



Tuesday 19 June 2018

Ms Catherine Myers
 Chief Executive Officer
 Victorian Commission for Gambling and Liquor Regulation
 Level 3
 12 Shelley Street
 RICHMOND VIC 3121

Dear Ms Myers

Sixth Review of the Casino Operator and Licence - China Investigation

I refer to your letter dated 8 June 2018 and your letter to Mr Felstead of 15 June 2018 concerning the VCGLR's investigation into the detention of 19 former Crown Group staff in China in October 2016.

I write to object, in the strongest possible terms, to the inclusion of any commentary in the VCGLR's Sixth Review Report relating to the China Investigation.

The draft 'Suitability' text enclosed with your letter of 15 June 2018 says:

'The VCGLR's investigation remains ongoing as Crown has continued to disclose relevant documents as late in the Review Period as June 2018. However, the matter is of sufficient interest, and the VCGLR's findings to date are sufficiently aligned with the areas for improvement identified in the course of the review, for the VCGLR to make provisional observations and preliminary findings on the basis of information of available to date'.

The Investigation is incomplete. As for previous VCGLR review reports, and in accordance with the principles of procedural fairness, no reference should be made to any incomplete investigation (other than perhaps to say that an investigation is still under way). The VCGLR should not be making any comment whatsoever to the Minister, provisional or otherwise, until Crown and Mr Chen (who has separate counsel acting for him in the US) have been afforded a proper opportunity to respond fulsomely to the Compliance Division staff's summary report, many aspects of which Crown strenuously disputes.

The above text (and similar text in the earlier version) is of grave concern to Crown, as it is strongly suggestive of the VCGLR having already formed adverse views in advance of receiving a response from Crown (and Mr Chen). Such prejudgment is in flagrant disregard of procedural fairness.

The draft text goes on to say:

'For the purposes of its considerations, the VCGLR has accepted the admissions of guilt at face value and, despite there being no charges naming Crown Melbourne or Crown Resorts as defendants, takes the view that those entities are responsible'.

Crown strongly disputes that the VCGLR is entitled to take guilty pleas in China 'at face value' or that Crown Melbourne or Crown Resorts can be deemed to be responsible in some generalised way for unspecified conduct.



It is wrong in law and principle for the VCGLR to completely disregard the unchallenged evidence of the persons interviewed as to why they pleaded guilty (under duress, to minimise time in detention), and to reject the clear statement by the most senior detainee, Jason O'Connor, that he personally did not organise a single customer to gamble at Crown, or ever receive any commission).

Enclosed are relevant extracts from the testimony of Jason O'Connor in relation to these aspects. Has the VCGLR purported to conclude, provisionally or otherwise, that Jason O'Connor organised 'gambling parties' of more than 10 Chinese citizens to gamble at Crown and sought or received a commission for doing so in breach of the VCGLR's interpretation of the relevant Chinese law? If so, on what basis? (Incidentally, we observe that the VCGLR's translation differs materially from that alleged in the class action, and the reality is that there is no authorised English translation).

The draft text quotes a translation from a programme on an unspecified Chinese television station in October 2015, from which it is said that the VCGLR can provisionally conclude that Chinese authorities were open about their concerns and their interpretation of the laws. With respect, reading the transcript of a single television programme is not a sound foundation for drawing any conclusions about how Chinese authorities interpret or enforce their laws.

The draft text further makes general comments about responsibility for identifying and managing risks associated with operations in China being delegated to 'China-based staff' and then criticises them for not having 'put together' unspecified matters and referred them to senior management and the directors in Australia for noting, analysis or other decisions. This could be read as suggesting that the local staff brought the detentions on themselves.

The text goes on to speculate about Crown's financial performance perhaps attracting the attention of Chinese authorities, and that senior managers and directors in Australia might have made a different risk assessment in different circumstances, leading to some unspecified change of operating model to avoid the detentions. This is just conjecture, not evidence-based analysis.

From this speculation, the VCGLR concludes that the detentions were 'foreseeable as a distinct possibility'. This conclusion completely overlooks the following propositions:

- (a) Crown believed at all times leading up to the detentions in October 2016, on reasonable grounds, that Crown group staff were operating in a manner which did not breach the relevant Chinese law prohibiting the organisation of 'gambling parties' (or similar English translation);
- (b) it sought both legal advice and government affairs advice at appropriate times to ensure that it had a sound understanding of the relevant law and enforcement of it;
- (c) Crown believed that the staff or contractors of other foreign casinos, including the two other ASX-listed casinos operators in Australia and New Zealand, the Star and SKYCITY Entertainment groups, US casino groups and Macau-licensed junkets, were operating in substantially the same way as Crown group staff;
- (d) Crown understood, on the basis of the independent government affairs advice it obtained, that the detention and subsequent arrest of South Korean casino staff in June 2015 was as a result of them engaging in activities other than general casino marketing activities of the kind undertaken by Crown group staff and the staff of other western-licensed casinos and Macau-licensed junkets;
- (e) Crown's understanding in this regard is supported by the senior executive of MGM Grand to whom the VCGLR spoke, who is reported as saying that MGM Grand also understood that the South Korean casino staff were operating in a significantly different manner;
- (f) no evidence has emerged from the VCGLR's investigation to contradict the understanding shared by Crown and MGM Grand (and probably many other operators) that the detention of the South Korean casino staff did not have adverse implications for staff engaged in general casino marketing activities;



- (g) moreover, to Crown's knowledge, no regulator of any foreign casino or junket operator raised any issue concerning general casino marketing activities in China as a result of the detention of the South Korean casino staff or as a result of any of the media reports on which the VCGLR relies;
- (h) there were no reports of other detentions of the staff or contractors of any foreign casino or junket operator or other enforcement action by Chinese authorities in the period of 16 months between the detention of the South Korean casino staff and the Crown group staff;
- (i) prior to the detention of Crown group staff, there was therefore no sound foundation for Crown (or other foreign casino or junket operator) to decide to withdraw staff or to cease regular visits by senior executives; and
- (j) no different assessment would have been made logically on the basis of the information then available, if matters had been 'elevated' further in the way that the VCGLR evidently considers they should have been.

On this basis, Crown maintains in the strongest possible terms that it is premature and prejudicial for the VCGLR to make any observations, provisional or otherwise, in the Sixth Review Report in relation to the ongoing China Investigation.

We are preparing a separate response to the draft summary report of the Compliance Division Staff Report. We will send that to you separately.

Yours sincerely

John Alexander
Chairman
Crown Melbourne Limited

Q404. Interview recommenced. Do you agree, Jason, the time is 3.01?

A Yes, I agree.

Q405. Okay. You said before that you pleaded guilty?

A Yes.

Q406. Why was that?

A Well, I was advised to plead guilty, but it was explained to me that - well, I had the choice, I could choose to defend myself against the allegations but that would mean a very lengthy process. I could expect to stay in detention until the date of the trial, and that could take - that could take 18 months or more just to get to trial. And I knew that because other people that I was sharing a cell with were going through that process. They were waiting 18 months or more just to get to the start of the trial process. So while I could choose to defend myself, I would have to be prepared for a very lengthy process, and at the end of that process there were no guarantees. My lawyers felt and I certainly felt that I had done nothing wrong, and I still feel that. I had done nothing wrong, so there was the temptation to obviously defend myself. But practically speaking that meant being there a very long time with no certainty to the outcome. So whilst we were all - I was of the view and my lawyers were of the view that I hadn't breached these relevant laws, that didn't really matter. That I would be - there was a very high risk that I would be found guilty

regardless, and if you are found guilty after pleading not guilty then you will receive a longer sentence. The choice was clear. My choice was clear. And you would plead guilty, get out soon, or you defend yourself but be prepared for a long stay. It's a no-brainer.

Q407. So prior to your arrest and detention, what was your knowledge of the Chinese laws relating to the duties you were performing?

A Well, they - again, largely based on the law as explained by Michael Chen after he received advice from his local lawyers, and he described to me in general terms here, and of course I'm paraphrasing, but my understanding at the time was that it was illegal to promote gambling. By promote gambling, I understood that to mean advertise very obviously gambling. It was illegal to gamble in China, (indistinct) to gamble in Australia, not in China. And there was two more references. One was to groups of ten or more people, and the other was for sort of receive commissions, or kickbacks. So I mean, that's layman's terms, but that was my understanding of the law. So you can't advertise gambling in China, you can't gamble in China, you can't organise trips for ten or more people to gamble. You can't take kickbacks or commissions from customers.

Q408. In relation to the ten or more, was that considered in one trip or accumulative?

A Well, we understood it to mean one trip. So you

MR PRESTON: I think he's answered you fairly.

MR BROWN:

Q457. And that's what I'm saying, it's not a drill, it's not. I'm just trying to get your view - - -

A Let me try to clarify, to help you understand what I'm trying to explain. We try to position Crown as a property, as a proposition, as not a discounter.

Q458. Okay.

A Okay? Now, that might say - it might refer to aggressive - we want to be flexible. If a customer comes to us and says, Sydney's offering me this and I will not come to you unless you offer me X plus Y.

Q459. Okay.

A All right? We will consider that and think of the benefit to the business. But we do not want to be seen as a supermarket discounter. We do not want to be seen as Aldi.

MR BROWN: I get it, that's fine. I'm not going to labour the point any more. It's fine. Maybe (indistinct) would be more competitive.

MR PRESTON: Can I also make the point that you got two in health and safety in directing our people?

MR O'CONNOR: Thank you.

MR PRESTON: I don't want to labour it.

MR O'CONNOR: No, no. (Indistinct) pointing out my deficiencies.

MR PRESTON: That's all right.

INSPECTOR BRYANT:

Q460. In being arrested and sentenced in China for what

was anti-gambling laws, do you think that affects your suitability as a casino licensee and employee?

A No.

Q461. Why not?

A Well, it's a fit and proper person test, and I don't think that I don't think that I am any less fit or any less proper given what I have been through. My integrity is what it is. It's still a very high professional (indistinct). For all the reasons that I was appointed to this position - remember I'm a chartered accountant by training and finance trained, I'm not a casino marketing exec. I'm not one of those guys. For all of those reasons that I was considered appropriate for the position in the first place, they still apply. I don't think I did anything wrong. I don't think I breached laws in China, despite the fact that I plead guilty. That was for practical reasons to get me out of that place and to get me back home. I don't think I broke the Chinese law. My lawyer in China doesn't think I broke the Chinese law. The Chinese system is what it is. You try to understand it, you might get it right. The Chinese law is what some guys says it is on a particular day, and that's what caught us.

Q462. In relation to risk assessment and all that, in hindsight, where do you see is the failings that led to your arrest?

A Well, I think we did just about everything that we could realistically be expected to do. We were

aware of the issues, we sought advice, we consulted, we considered, we shared advice with our staff, we developed policies and procedures to address all of those. I think we did about everything we could do. It's hard - it's hard to tell you where we failed. I still don't - and there's a political thing to this, I think. We will never know why this occurred. We will never know why they targeted our team. We will never know why they targeted me. Others were doing - others were doing the same thing. Others were far more obvious than we were, and far more aggressive than we were. Others were far less disciplined than we were.

Q463. When you're saying others, what others?

A Other casino operators working in the Chinese market, like us. You know, we would hear from our customers what our competitors were doing. So we developed disciplines, we developed procedures, we sought advice from various sources. We believed we had a good handle on the situation based on all those advices and inputs. What were failings? I suppose the key failing, if that's what you would refer to it as, was that I, or we, didn't fully understand that the Chinese system is very, very different from the Western system and they can do whatever they want. If they decide they want to put a team of casino employees in prison, then they will, whether it's offending the Chinese laws or not. Now, as I've said before, I don't think I

offended any of those laws. I didn't organise groups of ten or more. I didn't receive any financial kickbacks in relation to that. I wasn't promoting gambling in China. I don't think I've done anything wrong, and I don't think that I am now any less fit and proper to hold a casino licence.

INSPECTOR BRYANT: I'm happy to conclude the interview now.

Your opportunity, is there anything else you'd like to say further in relation to the matter? You're allowed - do you want to have a glass of water?

MR PRESTON: Can I perhaps ask you one thing, Jason?

MR O'CONNOR: I can.

MR PRESTON: It's clear you had - you, you know, placed a fair (indistinct) of reliance on Michael Chen and you dealt with Michael over the course of five plus years. Did you ever have any reason over that five plus years to, you know, doubt his capacity to keep you informed about anything that was appropriate to keep you informed about or make judgements on (indistinct)?

MR O'CONNOR: No, no, I didn't. I placed a lot of trust in Michael. He - he was - we recruited him because we felt he was very suitable for the role. He was highly educated, Harvard educated. He's worked for some blue-chip consulting organisations. He has spent time living and working and Hong Kong, Macau, Shanghai. He speaks the language. He's connected both within the industry and outside the industry, politically. I always felt he was the right guy

for that role, for a number of reasons, and I had a good relationship with him. I have no reason to believe that he was withholding information, for example. I have no reason to believe that he was being dishonest with what he was saying. In fact, I felt a high level of trust. We had a strong relationship. We worked closely together. We would talk regularly. He would share with me what he saw the issues being. We worked together in developing strategies and initiatives to deal with those issues, including some that were discussed today. So I did place a lot of trust in Michael, but I thought that was well-based given our relationship, given the way we'd worked together, given my experiences with him and given his qualifications for that role.

INSPECTOR BRYANT:

Q464. Once again, is there anything further, Jason?

A Nothing further. No, I think I've - during the course of today probably addressed everything that I felt was - needed to be addressed. If I said anything more, I'd probably just be repeating myself.

Q465. Okay. Have you been happy with the way this interview has been conducted?

A Generally, yes. Yes.

Q466. Have you got any specific concerns now that you'd like to raise in relation to the way it's been conducted?

A Well, I've got some concerns about when it comes to

the matter of suitability for continuing to hold a casino licence. That cuts to some pretty core issues to me. It's my livelihood. It's a professional reputation issue for me as well. They're important issues for me. I understand why you must want to consider that, but I can only reiterate the points I made before. I am no less suitable now to hold that licence than I was earlier. Yes, I now have a criminal conviction. But in the context of where that conviction comes from, and why I submitted a guilty plea, I think you'd understand why that happened and why I did what I did. And I'll reiterate to you, I don't think that I did anything wrong.

Q467. Okay.

A Other than being - other than being in a situation where it was practical to plead guilty to something that I didn't think that I was guilty of in order to get me out of a very difficult situation and back home to my family.

Q468. Has any threat, promise or inducement been held out to you to make the answers you have given during the course of this interview?

A No. Josh.

MR PRESTON: I haven't threatened anyone, I can promise you that.

INSPECTOR BRYANT: Always worth asking.

MR PRESTON: (Indistinct.)

INSPECTOR BRYANT: Do you agree that the time is now - - -

MR O'CONNOR: Anything else before we sign off?