetite, management plan, policies and charters of risk management committees) that have been implemented as a result of the review. This recommendation should be implemented by 31 December 2019.

Recommendation 4 A copy of this report is delivered to every current Board member of CML and CRL.

Draft Confidential Report – not to be disseminated – version 28 May 2019

Glossary

ASX	Australian Stock Exchange
PSB	China's Public Security Bureau
CCA	<i>Casino Control Act 1991</i>
Commission	Victorian Commission for Gambling and Liquor Regulation
Court	Shanghai Baoshan District People's Court
CML	Crown Melbourne Limited, a subsidiary of Crown Resorts Limited. It is the holder of the casino operator licence under the Casino Control Act for the Melbourne casino
CRL	Crown Resorts Limited. It is an Australian public company and Crown Melbourne Ltd's ultimate holding company.
Crown	This expression is used in the report where it is not necessary or helpful to distinguish between Crown Resorts Ltd, Crown Melbourne Ltd or Crown Resorts Pte Ltd
CRPL	Crown Resorts Pte Ltd (Hong Kong). It is registered in Singapore and a subsidiary company of Crown Melbourne Ltd.
F13 or FY13	Financial year 1 July 2012 to 30 June 2013
F14 or FY14	Financial year 1 July 2013 to 30 June 2014
F15 or FY15	Financial year 1 July 2014 to 30 June 2015
F16 or FY16	Financial year 1 July 2015 to 30 June 2016
F17 or FY17	Financial year 1 July 2016 to 30 June 2017
F18 or FY18	Financial year 1 July 2017 to 30 June 2018
Junket	An arrangement whereby a person is, or a group of people, are introduced to a casino by a junket operator or promoter who receives a commission based on the turnover of play in a casino attributable to the person introduced by the organiser or promoter or otherwise calculated by reference to such play.
Melco	Melco Resorts & Entertainment Limited (formerly Melco Crown Entertainment Limited until 9 May 2017) was the vehicle for the joint venture between Crown Asia Investments Pty Ltd and Melco Leisure and Entertainment Group Limited for the development of casinos in Macau and the Philippines
Minister	Minister for Consumer Affairs, Gaming and Liquor Regulation
MPS	China's Ministry of Public Security
Sixth Casino Review	The Sixth Review of the Casino Licence and Operator undertaken by the Victorian Commission for Gambling and Liquor Regulation in 2018.

Draft Confidential Report – not to be disseminated – version 28 May 2019

Annexure A – Crown organisation chart

Annexure B – Court Judgement

Redacted copy of the English translation of the judgement of the Shanghai Baoshan District Court

Annexure C – CCTV media report transcript

Annexure D – Timeline

Annexure E – Escalation Chart