



Victorian Commission for  
Gambling and Liquor Regulation

## Crown China Investigation Addendum Report

TRIM ID:

<b>To:</b>	Stephen Berriman, Director, Compliance Tim Leddra, Manager, Compliance		
<b>CC:</b>	Scott May, Acting Director Legal Services Amy Rudolph, Acting Manager Legal Services		
<b>From:</b>	Tim Bryant, Team Leader, Compliance		
<b>Division:</b>	Compliance		
<b>Subject:</b>	Crown China Summary Investigation Report – Further Crown material supplied on 7 June 2018	<b>Date:</b>	8 June 2018

### Purpose

1. To provide a report regarding further documents provided by Crown Melbourne Limited (**Crown**) on 7 June 2018 in relation to the Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) investigation regarding the detention of Crown staff in China.

### Background

2. On 7 June 2018, Crown advised that:

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

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

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

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

### Crown's response to the Notice

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

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

- (a) Documents that have previously been provided to the VCGLR and

- (b) Documents that record legal advice that is subject to legal professional privilege which Crown does not intend to waive.

*Additional materials*

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

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

**Crown documents provided on 7 June 2018**

5. As the Commission, would be aware, Inspectors conducted interviews with key Crown staff between 8 March 2018 to 10 May 2018.
6. On 7 June 2018, Crown provided 16 emails or email 'chains' purportedly pursuant to the Notice. The emails date from 5 February 2015 to 5 October 2016. The vast majority of the emails are correspondence between key Crown staff being Michael CHEN (CHEN), Barry FELSTEAD (FELSTED) and Jason O'CONNOR (O'CONNOR).
7. For the purposes of this report, I have detailed correspondence which highlights risk considerations and mitigation related to operating in mainland China that have not been previously disclosed. The emails shed greater light on what has been previously disclosed and/or is directly relevant to responses at interview.

**Email 1: 7 February 2015 China's President just declared war on global gambling**

8. An Email chain dated 7 February 2015 relates directly to the Reuters news article headed '*China's President just declared war on global gambling*' (**the news article**).
9. On 7 February 2015, CHEN emailed O'CONNOR and cc'ed FELSTEAD under the email subject heading 'Re CORRECTED – CHINA to crack down on foreign casinos seeking Chinese gamblers.' The email attached the news article (which was put to CHEN, O'CONNOR and FELSTEAD at interview. FELSTEAD replies to CHEN and O'CONNOR '*another good challenge for you both.*'
10. CHEN responded to FELSTEAD and cc'ed O'CONNOR, stating:

*'For us. This suggests we may need to delay our plans on establishing physical office presence in China. Also, this raises the alert level on the safety of our staff. Recently, Nelson WONG from MGM immediately left China when he heard news of increased scrutiny on overseas casinos. We need to assess the threat level. We should also discuss this week on our call the increasingly serious issues our customers are facing in moving funds to repay debts. I have a good case study to go over.'*

11. When interviewed, CHEN (Q239) said he could not recall specifically discussing the news article with O'CONNOR or FELSTEAD.
12. In relation to other casinos pulling out of China or changing how they operated in China, CHEN said:

*'Q 267 So after from around 2015 onwards, were you aware of other casinos considering pulling their sales staff out of China?*

*A No. We had heard one company, I think it was Las Vegas Sands who transitioned employees to be consultants but other than that.'*

13. At interview, FELSTEAD said in relation to the news article:

*Q71 'I hadn't seen that particular one....' and that '...I didn't sense any...I didn't sense any great trepidation in visiting China. As long as we followed the guidelines we had laid down.'*

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

*Q251 He was aware of a general anti-corruption crackdown but 'A specific crackdown on the casino industry? No'. O'CONNOR stressed he understood it to be a crackdown on corruption and that he couldn't recall specific discussions about it with CHEN or FELSTEAD.*

#### **Comments regarding Email 1:**

15. The correspondence and interviews indicate and confirm:

- an escalation of risk in China that Crown were considering to mitigate through delaying plans to establish a physical presence in China. This is contrary to FELSTEAD stating he didn't sense any trepidation in travelling to China,
- that CHEN felt the need to reassess the threat level to staff,
- that other casino operators (for example, MGM) immediately left China when they heard the news of increased scrutiny on casinos and that Crown was aware of this. This is contrary to CHEN's recollections at interview, and
- that the thrust of the article and news was not just related to 'corruption' but clearly in relation to overseas based casinos and was considered the same by Crown.

#### **Email 2: 11 February 2015 'Agenda for today.'**

16. This email appears to be an agenda for a meeting or phone hook-up between O'CONNOR, FELSTEAD, CHEN and Ishan RATNAM.

17. At point 2 of the Agenda it states:

*'Industry chatter re marketing crackdown  
Avoid travel to mainland China for a while.'*

At point 4 of the Agenda it states:

*'Offices in China  
Defer'*

### Comments regarding Email 2

18. The correspondence indicates that Crown was aware of an escalating risk environment at this time and took some mitigation steps, namely, avoiding travel to mainland China for a time period and deferring the opening of their China based offices.

### Email 3: 20 February 2015 email 'March Roadshow Schedule'

19. Email from O'CONNOR to CHEN on 20 February 2015 asking '*Are you (we) comfortable with folks travelling through PRC at the moment?*' There is no response and there is an attached timetable from Ari LEE (a Crown sales staff manager) detailing a roadshow to occur in March 2015.

### Email 4: 23 March 2015 email 'Detention'

20. An email was sent from CHEN to O'CONNOR on 23 March 2015. The subject of the email was "Detention" and it was flagged with a high importance level. It stated:

*'In the event that I am detained in China during any payroll payment period, please note that I am providing Crown instruction to divide my paycheck (both salary and allowances and expense reimbursements) into 3 payments.'*

[The email goes on to list the accounts and concludes]

*Thanks. This is simply for the abundance of caution.'*

### Comments regarding Emails 3 and 4:

21. These emails indicate a further increased escalation of risk. In particular, it appears that CHEN was communicating to O'CONNOR what actions should occur if he were to be detained. It is not clear what detention CHEN is referring to, but it is not unreasonable to conclude that he was referring to detention by the Chinese authorities.

These emails also invite questions regarding:

- whether Crown's other China based staff were advised of this risk and offered the same opportunity to direct their payments if they were to be similarly detained, and
- the extent to which concern regarding detention was escalated further within Crown i.e. that an Executive in CHEN considered that he was at risk of being detained and took steps to safeguard his remuneration situation, and communicated this to O'CONNOR.

### Email 5: 5 October 2016 email headed 'Intel from MBS'

22. An email dated 5 October 2016 from O'CONNOR to FELSTEAD, CHEN and RATNAM stated:

*I learnt today that MBS have withdrawn their staff fully from China, Indonesia and South Korea. No staff visit Indonesia or South Korea (by company policy) China marketing staff are based on Hong Kong and are permitted to enter China, but must see customers one-on one.*

*MBS explored staffing India some time back but after a legal review, decided it was legally too risky (apparently, there are some very harsh penalties for marketing gambling in India.)*

23. MBS presumably refers to the Marina Bay Sands casino based in Singapore. There are no responses to this email. O'CONNOR was first reported as being detained on 15 October 2016, 10 days after he sent this email.

24. In this regard, Crown, in putting its position to the VCGLR, on 6 June 2018 stated:

*'All foreign casinos and junket operators with operations in China, including Star and SKYCITY reached the same ultimate conclusion as Crown that, prior to October 2016, withdrawal of China based sales staff was not warranted. 'Second guessing Crown's position involves challenging the view taken by the whole industry, which would not be occurring but for the detention of Crown staff.'*

#### **Comments regarding Email 5**

25. At no stage at interview have any Crown executives, including O'CONNOR, raised O'CONNOR's email and/or this scenario (the withdrawal of another casino operator from China) occurring at this time (i.e. immediately prior to the arrests of Crown staff). It is unknown if the MBS withdrawal was due to fear of action by Chinese authorities or for some other business decision. If MBS' decision was based on concern regarding Chinese authorities, it is concerning that:

- Crown have never mentioned it in emails or at interview. Presumably, it would in the forefront of O'CONNOR's mind after he was detained,
- There is no indication or documentary evidence that it was discussed, escalated or the subject of risk advice from Mintz, and
- According to O'CONNOR's email, other operators did in fact withdraw from China prior to the detention of the Crown staff, whereas Crown has argued that it was simply acting in a way similar to other casino operators in China.

#### **Overall comments**

26. The recently provided documents strengthen the findings of the Crown China Summary Investigation Report. They highlight additional risk incidents, mitigation strategies (including avoiding mainland China and delaying setting up offices there), the possible concern held by CHEN in 2015 that he may be detained (and the communication of this concern to Crown) and a clear sense that Crown were aware of a Chinese Government crackdown on gambling from February 2015 onwards.

27. The emails suggest that, at interview, Crown executives have not been as forthright as possible regarding their recollection of certain key incidents including the February 2015 crackdown and other casino's changing operations or withdrawing from of China. The emails may have assisted them to recall key events at that time.

28. These documents are clearly of interest to the investigation and would have been put to the interviewees at interview and their views would have been sought in relation to those documents. For example, in relation to Email 4, questions would have been put about what

CHEN meant by "detention" and what led him to decide to draft this email. Had the emails been disclosed to the investigators prior to the interviews, this could have occurred.

### Recommendations

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

  
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