



Crown Melbourne Limited Compliance Committee

Tuesday, 2 June 2020 – 11.00am

By videoconference

Attendees: Professor John Horvath (Chair), Rowena Danziger, Ken Barton

Also Invited: Barry Felstead, Michelle Fielding, Mary Manos, Joshua Preston

Apologies:

AGENDA

- 1. Minutes of Previous Meetings**
 - 1.1. [Confirmation of Minutes of the meeting on 30 January 2020](#)
- 2. Compliance and Regulatory**
 - 2.1. [Compliance and Regulatory Update](#)
 - 2.2. [Section 25 Recommendations Update](#)
- 3. [Litigation Report \(Subject to Legal Professional Privilege\)](#)**
- 4. [Anti-Money Laundering/Counter Terrorism Financing Update](#)**
- 5. [Media Coverage](#)**
- 6. Other Business**



AGENDA ITEM 1:
Minutes of Meeting



MINUTES
CROWN MELBOURNE LIMITED COMPLIANCE COMMITTEE
HELD AT THE CHAIRMAN'S OFFICE, LEVEL 3, CROWN TOWERS
THURSDAY, 30 JANUARY 2020
11:00AM

IN ATTENDANCE:

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|--|---|
| Committee: | <p>Professor John Horvath (Chairman) Rowena Danziger (by phone)</p> <p>Joshua Preston (Co-Company Secretary) Mary Manos (Co-Company Secretary)</p> |
| Invitees: | <p>Ken Barton (CEO – Crown Resorts) Michelle Fielding (GGM Regulatory & Compliance)</p> |
| Apologies: | <p>Barry Felstead (CEO – Australian Resorts) John Alexander</p> |
| Minutes of Meeting | <p>The Minutes of the Meeting of the Compliance Committee held on 20 November 2019 were approved.</p> |
| Business Arising | <p>There was no business arising.</p> <p>It was noted that Mr Alexander's resignation as a director of Crown Melbourne Limited took effect from 24 January 2020.</p> <p>Professor Horvath has requested a review of the formatting of the Committee papers, to highlight new material matters for noting and new matters for action/decision making, at the outset of the papers.</p> |
| Compliance and Regulatory Update: | <p><i>Compliance Issues</i></p> <p>The Compliance and Regulatory Update was taken as read.</p> <p>Mr Preston noting the following Compliance matters:</p> <ul style="list-style-type: none"> ➤ Crown Melbourne's writing off of a significant amount of bad debts in June 2019. The VCGLR has queried Crown's treatment of the debts. The <i>Casino Control Act</i> requires bad debts above \$5M in value to be approved by the VCGLR prior to being discharged. Crown did not seek the VCGLR's prior approval, as the debts were not discharged as they remain active in the system and Crown retains the right to recover the debts where possible (a number of the debts have been recovered since |

being written off). The VCGLR has escalated the matter and is seeking external legal advices.

- A letter received from the VCGLR, concerning a 1c & 2c Poker Machine sign was displayed on a pillar outside the boundary of the Casino. [REDACTED - PRIVILEGE]
[REDACTED - PRIVILEGE]
- An incident involving a valet driver, who lost control of a vehicle, which had been modified for an amputee. The vehicle was accidentally driven at speed through the front window of Louis Vuitton and although no one was injured, the driver was taken to hospital for observation. Modified vehicles will no longer be driven by valet drivers and will instead be parked above ground by their owners.
- The VCGLR has made further enquiries concerning Junket Operators and Premium Players that have been the subject of adverse media, which required Crown to provide details on the decisions made as to the continuing business relationships with these persons. Responses to the requests presented some challenges due to the historic nature of the material requested.
- An issue was identified with a certain type of Roulette wheel in operation on the gaming floor. Approximately 13 years ago, the manufacturer of the Roulette wheel delivered a version of the product that was different to the version approved by the Regulator and ordered by Crown. The difference was not visible to the eye and Crown was not aware of being supplied different wheels until recently. The Regulator is aware of the version issues, which has led to a regulatory review of the versions of the Roulette wheels.

Serious Security & Surveillance Matters

The Security and Surveillance Matters were taken as read.

Regulatory Matters

Mr Preston noted the following Regulatory matters:

- The Australian Banking Association published a consultation paper for the use of credit cards for gambling transactions, calling for submissions by 31 March 2020 on how the banking industry can assist in minimising gambling harm. Crown will review the consultation paper and prepare discussion points with the intention of making a submission (possibly with other members of the casino industry).

- An update was provided to the Committee on the status of the s 25 Recommendations, including that 17 of the 20 Recommendations have been responded to and the remaining 3 are not yet due.
- Recommendation 20 will be dealt with at a meeting between the VCGLR Commission and Crown Directors on 22 April 2020 (which is past the compliance date of 30 March 2020, as a result of the cancellation of the original 12 December 2019 agreed date by the VCGLR and further dates by Crown).

Ms Manos spoke to the appointments of Mr Andrew Demetriou (Chair of Crown Melbourne Limited) and Ms Helen Coonan (Chair of Crown Resorts Limited) which have been noted to, but not yet accepted by, the VCGLR.

Professor Horvath requested that a table of outstanding matters for follow-up from the s 25 Review Recommendations, be tabled at the next Responsible Gaming Committee Meeting. Mr Preston spoke to the importance of the Responsible Gaming Advisory Panel reviewing the work being undertaken for the s 25 Review.

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AML

The Anti-Money Laundering / Counter-Terrorising Financing Update was taken as read with Mr Preston noting the following:

- We have not yet received any feedback regarding the Junket Assessment undertaken by AUSTRAC.
- The implementation of the Joint AML Program, which has been delayed to mid-year, accounting for an effective implementation plan and some staffing changes.
- The AML Team's structure has been reviewed by Nick Stokes (Group General Manager AML) and a number of proposed changes will be implemented over the coming months.
- CURA has now been implemented for use by AML, which will be used for the effective recording of risk ratings and relevant customer information.
- Crown has had further meetings with ANZ, to provide them confidence about our AML/CTF Program and policies. Mr Barton noted the meeting Crown had with Guy Boyd (ANZ's Chief Compliance Officer) who supported the bank's continuing business relationship with Crown. Mr Barton and Mr Preston

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noted the valuable exchange of learning between Crown and ANZ, regarding the other party's processes and business operation which will continue to evolve.

Other Business:

It was noted that a review of the composition of the Company's committees would be conducted once the appointment of Mr Demetriou to the Board of Crown Melbourne Limited becomes effective.

There was no other business.

Closure:

The meeting closed at 11:45am.

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Chairman



AGENDA ITEM 2:
Compliance and Regulatory



Crown Melbourne Compliance Committee
Agenda Item 2.1: Compliance & Regulatory Update
January 2020 – May 2020

1. Executive Summary

Since the last Committee meeting in January 2020, the following existing and new key matters have evolved or materialised in the period:

- Due to Crown Melbourne ceasing operations (save for minor hotel activity) on 23 March 2020, compliance surveys have not been completed for March, April and May 2020. Further, a number of remedial actions have also been delayed as a result of staff members being stood down, limited resources and no trading activity.
- On 16 March 2020, the VCGLR advised Crown that their Inspectors would be remaining in their office for the duration their shift, as a result of the COVID-19 pandemic. Crown notified the relevant internal departments to continue to phone the Inspectors with any matters that would usually be reported (e.g. breach of Exclusion Order etc.), although the Inspectors would be unlikely to attend. Crown closed to the public as a result of the COVID-19 pandemic on 23 March 2020. The Inspectors largely left site from early April 2020.
- The Minister for Consumer Affairs, Gaming and Liquor Regulation has agreed to support two measures to provide relief to Crown in light of the closure of Crown Melbourne casino due to COVID-19 being:
 1. agreement to waive the \$25 million tax guarantee obligation under clause 22.10 of the Casino Management Agreement for the 2019-20 financial year; and
 2. deferring further action in relation to outstanding poker tax for 12 months, although it is expected that this issue will be resolved by 30 June 2021. It was also noted that the State will not be relinquishing the claim.
- On 8 August 2019, Crown Resorts issued an ASX Media Release advising that the NSW Independent Liquor and Gaming Authority (ILGA) would be conducting an inquiry under section 143 of the Casino Control Act 1992 (NSW) into the sale of Crown shares to Melco. The investigation (which will include a broader range of matters) commenced on 21 January 2020.

On 7 February 2020, Crown Resorts reported that it had been informed by CPH that it and Melco Resorts had entered into a deed to terminate the obligations under the Share Sale Agreement regarding completion of the sale of the second tranche of Crown shares to Melco.

On 3 April 2020, ILGA announced that most of the work of the Casino Inquiry will be deferred as a result of the COVID-19 pandemic.

On 29 April 2020, Crown Resorts released to the market that The Blackstone Group Inc. and its affiliates had purchased 67,675,000 shares in Crown, representing 9.99% of the issued capital of Crown, from Melco Resorts & Entertainment Limited.
- On 2 April 2020, ACLEI's Integrity Commissioner, Jaala Hinchcliffe announced that she has decided not to conduct public hearings in relation to ACLEI's Operation Angove, being their



investigation into possible corruption issues arising from the 60 Minutes program on 28 July 2019 and subsequent reporting in the Sydney Morning Herald regarding the Department of Home Affairs (Home Affairs) and its interactions with Crown Casino.

ACLEI investigators are currently finalising the last lines of inquiry in relation to Operation Angove. The investigation will then move into the reporting stage, with a report being prepared for the Attorney General. Given the public interest in this matter, the Integrity Commissioner will consider the release of a public report under section 209 of the LEIC Act once the investigation report has been provided to the Attorney General.

- On 7 April 2020, a VCGLR Inspector made enquiries into allegations that a minor was able to procure alcohol during government sanctioned quarantine (COVID-19) in a Crown hotel on 1 April 2020.

All alcohol was removed from the mini-bar prior to guest arrivals, however alcohol was available for purchase through in-room dining. The customer, an unaccompanied minor, had requested a bottle of wine and paid for it by credit card. The customer had been checked into the hotel by Department of Health and Human Services (DHHS) staff and Crown was not told that he was an unaccompanied minor. Crown had previously informed DHHS that the hotels required minors to have a designated guardian for their stay. It was noted that Crown had been provided with a copy of the minor's identification, however as DHHS was processing the check in, it was not reviewed in the normal manner. On 15 April 2020, the VCGLR emailed Crown seeking further detail of the incident, which Crown responded to on 16 April 2020. There has been no further developments on this matter.

- On 13 January 2020, the VCGLR wrote to Crown seeking an explanation as to why the publication of a gaming machine advertisement was permitted to be developed outside the Casino. The VCGLR noted that a pillar located outside of the Village entry to the Level One Sports Casino displayed an electronic advertisement "1c&2c Pokies". Crown responded to the letter noting that it is permissible for directional signage within the complex to be displayed under reg. 30(f) of the *Gambling Regulations 2015 (Vic)*. The VCGLR has advised that it accepts Crown's position and verbally advised that the matter is closed.
- In October 2019, the VCGLR wrote to Crown querying its tax treatment of bad debt write-offs, for which Crown had not sought the VCGLR's prior approval (as required by legislation). Crown noted that the debts were not written off from a regulatory perspective, as it retained the right to recover the debts should the relevant patrons return. To support this position, Crown provided examples of debts that had been recovered since being written off on 30 June 2019.

On 3 March 2020, the VCGLR wrote to Crown noting that it had concluded its review of this matter and advised that it did not object to Crown's approach.

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2. Regulatory Matters

Coronavirus (COVID-19)

On 16 March 2020, Stuart McClelland (Manager, VCGLR Onsite Inspectorate) and Adam Ockwell (VCGLR Director Compliance), advised Crown that their Inspectors will be entering the Crown building via Whiteman Street and until further notice, will be largely remaining in their office for the duration their shift, as a result of the COVID-19 pandemic. Michelle Fielding advised the relevant Crown departments to continue to phone the Inspectors with any matters that would usually be reported (e.g. breach of Exclusion Order etc.), although the Inspectors would be unlikely to attend. The Inspectors largely left site from early April 2020.

Crown will be engaging with the VCGLR at the appropriate time to discuss the casino re-commissioning program.

ASX/Media Release – COVID - 19

On 23 March 2020, Crown Resorts released an ASX/Media response to COVID-19, following changes to Crown's business operations:

'Following statements issued by the Commonwealth and relevant State Governments in relation to the closure of all non-essential businesses, the Crown Melbourne and Crown Perth entertainment complexes have ceased the following operations:

- *Gaming activities; and*
- *Food & Beverage, banqueting and conference facilities other than the provision of takeaway meals or meal delivery services (where determined).*

Hotel accommodation will continue to be provided in a reduced capacity.

Crown Aspinalls in the United Kingdom has also ceased operations.'

As at 27 May 2020, Crown Melbourne remains closed for business (with the exception of minor take-away food initiatives and some hotel accommodation activity).

Bad Debt Write-Off

In October 2019, the VCGLR wrote to Crown querying its tax treatment of bad debt write-offs, for which Crown had not sought the VCGLR's prior approval. Crown noted that the debts were not written off for regulatory purposes, as it retained the right to recover the debts should the patrons return, Crown also provided examples of debts that had been recovered since the write-offs on 30 June 2019. Crown answered a series of questions regarding the technical veracity of Crown's tax treatment and whether advice had been sought as to Crown's tax treatment. Crown quoted relevant sections of the GST Act and noted its communication with its advisors and the ATO.



On 3 March 2020, the VCGLR wrote to Crown noting:

... I wish to advise that the VCGLR has concluded its assessment and does not object to Crown's approach that a debt can be written-off for the purposes of s 126-20(2) of the GST Act but not "discharged" for the purposes of s 68(2)(e) of the Casino Control Act 1991.

The VCGLR will further refine its audit processes in relation to monitoring debts written off and discharged to inform the gaming tax settlement process, and may require further information from Crown to inform this process.

[To be removed from future reports.]

Mercury Wheel

As reported previously, an issue was identified with a certain type of Roulette wheel in operation on the gaming floor. Approximately 13 years ago, the manufacturer of the Roulette wheel delivered a version of the product that was different to the version approved by the Regulator and the ordered by Crown. The difference was not visible to the eye and Crown was not aware of being supplied different wheels until recently.

The difference between the approved version and the version delivered was the inclusion of an additional in-rim sensor, which is not classified as regulated equipment and does not require individual approval, it further does not affect the integrity of the game.

The 56 affected Roulette wheels have been removed from the floor (the wheels were in the process of being removed for upgrade reasons), and additional verification steps are now undertaken for all equipment. The Regulator is aware of the version issues, which has led to a regulatory review of the versions of the Roulette wheels.

Crown continues to respond to queries on the matter from the VCGLR.

ABA

The Australian Banking Association published a consultation paper for the use of credit cards for gambling transactions, calling for submissions by 31 March 2020 on how the banking industry can assist in minimising gambling harm. Credit cards are not permitted to be used for gambling in casinos.

After consultation it was determined that Crown's bankers have separate merchant codes applied to the different elements of Crown's business and accordingly, there was very little risk of unintended consequences. Crown elected not to make a submission.

[To be removed from future reports.]

Technical Requirements – Gaming Machines

Crown Melbourne is currently engaged with the VCGLR on its proposed draft of the Technical Requirements Document for Gaming Machines, which has the potential to also capture



Electronic Table Games. Crown Melbourne has also received a draft 'Baseline' document from the VCGLR, which seeks to amend the gaming and related systems that Crown requires approval for. Positive progress has been made on this matter with Crown and the VCGLR being close to settling the content of these documents.

Section 25 Review

The VCGLR's Section 25 Report contains 20 Recommendations, which Crown has accepted and is currently working through internally and is engaging with the VCGLR on. To date, 17 of the 20 Recommendations have been responded to by Crown (Recommendation 8 is in two parts, the first of which fell due and was responded to as required, the second part is due 1 January 2021). The other two remaining Recommendations are 9 and 20. **Attached** at Agenda Item 2.2 is a table detailing the status of Crown's progress and commentary on the Recommendations.

Melco/ASX

On 8 August 2019, Crown Resorts issued an ASX Media Release advising that the NSW Independent Liquor and Gaming Authority (**ILGA**) will be conducting an inquiry under section 143 of the *Casino Control Act 1992* (NSW) into the sale of Crown shares to Melco. The investigation (which will include a broader range of matters) commenced on 21 January 2020.

On 7 February 2020, Crown Resorts released to the market that it had been informed by CPH that CPH Crown Holdings Pty Limited and Melco Resorts have entered into a deed to terminate the obligations under the Share Sale Agreement regarding completion of the sale of the second tranche of Crown shares to Melco.

On 3 April 2020, ILGA announced that most of the work of the Casino Inquiry will be deferred in the current context of the COVID-19 epidemic, until it is considered safe and practicable for all public aspects of the work to resume.

On 29 April 2020, Crown Resorts released to the market that it had been informed that an entity owned by funds managed or advised by The Blackstone Group Inc. and its affiliates has purchased 67,675,000 shares in Crown, representing 9.99% of the issued capital of Crown, from Melco Resorts & Entertainment Limited.

Preparation work continues on the Inquiry by Crown, MinterEllison and Counsel.

China Matter

As previously reported, the VCGLR has reopened its China investigation as a result of the allegations aired by Nine/Fairfax and requested contact details from Crown of its former China staff, together with the details of the confidentiality arrangements Crown has with the former China staff, which Crown has now provided. Crown and MinterEllison continue to liaise with the VCGLR on this issue. Crown has also waived privilege on a number of documents and duly provided those documents to the VCGLR.

Jenny Jiang, through new lawyers, has lodged a Work Safe claim against Crown. **REDACTED - PRIVILEGE**
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October 2019 Wilkie Allegations

Mr Wilkie made fresh allegations of corruption between Victoria Police, the VCGLR and Crown, which have been sent to IBAC for investigation, as well as made public whistle-blower information from alleged VCGLR Inspectors and a Crown limousine driver around money laundering, drugs, sexual abuse and violence against women.

Investigations by various regulators remain on-going.

There has been no further updates/progress since the last report.

Poker Tax

The VCGLR claims that Crown is required to pay Gross Gaming Revenue (**GGR**) gaming tax on the entry fee component of poker tournaments held at Crown. Crown has disputed that entry fees are subject to gaming tax, primarily based on:

- For a number of years in times past, the Rules for Poker Tournaments, approved by the VCGLR, specifically provided that GGR did not apply to the entry fee;
- The ATO has declared that the entry fee component is 'not a gambling supply' and is therefore subject to GST;
- The fee does not fit the definition of GGR or gambling, in that there is no possibility of a return from paying the fee as it is not wagered; and
- The VCGLR has determined that poker tournaments where the buy-in is returned to players as prizes which are permitted outside the casino, are not subject to gambling regulation or a casino licence and are not subject to a gaming tax.

The VCGLR has raised the matter periodically over more than 11 years and on 2 May 2018 served Crown with a Notice pursuant to s 26 of the *Casino Control Act 1991 (Vic)* to provide certain data for an assessment to be made. Crown responded to the Notice and additional ongoing queries.

The State Government has agreed to defer this matter being progressed in light of the impact of the COVID-19 pandemic on the business.



EGM Continuous Play

On 27 September 2018, the VCGLR served Crown with a Notice pursuant to s 26 of the *Casino Control Act 1991* (Vic) to answer questions and provide data concerning EGM C8308, which the VCGLR allege was identified by Government Inspectors as operating in 'Unrestricted Mode', without YourPlay functionality activated. Crown investigated the machine with its Approved Testing Facility (ATF) (BMM) and the machine's manufacturer (IGT). It was identified that the machine was not operating in unrestricted mode, however, it had a wiring fault, which meant that when a particular button was held down, it performed as if continuous play was in operation. It should be noted that s 62AB of the *Casino Control Act 1991* (Vic) provides:

(2) *A casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player (whether by pushing a play button, touching the screen or otherwise).*

Crown responded to the Notice, advising that it was as a result of a machine hardware fault and also provided a copy of the manufacturer's report into the machine.

On 20 December 2018, the VCGLR (on-site Inspectorate) wrote to Crown requesting clarification on several matters relating to this incident and an explanation as to why Crown breached s 62AB(2) of the *Casino Control Act 1991* (Vic) [a casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player]. On 8 January 2019, Crown responded to the letter dated 20 December 2018, reinforcing its position as documented in Crown's initial response dated 11 October 2018. No reply has yet been received from the VCGLR.

As a consequence of this matter; on 19 November 2018 the VCGLR (Director, Compliance) wrote to Crown advising that they are continuing to investigate the circumstances relating to the malfunction of EGM C8308. In this letter, the VCGLR sought further information from Crown as to whether regulation 18(6) of the *Gambling Regulation (Pre-commitment and Loyalty Scheme) Regulations 2014* have been complied with. On 18 December 2018, Crown responded asserting that no breach of Reg. 18(6) had occurred and attaching the VCGLR's approval of the current operating format. No response has yet been received from the VCGLR.

As a result of this issue, various audits and reviews of similar machines have been undertaken.

There has been no further updates/progress since the last report.

Allegations

As a result of the various allegations raised by Nine/Fairfax/Wilkie, there are a number of regulatory actions taking place including an inquiry by ILGA (as referred to above), an investigation by ACLEI, a re-examination of the junket business at Crown Melbourne by the VCGLR, a VCGLR inspectorate audit of junkets and premium player programs in accordance with the internal controls, and an AUSTRAC assessment focussed on high risk patrons and politically exposed persons (although not referenced as specific to the allegations, it is not unrelated).



With respect to the ACLEI investigation, the investigation continues however ACLEI has announced that there will no longer be a public hearing for this matter. Instead, the investigation will be carried out on the information gathered by ACLEI Investigators. These matters remain on foot.

3. Compliance Framework Status

All intended business units have now been integrated to the business wide compliance framework. In line with the objective of continuous improvement, consideration will be given to incorporating further sub-departments, as may be required from time to time.

All existing departments have prepared and are completing monthly compliance surveys and reporting into the Compliance Committee.

The FY20 Annual Compliance Plans for each business unit have been drafted, settled and signed off, with the exception of AML.

A planned review of the Requirements Register has been postponed due to the ongoing closure resulting from COVID-19.

An external review of the Compliance Framework will be commissioned during the next 18 months.

Material and other relevant matters from the Monthly Compliance meetings are reported on in Section 4 below.

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4. Compliance Issues

The table below represents new and existing alleged compliance breaches and other relevant issues which occurred during the period. These include breaches or issues identified either by a regulator or as reported internally via compliance surveys or other means. Please note that due to casino operations ceasing on 23 March 2020, compliance surveys have not been completed for March, April and May 2020. Further, a number of remedial actions have also been delayed as a result of staff members being stood down, limited resources and no trading activity.

| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions |
|----------------------|----------------------|--|---|---|
| Finance | | | | |
| New | | | | |
| 1. | March 2020 | On 5 March 2020, Compliance received notification of a Licenced Special Employee Termination with a cessation date of 14 December 2019, although the requirement under legislation is to report terminations to the VCGLR within a week. | <i>Casino Control Act 1991</i> (Vic) S 56(1)(c) (C) | <p>The employee, a Revenue Auditor, was seconded to Hotels as a Management Accountant. At the conclusion of the secondment, the employee took parental leave.</p> <p>Finance contacted the employee about her return, who then confirmed that she would not be returning from parental leave. An ECA was raised with an incorrect termination date back-dated to the secondment expiry date, not the date of notification to Crown.</p> <p>The employee's cessation, being the date Crown was notified of her not returning, was notified to the VCGLR.</p> |
| | | | | <p>Finance were reminded in writing of Crown's reporting obligation under the <i>Casino Control Act 1991</i> (Vic).</p> <p>The VCGLR has not raised any queries regarding this matter.</p> |



| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions | |
|----------------------------|----------------------|---|--|--|---|
| Food & Beverage | | | | | |
| New | | | | | |
| 2. | April 2020 | <p>On 7 April 2020, VCGLR Inspector Rohin Barker phoned the Hotel Duty Manager at Crown Promenade to make enquiries into allegations that a minor was able to procure alcohol during government sanctioned quarantine (COVID-19) on 1 April 2020.</p> <p>The Duty Manager responded to Mr Barker's questions and emailed him a copy of records, including the alcohol purchase receipt, as requested.</p> | <p><i>Liquor Control Reform Act 1998 (Vic)</i></p> <p>VCGLR</p> <p>(V)</p> | <p>All alcohol was removed from the mini-bar prior to guest arrivals, however alcohol was available for purchase through in room dining.</p> <p>The customer, an unaccompanied minor, requested a bottle of wine and paid for it by credit card. The customer had been checked into the hotel by the Department of Health and Human Services (DHHS) staff and Crown was not told that he was an unaccompanied minor. Crown had previously informed DHHS that the hotels required minors to have a designated guardian for their stay. It was noted that Crown had been provided with a copy of the minor's identification, however as DHHS was processing the check in, it was not reviewed in the normal manner.</p> <p>The minor (17 y.o.) was subsequently found to have consumed alcohol, by a nurse conducting a routine welfare check.</p> | <p>Comments and alerts were entered by a Front Office Supervisor on 5/04/20 once Crown became aware of the customer being a minor.</p> <p>Processes were changed to ensure all Government initiated quarantine patrons were ID checked and their age verified on the day of check-in, by Crown.</p> |

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| Date of issue / Dept | | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions |
|----------------------|---------------|--|---|--|---|
| | | | | On 15 April 2020, the VCGLR emailed Crown seeking detail of the incident, which Crown responded to on 16 April 2020. As at 15 May 2020, no further contact from the VCGLR has been received on the matter. | |
| Existing | | | | | |
| 3. | November 2019 | <p>On 15 November 2019, a VCGLR Inspector requested footage and statements relating to three (3) males regarding an RSA matter.</p> <p>Statements were requested from a Table Games Area Manager, Dealer and two F&B Attendants along with any details Crown may hold on the three males. The men were observed in the vicinity of the Jackpot Bar, Pits 4, 6 & 7 and EGM F2701 acting in a loud manner that drew the VCGLR's attention to RSA concerns.</p> <p>A Table Games Manager had already engaged with the group earlier during their visit and did not note any RSA issues, and although F&B ceased serving the group alcohol at a later point in time, F&B did not consider it</p> | <p><i>Liquor Control Reform Act 1988</i> (Vic)</p> <p><i>Casino Control Act 1991</i> (Vic)</p> <p>(V)</p> | <p>Footage was collected by the VCGLR on 16 November 2019.</p> <p>Statements have been prepared (13 January 2020) and were reviewed by Legal.</p> | <p>The statements required further detail and were returned to the staff involved and we are awaiting their return.</p> |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions | |
|------------------------|---|---|-------------------------------|---|---|
| | necessary for Security to remove the group. | | | | |
| Gaming Machines | | | | | |
| New | | | | | |
| 4. | March 2020 | Escrow is not reporting reliably from DACOM. The relevant report is not correctly dealing with the introduction of Funded Startout Jackpots (FSTRT) and there is an issue with the overflow calculation. Gaming Finance are unable to reconcile the movements and Escrow was not accrued correctly for February and March 2020. | VCGLR (C) | Crown has made the VCGLR aware of the issue and its impact on reporting. | The issue will be partially rectified in DACOM release (6.24), approved on 16 March 2020. The installation of this version of DACOM has been delayed by IT due to the COVID-19 shutdown of the business. An additional fix has been scheduled into the development of DACOM 6.25, estimated to be completed by the end of June (subject to VCGLR approval), after which the reports for the months of February, March, April and May will be re-run and submitted to the VCGLR. |
| 5. | March 2020 | Gaming Machines identified (during internal testing) access to an option in the Audit Menu to change the | Casino Control Act 1991 (Vic) | An updated software base change was implemented in February 2020, whereby changes to the BNA note acceptance settings | Crown is working with STG to develop a new software base for the remaining product. The |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions | |
|----------------------|---|---|--|--|---|
| | BNA settings to accept \$100 notes without breaking logic or applying a power cycle to verify the change. This matter relates to the STG/Bally product on 265 machines. The Audit Menu is currently only accessible to authorised staff via a secure key. | S 62AB (C) | must be completed behind the logic seal (195 machines). Approximating 70 machines were unable to be updated using the above method. The remaining product have had the \$100 note acceptance disabled manually at the BNA level ensuring the EGMs do not accept \$100 notes (even if the BNA configuration is changed). | update will be applied once approved and tested in-house. A Splunk Report has been developed to monitor \$100 note insertions on these machines as an additional safeguard. | |
| Existing | | | | | |
| 6. | January 2020 | On 13 January 2020, the VCGLR wrote to Crown seeking an explanation as to why the publication of a gaming machine advertisement was permitted to be displayed outside of the casino boundary contrary to the <i>Gaming Regulation Act 2003</i> (Vic) (Act). The VCGLR noted that on 30 December 2019, a pillar located outside of the Village entry to the Level One Sports Casino displayed an electronic advertisement "1c&2c Pokies". | <i>Gambling Regulation Act 2003</i> Section 3.5.34AA(2) <i>Gambling Regulation 2015</i> (Vic) Reg 30(f) (V) | The matter has been concluded. The VCGLR has accepted Crown's position and verbally advised that the matter is closed. <i>[To be removed from future reports.]</i> | On 11 February 2020, Crown responded to the letter noting that it is permissible for directional signage within the complex to be displayed under reg. 30(f) of the <i>Gambling Regulations 2015</i> (Vic). |
| 7. | September | On 27 September 2018, the VCGLR | <i>Casino Control Act 1991</i> | On 11 October 2018, Crown responded to | A full audit of all machines has |

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| 2018 | <p>issued Crown with a s 26(1) Notice pursuant to the <i>Casino Control Act 1991</i> (Vic), requesting information pertaining to EGM C8303 operating in continuous play mode (alleged as 'unrestricted mode' in the Notice), when a Your Play card was not inserted.</p> <p>On 20 December 2018, the VCGLR (on-site Inspectorate) wrote to Crown requesting a clarification on several matters relating to this incident and an explanation as to why Crown breached s 62AB(2) of the <i>Casino Control Act 1991</i> (Vic).</p> <p>As a consequence of this matter; on 19 November 2018 the VCGLR (Director, Compliance) again wrote to Crown seeking further information as to whether regulation 18(6) of the <i>Gambling Regulation (Pre-commitment and Loyalty Scheme) Regulations 2014</i> had been complied with.</p> | <p>(Vic) s 26(1) and s 62AB(2) <i>Gambling Regulation Act 2003</i> (Vic)</p> <p>Ministerial Directions <i>Victorian Commission for Gambling and Liquor Regulation Act 2011</i> (Vic) Part 4 s 32(3)</p> <p>VCGLR (V)</p> | <p>the Notice. The cause was a wiring fault, which permitted the machine to imitate play in continuous mode if a particular button was held down.</p> <p>On 8 January 2019, Crown responded to the second VCGLR letter dated 20 December 2018, reinforcing its position as documented in Crown's initial response dated 11 October 2018.</p> <p>On 18 December 2018, Crown also responded to the VCGLR's letter dated 19 November 2018, asserting that no breach of Reg. 18(6) had occurred and attaching the VCGLR's approval of the current operating format.</p> <p>On 6 November 2019, the VCGLR verbally noted that this matter has moved from the VCGLR's Legal Team and is now with the Commission for its consideration.</p> <p>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</p> | <p>been carried out.</p> <p>An enhancement to the audit and checking procedures (EGM Commission Checklist) has now been implemented. A specific test is now required for all IGT AU1 cabinets upon installation, the result must be recorded (and pass) before the machine is placed into game play.</p> |
| Regulatory and Compliance | | | | |



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| <i>New</i> | | | | |
| 8. | March 2020 | On 12 March 2020, the VCGLR wrote to Crown requesting information under section 166 of the <i>Casino Control Act 1991</i> (Vic). Crown was directed to provide information on financial transactions made by [REDACTED]. The information was to be provided to Victoria Police by the VCGLR. | <i>Casino Control Act 1991</i> (Vic) | On 26 March 2020, Crown complied with the request and produced the requested information to the VCGLR. |
| | | | | Remedial action is not required in this instance. Crown reminded the VCGLR that Victoria Police can (and do) frequently request information directly from Crown. |
| <i>Existing</i> | | | | |
| 9. | August 2019 | On 9 August 2019, the VCGLR issued Crown Resorts with a section 26 Notice. The Notice requested information regarding the Junket Operators' process and procedures undertaken by Crown Resorts (and its associated corporate entities, including Crown Melbourne Limited (Crown)) and the ongoing probity monitoring of junkets by Crown. The VCGLR requested specific information in relation to: | <i>Casino Control Act 1991</i> (Vic) s 121 s 26 s 141 <i>Victorian Commission for Gambling and Liquor Regulation Act 2011</i> s 9 | Crown has responded to the requests as required. Ancillary enquiries have been raised by the VCGLR, which have been (and are being) responded to as required. As at 27 May 2020, no outcome from the VCGLR has been received on the matter. |
| | | | | Not required. |

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| | | | (V) Internal Control Statement – Junket and Premium Player Programs: clauses 2.5.1 and 2.5.2 | | |
| <i>Security</i> | | | | | |
| <i>New</i> | | | | | |
| 10. | March 2020 | On 14 February 2020, an RSA employee attended an internal Crown job interview in possession of Crown sensitive material. | Employee Code of Conduct Confidential Information (C) | The incident was reported to Legal. The employee was suspended pending an interview with HR. | The employee did not attend any of his scheduled meetings regarding his conduct due to a number of reasons, some being medical. During this time, Crown stood down all RSA Officers due to the casino closure. The employee was an active employee and therefore just like all other RSA Officers, he was also stood down. |

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| | | | | | This matter will be progressed when Crown resumes normal operations. |
| Surveillance | | | | | |
| Existing | | | | | |
| 11. | August 2019 | On 5 August 2019, Regulatory and Compliance became aware that Surveillance may not have been notified (via a page in the system) in all instances when cards are replaced on Baccarat in accordance with the SOPs. | Baccarat SOP 9.2.3(b)(i) (C) | <p>The matter was raised in a Compliance/Table Games meeting, where it was agreed that the clause would be reviewed in the next SOP review.</p> <p>Regulatory and Compliance have commenced the review process of the Baccarat SOPs with Table Games. The legitimacy of the clause to notify Surveillance has been highlighted (Surveillance have also been included into the process).</p> <p>The notification process is further hindered by limitations with respect to paging in ATOM (page for new cards from a Dealer triggers a page to Surveillance. ATOM also has a 'No page' option, used when an Area Manager is at the Table. This option eliminates another Area Manager being called over).</p> <p>Multi-Terminal Baccarat does not have an</p> | Regulatory and Compliance finalised a review of all ICSs and SOPs for all departments, where related to Surveillance, on 1 November 2019. The review identified all reporting requirements to various departments and regulatory bodies. Surveillance has 39 instances of documented notifications within Standard Operating Procedures. Meetings for the sharing of this information were held in January/February 2020 (with a view to remind relevant departments of the matters to be reported). Departments were in the process of reviewing the information and |

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| | | | | option on ATOM to page when new cards are required. | are yet to respond due to the COVID-19 interruptions. Table Games advised a change in process was communicated to staff. The process change is to ensure that the system activates an alert to Surveillance in all instances where cards are replaced on Baccarat. Multi-Bet Baccarat requires the 'new equipment' button to be pressed when introducing new cards to the table, ensuring Surveillance are alerted. |
| Table Games | | | | | |
| New | | | | | |
| 12. | March 2020 | On 9 March 2020, an identified patron removed 14 red cards from Blackjack Table 0702. | Crown Table Games Integrity (C) | A review of the incident identified the offender presenting a Crown Rewards card. Details were escalated to VicPol who were able to retrieve the cards. The retrieved cards also included two (2) Baccarat (BA) paper cards (with two (2) of the plastic Black Jack (BJ) cards missing). A further | The Memo updated current processes, directing staff to ensure vigilance and to ensure cards are visually checked every two (2) hours or when directed by a TG Area Manager or above. |

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| | | | <p>investigation found the offender as having successfully swapped the two BJ cards on BA a few days later. All cards were accounted for.</p> <p>On 12 March 2020, Table Games issued a Memo (2163) regarding card security.</p> <p><i>[To be removed from future reports.]</i></p> | | |
| Existing | | | | | |
| 13. | November 2019 | <p>On 14 November 2019, the VCGLR wrote to Crown requesting an explanation as to why a patron was permitted by Table Games staff to move a wager from Banker to Player after the Player cards had been exposed; and during the same coup, the patron was permitted to remove his losing wager.</p> | <p><i>Casino Control Act 1991</i> (Vic) (V)</p> | <p>On 27 November 2019, Crown responded to the letter, stating that it is Crown's view that Table Games staff acted within the Rules of Baccarat to permit the player to retract their wager.</p> <p><i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i></p> | No action required. |
| 14. | October 2019 | <p>On 3 October 2019, Crown received a letter dated 9 September 2019 from the VCGLR. The VCGLR requested an explanation as to why the Dealer on AR3112 disregarded Roulette Rule 5.3 on two (2) occasions by not signalling or announcing 'no more bets' whilst the ball was still rotating around the</p> | <p><i>Casino Control Act 1991</i> (Vic) 5.3 Roulette Rules (V)</p> | <p>On 9 October 2019, Crown responded to the VCGLR, accepting that the dealer had failed to adhere to the Rules. Crown reiterated that it does not tolerate breaches of Rules nor Standard Operating Procedures by its employees. Crown noted that the employee had received appropriate disciplinary action, including placing the Dealer on a performance</p> | <p>The Dealer received the following action:</p> <ol style="list-style-type: none"> 1. Higher Duties were removed for a period of three (3) months. 2. A verbal warning was issued. |

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| | wheel. | | improvement plan and additional training. <i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i> | <ol style="list-style-type: none"> 3. The Dealer will be monitored by Surveillance for closer investigations/auditing. 4. The Dealer was placed on a performance improvement plan for three months. The Dealer agreed to be audited fortnightly with immediate feedback to be given directly to him. 5. The Dealer will undertake an SOP refresher on all his games, including Poker Minors, to eliminate any further instances of non-compliance. | |
| 15. | August 2019 | On 1 August 2019, the VCGLR inspected Pit 7 Storage Cupboards. Multiple discrepancies were noted by the Inspector. | <i>Gaming Equipment (V)</i> | <p><i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i></p> <p><i>[To be removed from future reports.]</i></p> | <p>Table Games have removed access to the Pit 7 Storage Cupboard to all Area Managers.</p> <p>A dedicated Assistant Casino Manager is now tasked with maintaining the Storage Area.</p> |
| 16. | July 2019 | On 25 June 2019, Crown made a submission to the VCGLR to approve | <i>Casino Control Act 1991 (Vic)</i> | <p>In July 2019, Crown replaced its Mercury 2 wheels with Mercury 360 wheels, which it was</p> | As at 31 October 2019, all Roulette wheels on the gaming |

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| | <p>updates to Spreadbet Roulette (an electronic side wager system that runs off Cammegh screens linked to Cammegh Roulette Wheels). During this process, it was identified that the system was proposed to run off Cammegh Mercury 360 and Cammegh Mercury 2 Roulette Wheels, however, Crown was unable to locate a prior specific approval for Mercury 2. It was revealed that the term Mercury was used interchangeably by Cammegh to refer to both the Mercury and Mercury 2 products – only minor differences existed between both wheels, neither of which impacted in any way on the running of the game (primarily, components which consisted of sensors used to detect the numbers and portray them on a display screen). This was communicated to the VCGLR.</p> | <p>s 60 (V) S 126</p> | <p>scheduled to do as the Mercury 2 wheels are no longer manufactured.</p> <p>The submission was amended and re-submitted with the VCGLR on 15 October 2019 after extensive communication with BMM to remove reference to the Mercury 2 (amongst other changes).</p> <p>On 12 November 2019, Mr Rohin Barker of the VCGLR requested a list of all Roulette Wheels on the floor. Crown complied with the request.</p> <p>On 14 November 2019, Mr Barker further emailed Crown to advise that eight (8) Mercury 2 Roulette Wheels in Pit 17 had different asset and serial numbers than those on the report and queried why the previous wheels were removed the day prior. Crown noted that this was a timing issue between the printing of the report and the inspection by the VCGLR. The wheels were removed as a part of a pre-arranged upgrade.</p> <p>Sam Laffy (VCGLR) further requested additional information regarding the use of Cammegh Gaming Equipment. The request included:</p> <ul style="list-style-type: none"> • Detail of Cammegh Roulette Wheels | <p>floor are Mercury 360, with the exception of 8 wheels which are known as the Mercury Special Wheels (covered by an approval) located in the Teak Room.</p> <p>Crown has received approval for Spreadbet Roulette from the VCGLR.</p> <p>Discussions with Table Games have been undertaken and they will commence a catalogue and electronic filing system for certification and commissioning documents.</p> |

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| | | | | <p>operated by Crown (preferably including Asset and Serial numbers, locations and dates of service).</p> <ul style="list-style-type: none"> • VCGLR approval reference numbers relevant to the Cammegh Roulette Wheels identified. • Detail of Cammegh Roulette Match / Side Bet system hardware operated by Crown (preferably including Asset and Serial numbers, location and dates of service). • Table Games Certification Forms / Commissioning documents related to the movement or deployment of Cammegh Roulette Match / Side Bet system hardware operated by Crown. <p>As of 15 May 2020, Crown is in the process of collating the requested information and has not yet responded to the request. Crown is unable to locate all material related to this request, due to a change in Table Games administration staff and historical nature of this matter.</p> | |
| 17. | July 2019 | On 4 July 2019, the VCGLR wrote to Crown requesting an explanation in relation to a patron complaint. The | <i>Casino Control Act 1991</i> (Vic) | On 23 July 2019, Crown responded to the letter defending Crown's position that the Area Managers had made the correct decision | As the result of a number of recent VCGLR letters, audits are being undertaken for |

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| | | <p>matter relates to an allegation that on 14 May 2019, the Dealer on PK3311 exposed the cards too early on the River.</p> | <p>s 64 Poker Rules 14.9.5 (V)</p> | <p>given the circumstances. Crown relied on Poker Rules 1.1, 8.8, 18.11 and the patron’s behaviour at the time (refusing to comply with a direction to reveal his cards).</p> <p><i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i></p> <p><i>[To be removed from future reports.]</i></p> | <p>greater scrutiny of ensuring dealers are dealing in line with SOPs and Rules. During the audits, Area Managers (AMs) on the floor are being given direct feedback and asked to address all issues with the dealers in question. AMs are expected to have immediate coaching conversations (as soon as practical) and document each interaction.</p> <p>The following early signs of compliance improvement have been seen:</p> <ul style="list-style-type: none"> • Noticeable improvements seen in the Maple and Mahogany Rooms. • Immediate coaching discussions are occurring, there was more than 80 coaching conversations documented in a week. • Staff are also being rewarded for their positive efforts. |

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| | | | | | A full review by Crown Table Games of its SOPs is almost complete, in order to improve education. |
| 18. | March 2019 | On 26 March 2019, the VCGLR requested that Crown provide footage of a patron who they allege was gambling whilst intoxicated. It is alleged that the patron placed a bet on Roulette 3112 at approximately 05:28 hours. The VCGLR has also requested a statement from the Dealer and an F&B employee involved. | <p><i>Casino Control Act 1991</i> (Vic)</p> <p>S 81AAC Gambling or betting by intoxicated persons prohibited (V)</p> | <p>On 4 April 2019, Crown provided the VCGLR with the requested footage.</p> <p>On 3 May 2019, Crown became aware that archived footage of the incident was corrupted. The VCGLR is aware that not all footage was provided. Legal has requested an investigation into how the footage became corrupted.</p> <p>The VCGLR has been provided with all employee statements and available footage (inclusive of the corrupted file).</p> <p><i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i></p> | <p>Surveillance worked with the manufacturer to identify the cause of the corrupted file, however the matter was unable to be replicated and the root cause not identified.</p> <p>Crown has enhanced Dealer training regarding RSA matters.</p> |
| 19. | March 2019 | On 28 March 2019, the VCGLR wrote to Crown seeking an explanation as to why on 10 March 2019 an alleged breach of Poker Rule 17.4.1 and 17.6.1 occurred on PK17 between 04:30 and 05:44. It was alleged that the Dealer failed to activate the | <p><i>Casino Control Act 1991</i> (Vic)</p> <p>Poker Rule 17.4.1 and 17.6.1 (V)</p> | <p>On 15 April 2019, Crown responded to the matter.</p> <p><i>As at 27 May 2020, no further contact has been made by the VCGLR on this matter.</i></p> <p><i>[To be removed from future reports.]</i></p> | <p>The Dealer received disciplinary action and the Poker team received additional extensive briefing to ensure adherence with Rule 17.4.1 and 17.6.1.</p> |

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| | | Jackpot Button on multiple occasions and did not alert the TG AM (or above) to remedy the situation. | | | <p>Table Games has sent a note to all poker staff regarding this issue and has issued file notes and written warnings to relevant staff. The escalated response arose from the Compliance Framework identifying a negative trend in this area and rectification action was initiated to address the weakness.</p> <p>Automation of the Jackpot is being implemented.</p> |
| 20. | January 2019 | On 29 January 2019, the VCGLR wrote to Crown requesting an explanation as to why on 9 January 2019, Poker Rule 17.4.1 & 17.6.1 was disregarded by the Dealer on PK10. The VCGLR alleges that the Dealer did not activate the jackpot button at the commencement of play, nor notify the Area Manager to make the appropriate adjustment. | <p><i>Casino Control Act 1991</i> (Vic)</p> <p>Poker Rule 17.4.1 & 17.6.1</p> <p>(V)</p> | <p>On 27 February 2019, Crown responded to the VCGLR noting the seriousness of the matter.</p> <p><i>As at 27 May 2020, no further contact has been made by the VCGLR on this matter.</i></p> <p><i>[To be removed from future reports.]</i></p> | <p>The Dealer received disciplinary action and the Poker team received extensive briefing to ensure adherence with Rule 17.4.1 and 17.6.1.</p> <p>Table Games has sent a note to all poker staff regarding this issue and has issued file notes and written warnings to relevant staff. The escalated response arose from the Compliance Framework identifying a negative trend in</p> |

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| | | | | <p>this area and rectification action was initiated to address the weakness.</p> <p>Area Managers have closely monitored Rule adherence and ensure that Dealers are coached around this on a daily basis.</p> <p>For Dealers who are identified as repeating the behaviour, disciplinary action follows in the form of verbal warnings and written warnings.</p> |
| 21. | January 2019 | <p>On 29 January 2019, the VCGLR wrote to Crown requesting an explanation as to why on 8 January 2019, Poker Rule 17.4.1 was disregarded by the Dealer on PK16. The VCGLR allege that the Dealer activated the jackpot button multiple times during a single hand, thus manipulating the jackpot system.</p> | <p><i>Casino Control Act 1991</i> (Vic) Poker Rule 17.4.1 (V)</p> | <p>On 27 February 2019, Crown responded noting human error as the cause and that this was not an intentional act to manipulate the jackpot or contravene the Rules.</p> <p><i>As at 27 May 2020, no further contact has been made by the VCGLR on this matter.</i></p> <p><i>[To be removed from future reports.]</i></p> <p>The Dealer received disciplinary action and the Poker team received extensive briefing to ensure adherence with Rule 17.4.1.</p> <p>Table Games has sent a note to all poker staff regarding this issue and has issued file notes and written warnings to relevant staff. The escalated response arose from the</p> |

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| | | | | <p>Compliance Framework identifying a negative trend in this area and rectification action was initiated to address the weakness.</p> <p>Area Managers have closely monitored this Rule for adherence and ensure that Dealers are coached around this on a daily basis.</p> <p>For Dealers who are identified as repeating the behaviour, disciplinary action follows in the form of verbal warnings and written warnings.</p> |
| 22. | January 2019 | <p>On 29 January 2019, the VCGLR wrote to Crown requesting an explanation as to why on 1 December 2018, Poker Rule 7.7 was disregarded. The VCGLR allege that the Dealer on PK17 allowed additional commission to be collected.</p> | <p><i>Casino Control Act 1991</i> (Vic) Poker Rule 7.7 (V)</p> | <p>On 18 February 2019, Crown responded to the matter. Crown noted human error as the cause, with the error being rectified immediately by the ACM on duty.</p> <p><i>As at 27 May 2020, no further contact has been made by the VCGLR on this matter.</i></p> <p><i>[To be removed from future reports.]</i></p> <p>Crown emphasised that the Dealer did not intentionally collect additional commission contrary to Poker Rule 7.7.</p> <p>The Dealer received a coaching note reiterating the importance of commission taking accuracy and received additional training.</p> <p>Muster notes were focused on</p> |

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| | | | | this accuracy in the short term to ensure that the whole team were retrained of the importance of the Rule. |
| 23. | January 2019 | On 15 January 2019, the VCGLR wrote to Crown requesting an explanation as to why on 21 August 2018, multiple (alleged) breaches of cl. 10.2.1 of the Pai Gow Rules (patrons talking to each other about their hands) occurred on PG8910 (between 3:00am – 4:00am), being a breach s 60(2)(c) of the <i>Casino Control Act</i> . | <i>Casino Control Act 1991</i> (Vic) Pai Gow Rules (V) | On 7 February 2019, Crown responded to the matter. Crown asserted that the game had been dealt in accordance with the Rules of Pai Gow, with adequate supervision from the Area Manager. However, did agree that the Dealer could and should have been more assertive in ceasing the communication between the players. <i>As at 27 May 2020, no further contact has been made by the VCGLR on this matter.</i> <i>[To be removed from future reports.]</i> |
| 24. | January 2019 | On 14 January 2019, the VCGLR wrote to Crown requesting an explanation as to why on 16 October 2018, Caribbean Stud Poker Rules 7.5.3 (63 alleged breaches) – including failing to increment the Jackpot amount, 7.6.2 (3 alleged breaches) and 7.5.1(a) (one alleged breach) were not followed by the Dealer on CS0718. | <i>Casino Control Act 1991</i> (Vic) Caribbean Stud Poker Rules 7.5.3, 7.51(a) and 7.6.2 (V) | On 7 February 2019, Crown responded to the matter. Crown accepted that the Dealer made errors when dealing the game and that the oversights were corrected by the Area Manager on duty. On 6 June 2019, Crown was advised that the matter was before the Commission. <i>As at 27 May 2020, no further contact has</i> |

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| | | | been made by the VCGLR on this matter. | |
| 25. December 2018 | On 6 December 2018, the VCGLR wrote to Crown stating that on 20 October 2018, Inspectors observed an alleged breach of Poker Rule 14.2.5 by the Dealer on PK16. The VCGLR has sought an explanation from Crown as to why the Dealer did not place the 'boxed card' in the 'muck'. | <i>Casino Control Act 1991</i> (Vic) Poker Rule 14.2.5 (V) | On 18 December 2018, Crown responded to the letter citing human error as the cause of the incorrect placement of the boxed card. The boxed card was isolated and unable to be used in play and therefore there was no risk to the integrity of the game or any players. <i>As at 27 May 2020, no further comment has been received from the VCGLR.</i> <i>[To be removed from future reports.]</i> | The Poker management team and the Dealer have been advised of the importance of compliance with the Poker Rules and SOPs. All staff have been checked for understanding. |
| <i>VIP</i> | | | | |
| <i>New</i> | | | | |
| 26. February 2020 | On 13 February 2020, the VCGLR wrote to Crown seeking an explanation on two anomalies found during a Premium Player audit for [REDACTED]: (i) The Premium Player Settlement Sheet for program [REDACTED] recorded a turnover of \$1,217,867 whereas turnover as calculated | <i>Casino Control Act 1991</i> (Vic) <i>Junket and Premium Player Programs Internal Control Statement</i> <i>Section 4. Commission</i> (V) | On 12 March 2020, Crown responded to the letter, providing that: (i) The Player Rating Transaction Report details eight (8) cash ratings (which do not form a part of program [REDACTED]). These eight (8) ratings total \$84,810 in turnover, conversely, the Premium Player Settlement Sheet accounts for turnover calculated on the program | No remedial action is required as Crown does not consider that there were any errors. As to point (ii), Crown was also unable to ascertain from the VCGLR what they considered had been breached by the patron contributing to his expenses. |

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| | <p>from the Player Rating Transaction Report for the program period was \$1,302,677 – a difference of \$84,810.</p> <p>(ii) The Premium Player Settlement Sheet for program ██████ recorded "over comps" of \$2,000 whereas expenses recorded for Ruzi's stay at Crown Towers was \$2,259.45.</p> | | <p>only and does not attribute the \$84,810. Accordingly, no calculation errors have occurred; and</p> <p>(ii) ██████ Premium Player Program Agreement allows for a Complimentary Allowance of .10% of the Program's total turnover. In this case, ██████ was entitled to \$1,217.87 in Complimentary value, Crown withheld \$2,000 from ██████'s commission to cover the excess expenditure in excess of the allowance, as per clause (4)(b) of the Agreement.</p> <p>As a consequence of ██████ accommodation expenditure, he was asked to contribute \$2,000 towards his expenses, which he did.</p> <p>As of 27 May 2020, no further comment has been received from the VCGLR.</p> | | |
| 27. | February 2020 | <p>On 13 February 2020, the VCGLR wrote to Crown alleging a breach of s 2.1 of the Cheque Cashing and Credit Facilities Internal Control Statement. The VCGLR noted anomalies found</p> | <p><i>Casino Control Act 1991 (Vic)</i></p> <p>S 121</p> <p>Cheque Cashing and</p> | <p>On 24 March 2020, Crown responded to the letter noting that Crown was not in breach of the ICS or SOP on the grounds that ██████ is approved for AUD7.5M, with the approval is dated September 2016.</p> | <p>The staff member who entered Alan McGregor's name in error was counselled.</p> |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions |
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| | <p>during a random selected Junket Operator audit [REDACTED]</p> <p>(i) There was no application for a Cheque Cashing Facility or Credit Facility Limit Change to increase [REDACTED] credit facility from \$3M to \$5M, required by Section 2.4 of the Current Standard Operating Procedures for Cheque Cashing and Credit Facilities.</p> <p>(ii) There was no correspondence between Crown Melbourne Limited and Law with respect to the credit limit change.</p> <p>(iii) The Junket Program Agreement signed on 21 December 2019, recorded front money of \$3M. However, four days earlier on 18 December 2019, Authorisers seemingly approved the credit limit change. The Junket Program Agreement did not record front money of \$5M.</p> <p>(iv) The authorisers, according to the</p> | <p>Credit Facilities Internal Control Statement</p> <p>S 2.1 The application of structured documented processes for:</p> <p>2.1.1 The initial establishment, amendment, suspension and/or re-instatement and cancellation of patrons' cheque cashing and/or credit facilities (as well as restricted facilities); and</p> <p>2.1.2 The monitoring and follow-up of patron indebtedness and the collection of discharge (either wholly or partly) of patron debts.</p> <p>(V)</p> | <p>[REDACTED] program commenced with AUD3M Front Money, but was approved for a TTO of up to AUD5M (the AUD3M meets the Front Money requirements even though AUD5M was drawn at the time, therefore Crown has met the Front Money requirements).</p> <p>Crown can confirm the authorisers as Roland Theiler, Barry Felstead and Jacinta Maguire. A team member within Crown's Cage entered the incorrect authoriser (Alan McGregor) into Syco, Credit Control advised the Cage the following day of the entry error. The Maintenance Report still reflects the error as it cannot be amended in Syco, it can only be recorded manually on the report for future reference (which it is).</p> <p>No Credit limit increase has occurred in this instance.</p> <p>As of 27 May 2020, no further comment has been received from the VCGLR.</p> | |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions |
|----------------------|--|---|--|---------------------|
| | <p>Patron Credit Profile for [REDACTED] include Jacinta Maguire. Whereas, the Cheque Cashing Maintenance report for the credit limit increase does not include Maguire as an Authoriser but Alan McGregor instead.</p> <p>(v) There was no correspondence between Credit Control and the Authorisers with respect to the credit limit increase.</p> | | | |
| Existing | | | | |
| 28. | <p>November 2019</p> <p>On 14 November 2019, the VCGLR wrote to Crown alleging a breach of s 121(4) of the <i>Casino Control Act 1991</i> (Vic), as the names of three (3) Key Players were not listed on a [REDACTED] program. The VCGLR noted that during the course of the audit, the three (3) players had received cash outs for various amounts.</p> | <p><i>Casino Control Act 1991</i> (Vic)</p> <p>S 121</p> <p>(v)</p> | <p>The three players were listed on a 'Junket Chip Cash-outs' document (an internal document used by the Cage to monitor the overall cash paid from the Operator's deposit account against the outstanding CCF limit). All three players were playing on a Hong Kong Dollar Program and were therefore rated under a separate junket of [REDACTED].</p> <p>On 9 December 2019, Crown responded to the VCGLR submitting that no breach had occurred. The three Key Players had played under a HKD Program and were listed on that Program</p> | No action required. |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions | |
|----------------------|----------------------|---|--|---|---|
| | | | <p>accordingly.</p> <p>As at 27 May 2020, no further contact has been received from the VCGLR.</p> | | |
| 29. | November 2019 | <p>On 14 November 2019, the VCGLR wrote to Crown requesting an explanation as to what consideration the Casino Operator gave to the 'adverse media reports' (allegation of criminal activity) and a Patron Risk Rating report as 'significant' when deciding to engage with ██████████ as a Junket Operator.</p> | <p><i>Casino Control Act 1991 (Vic)</i> <i>S 121</i> <i>ICS 2.5.1</i> (V)</p> | <p>On 18 December 2019, Crown responded to the letter, setting out the consideration it had given and its on-going due diligence processes. Further queries have since been received and were responded to.</p> <p>As at 27 May 2020, no outcome has been received from the VCGLR.</p> | No action required. |
| 30. | October 2019 | <p>On 16 October 2019, the VCGLR emailed Crown to enquire if the United Nations Security Council Consolidated List is checked as a part of ongoing probity checks (following media reports that Crown had permitted a sanctioned person to gamble at its casinos). The VCGLR also enquired as to whether Crown had identified any current premium, VIP, Junket Operators or participants on the list.</p> | (V) | <p>On 16 October 2019, Crown responded to the VCGLR enquiry with the following response:</p> <ul style="list-style-type: none"> • Crown uses a reputable third party provider to review a range of relevant lists, including Sanction Lists. • Crown is not aware of any current premium, VIP, junket operators or junket player on any current United Nations Security Council lists. <p>On 17 October 2019, the VCGLR emailed Crown noting that the previous enquiry related to ██████████ and requested advice</p> | <p>Crown understands that at the time ██████████ was not matched via the screening process with World Check prior to 2015 because the entries on the Sanctions List did not have a year or date of birth.</p> <p>Furthermore, there appears to be some question as to when the name ██████████ was added as an AKA to the</p> |

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| Date of issue / Dept | Description of issue | Relevant legislation/ regulation and Regulatory Authority | Status | Remedial Actions |
|----------------------|----------------------|---|--|---|
| | | | <p>on interactions with him. Crown also received a call from the VCGLR requesting information in relation to [REDACTED]. [REDACTED] Crown complied with this request and provided gaming records and a copy of his WOL letter.</p> <p>The VCGLR verbally noted that it had reviewed this matter in 2015.</p> <p><i>As at 27 May 2020, no further contact from the VCGLR has been received on the matter.</i></p> | <p>sanction alert at that time. [REDACTED] WOL was rescinded in 2017.</p> <p>No further action is required.</p> |
| 31. | October 2016 | <p>The VCGLR is investigating the detention of 19 Crown employees in China, charged and found guilty of offences relating to the promotion of gambling in the region.</p> | <p><i>Casino Control Act 1991 (Vic)</i> VCGLR (C)</p> | <p>Investigation remains in progress.</p> <p>No current action is required.</p> |

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5. Serious Security & Surveillance Matters

Note: In relation to the period post casino closure (from 23 March to May 2020), Security and Surveillance operations continue. No significant matters have been identified during the period of closure to date.

| | Date Reported | Background: Details of Serious Incident | Comments: Including follow-up action, potential for media interest, litigation, etc. |
|----|---------------|--|---|
| 1. | 09/01/2020 | <p>SELF HARM INCIDENT</p> <p>Security Officers witnessed a male scale and then jump off the Eastern ledge of the King's Way Bridge. The patron was found by Security in an unconscious state at the river bank under the bridge, but was breathing normally and later regained consciousness. The male was conveyed to hospital by ambulance, with a possible leg injury and minor facial bleeding.</p> | <p>Security Officers attempted to communicate with the male before he jumped, however he did not respond. Victoria Police and Ambulance Victoria were also contacted immediately in relation to the possible self-harm attempt.</p> <p>Police arrived after the male was found on the riverbank, and took over the incident, with the Crown First Aid officer in support. Paramedics arrived shortly after and transferred the male to the ambulance with the use of ladders. Melbourne Fire Brigade also attended at the request of AV, but were not required.</p> <p>Security crowd control was in place around King's Way and the Baci Riverside area. Access to the King's Way entry ramp was restricted to Emergency Services only. Patrons at Pit 12 Smoking Balcony were also moved out of the area overlooking the scene.</p> <p>There was no media attention or disruption to business operations relating to this incident.</p> |
| 2. | 26/01/2020 | <p>SERIOUS ASSAULT – GLASSING</p> <p>A patron is alleged to have struck another patron in his head with a drinking glass in the Mahogany Room, following a dispute which escalated to a physical altercation, in relation to the use of an EGM.</p> | <p>Security Officers attended in response to a duress alarm that was activated by staff at the time of the incident. Both patrons were observed to have sustained cuts, and there was also broken glass on the floor, and blood on several EGM chairs in the vicinity. Crown First Aid Officers attended and provided treatment to both injured patrons. An ambulance was not requested/deemed necessary.</p> |

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| | Date Reported | Background: Details of Serious Incident | Comments: Including follow-up action, potential for media interest, litigation, etc. |
|----|---------------|---|--|
| | | | <p>Victoria Police also attended, and the alleged offender was subsequently arrested and taken into Police custody concerning another unrelated matter.</p> <p>Neither of the males wished to press charges in relation to this incident, but both males have been issued with a Withdrawal of Licence by Crown.</p> <p>There was no media attention or disruption to business operations relating to this incident.</p> |
| 3. | 15/02/2020 | <p>ATTEMPTED STAFF ROBBERIES</p> <p>Two Food and Beverage staff members were approached by a male on Whiteman Street, who is alleged to have attempted to rob them, in two incidents that occurred shortly after each other.</p> | <p>One of the incidents was reported to Police and Security immediately after it occurred. The other incident was reported afterwards and passed on to Security and Surveillance for further investigation, at which time it was confirmed to have related to the same alleged offender.</p> <p>The male was observed on Whiteman Street on the following day, and was subsequently arrested by Police and taken off-site. He has also been issued a WOL by Crown.</p> <p>There was no media attention relating to this incident.</p> |
| 4. | 28/02/2020 | <p>ELECTRICAL FIRE</p> <p>Security observed sparks and smoke coming from Man Tong Kitchen Restaurant, later found to have been caused by an electrical fire.</p> | <p>The MFB were contacted, and Security and Maintenance personnel attended the location to investigate what had occurred. Man Tong and San Antone staff were subsequently evacuated and the immediate retail area was cordoned off, including Level 3.</p> <p>The MFB confirmed there had been an electrical fire, resulting in smoke travelling up to Palms through the walls. Alarms had also activated in the Palms area, resulting in the evacuation tone being sounded, and a second (automatic) call out to the MFB occurring.</p> |

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| | Date Reported | Background: Details of Serious Incident | Comments: Including follow-up action, potential for media interest, litigation, etc. |
|----|---------------|---|---|
| | | | <p>The MFB gave an all clear for Man Tong approximately 1 1/2 hours after the smoke was first sighted by Security, at which time staff were allowed to re-enter their venues. Level 3 remained closed to the public for a further 2 hours, due to the presence of residual smoke, after which staff and the public were allowed to re-enter. Man Tong remained closed to the public for the lunch period for cleaning. Access to Village Cinemas was also restricted for a short period during the incident.</p> <p>There was no media attention relating to this incident.</p> |
| 5. | 04/03/2020 | <p>BOMB THREATS</p> <p>An unknown male called Guest Services, stating that his brother was killed by Crown, and was demanding payment. The caller also stated that there was a bomb in the Car Park which would be detonated in 20 minutes. The call was then transferred to the Security Communication Centre.</p> <p>A further call was received by Guest Services from the same number several hours later. The caller stated that there were men armed with guns in the Car Park, as well as a bomb. The caller also stated that they were going to kill everyone, including the CEO, as retribution for an alleged incident with Security guards 11 years ago, that involved his brother. The call lasted for approximately 5 minutes, after which the caller chose to hang up.</p> | <p>Victoria Police were contacted and attended after the first call was received. Checks were completed in the Car Parks and around the perimeter, and nothing was found. The threat was then deemed not credible by Victoria Police.</p> |

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6. Security and Surveillance Statistics

| Serious Security Incident Data | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 ¹ |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------|
| Headcount (Complex) | 2,911,766 | 2,757,595 | 2,863,513 | 3,007,191 | 3,060,117 | 2,839,060 | 2,960,444 | 3,046,861 | 3,874,424 | 3,252,522 | 2,606,113 | 1,570,873 |
| Serious assaults between patrons involving injuries (Medical Officer Involved) | 2 | 0 | 1 | 2 | 0 | 0 | 2 | 4 | 0 | 1 | 0 | 0 |
| Assaults between patrons | 19 | 29 | 29 | 30 | 34 | 30 | 40 | 40 | 50 | 21 | 11 | 15 |
| Assaults on Crown Melbourne employees | 6 | 9 | 17 | 8 | 4 | 12 | 5 | 15 | 10 | 7 | 8 | 4 |
| Intoxicated patrons refused entry | 3,350 | 3,708 | 3,481 | 3,017 | 4,104 | 3,363 | 3,178 | 4,213 | 4,143 | 2,503 | 2,650 | 2,006 |
| Intoxicated patrons removed | 1,005 | 1,073 | 1,202 | 1,075 | 1,285 | 1,159 | 1,171 | 1,290 | 1,533 | 794 | 1,013 | 812 |

¹ Numbers to 23 March 2020, when the Casino closed as a result of the COVID-19 pandemic.



| Serious Security Incident Data | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 ¹ |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------------|
| Assisted removals | 45 | 50 | 69 | 60 | 65 | 82 | 52 | 66 | 65 | 40 | 35 | 31 |
| Peaceful removals | 1,824 | 1,859 | 1,994 | 1,917 | 2,108 | 2,021 | 2,012 | 2,173 | 2,455 | 1,845 | 1,954 | 1,428 |
| Weapons found on site | 4 | 3 | 4 | 9 | 2 | 3 | 5 | 6 | 3 | 4 | 2 | 1 |
| Minors on Gaming Floor | 1 | 1 | 2 | 1 | 1 | 1 | 3 | 3 | 2 | 1 | 0 | 5 |

2.1



Section 25 – Recommendations Table At 19 May 2020

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|---|--|---|---------------------|------------------|---|
| <p>Recommendation 1</p> <p>The VCGLR recommends that, by 1 January 2019, Crown develop, and submit to the VCGLR for approval, a change program to fully engage its independent directors in proactive strategic oversight of the operations of the Melbourne Casino. Particular consideration should be given to -</p> <ul style="list-style-type: none"> formulating a charter for the Crown Melbourne board fully documenting, for visibility to the VCGLR, the reporting and decision-making relationships between all of the boards, committees and executive meetings with responsibility for, or oversight of, Melbourne Casino functions, and elevation of governance to the group board and committees. <p>The submission should identify any changes to regulatory frameworks and how these will be addressed.</p> | <p>Recommendation Accepted</p> <p>Crown will, in conjunction with its parent company, review its governance framework, taking into account the matters recommended by the Commission for consideration. A new framework for reporting has already been designed and is being worked through. Crown will continue to review its corporate structure moving forward with any proposed changes brought to the attention of the Commission.</p> <p>We also note that the current Crown Melbourne Framework has been considered by the Commission in times past, with some of the current structures in place as a result of regulatory obligations.</p> | <ul style="list-style-type: none"> A submission addressing all points referenced in Recommendation 1 was submitted to the VCGLR on 24 December 2018. The submission included a Crown Melbourne Board Charter. Although not specifically related to Recommendation 1, Crown is drafting a new updated Company Constitution, which will require the approval of the Commission in due course. | 1 January 2019 | Yes | The VCGLR noted Crown's undertaking of the Recommendation by letter dated March 2019. |
| <p>Recommendation 2</p> <p>The VCGLR recommends that, by 1 January 2019, Crown undertake a</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> Review undertaken and letter outlining actions taken by Crown submitted to the VCGLR on 24 December 2018. | 1 January 2019 | Yes | The VCGLR noted Crown's undertaking of the Recommendation by letter dated |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--|--|---------------------------|-------------------|--|
| <p>review of the required qualifications for committee chairs set out in the charters, and ensure that the appointees' actual qualifications match.</p> | | | | | <p>March 2019. It was further requested that Crown should undertake the same review for Crown Resorts' Committees.</p> <p>Although not a requirement of the recommendation to carry out a review of the Crown Resorts Limited Committees, Crown responded by sending two letters outlining the review of the Crown Resorts Committees on 3 June 2019.</p> <p>The VCGLR noted Crown's response to the Recommendation by letter dated 6 August 2019.</p> |
| <p>Recommendation 3</p> <p>The VCGLR recommends that, by 1 July 2019, Crown assess the robustness and effectiveness of its risk framework and systems, including reporting lines in the chain of command, and upgrade them where required. This assessment should be assisted by external advice.</p> | <p>Recommendation Accepted</p> <p>It should be noted that the risk framework has already been reviewed and an enhanced framework is currently being implemented, which is supported by an IT based reporting, recording and management framework.</p> <p>Also, a Group General Manager – Risk and Audit was appointed in 2017 to oversee the group function of risk and audit. Additional resources have also been committed to support the enhanced framework.</p> | <ul style="list-style-type: none"> The Group General Manager Risk & Audit has reviewed Crown's risk framework and commenced enhancements to the framework and systems in early 2018. In this respect the enhanced risk framework has started to be rolled out across the business and is being embedded into work processes and systems. A new "Risk Appetite" was presented to, and ultimately approved, in December 2018 by the relevant Crown Boards and Committees. The supporting Risk Matrix was revised, approved by the business and embedded into the risk system to ensure the capture of Risk Profile data. Risk reporting has been restructured, and organised around seven risk categories, including the development of a key risk indicator (KRI) dashboard. An external firm was engaged to carry out a review of the risk framework elements. The relevant observations provided by the external firm have been included in the Risk Management Strategy document, which was | <p>1 July 2019</p> | <p>Yes</p> | <p>By letter dated 3 September 2019, the VCGLR deferred its consideration of the Recommendation until the Deloitte Report was provided.</p> <p>Crown sent a copy of the Deloitte Report to the VCGLR by letter dated 13 September 2019.</p> <p>On 14 October 2019, the VCGLR wrote to Crown making further enquiries as to the status of each recommendation in the Deloitte Report.</p> <p>Crown responded to the VCGLR's further enquiries by letter dated 28 October 2019.</p> <p>By email on 15 November 2019, the VCGLR queried detail of Crown's letter of 28 October 2019, which Crown responded to on 18 November 2019.</p> <p>By letter dated 9 January 2020,</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--|---|---------------------|------------------|--|
| | | <p>presented to the relevant Crown Boards and approved.</p> <ul style="list-style-type: none"> The risk system has been updated to reflect the updated framework elements, and implemented across Crown Melbourne. Letter outlining actions taken by Crown in accordance with the recommendation submitted to the VCGLR on 1 July 2019. A request was made by the VCGLR on 3 September 2019 for Crown to provide a copy of the Deloitte Report, which was provided on 13 September 2019. On 14 October 2014, the VCGLR emailed Crown requesting further detail on the status of each recommendation in the Deloitte Report which Crown responded to on 28 October 2019. | | | <p>the VCGLR noted Crown's implementation of Recommendation 3, also indicating that the VCGLR will monitor Crown's implementation of the three outstanding Deloitte recommendations.</p> |
| <p>Recommendation 4</p> <p>The VCGLR recommends that, by 1 July 2019, Crown undertake a robust review of internal controls to ensure that Crown's regulatory and compliance department is aware of all projects and works in progress for which regulatory approvals might be relevant.</p> | <p>Recommendation Accepted</p> <p>In this respect, a new business-wide compliance framework has been designed and the roll out has commenced across the business. Further a new process has been implemented to address any proposed changes to the regulatory environment.</p> | <ul style="list-style-type: none"> A Gaming Initiatives Form was developed and implemented into processes in the business and is the key action in satisfying this recommendation; along with the new Regulatory and Compliance Requirements Policy. A submission was made for an amendment to the EGM ICS to provide for the Gaming Initiative Form – VCGLR approval has been received. Review was undertaken to determine whether additional Internal Controls are required or existing controls require amendment. Although not specifically in response to this Recommendation, a new business wide compliance framework has been developed and rolled out to the business (95% of relevant departments are now integrated into the new framework). This included the | <p>1 July 2019</p> | <p>Yes</p> | <p>The VCGLR noted Crown's undertaking of the Recommendation by letter dated 3 September 2019.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown’s Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|----------------|------------------|--|---------------------|------------------|---------------|
| | | <p>commissioning of a reporting system (known as CURA) to support the new compliance framework.</p> <ul style="list-style-type: none"> • A detailed submission on the Compliance Framework was sent to the Chairman of the Commission on 24 December 2018, related to the Blanking Buttons matter. • Review undertaken and letter outlining actions submitted to the VCGLR on 1 July 2019. • Following the review of internal controls, Crown will include a reference in relevant ICSs to Compliance being consulted prior to new initiatives being implemented (this will be done in conjunction with the changes required for Recommendation 17 once closed by the VCGLR). | | | |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--|--|------------------------|------------------|---|
| <p>Recommendation 5</p> <p>The VCGLR recommends that Crown convene annual roundtable sessions briefing key internal staff on the VCGLR's risk-based approach to regulation, with a particular focus on how that approach relies on the integrity of Crown's internal processes.</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> An annual briefing will be provided to Management at the Crown Melbourne Executive Risk and Compliance Committee (ERCC) meeting on the VCGLR's risk-based approach and its impact on Crown and its processes. On 21 May 2019 the Chairman presented to the ERCC the VCGLR's risk-based approach and how it relies on the integrity of Crown's internal processes. Each member of the Committee was also provided with a copy of the VCGLR's Regulatory Approach document as well as the summary version, for future reference. The minutes of the ERCC meeting reflect that the VCGLR's Risk Based Approach was presented at this meeting (and will be annually presented thereafter). A letter outlining the actions taken by Crown was submitted to the VCGLR on 28 June 2019. | <p>Annual, ongoing</p> | <p>Yes</p> | <p>The VCGLR noted Crown's undertaking of the Recommendation by letter dated 29 October 2019.</p> |
| <p>Recommendation 6</p> <p>The VCGLR recommends that, by 1 January 2020, Crown Melbourne review its allocation of staffing resources to increase the number of work hours actually available to responsible gambling and intervention with patrons. This might be achieved by training more gaming staff to undertake assessments and then approach patrons identified as at risk, without the need to contact a RGLO. However, this will only be effective if those staff have sufficient time aside from their gaming duties.</p> | <p>Recommendation Accepted</p> <p>Crown has already commenced the process of employing an additional five Responsible Gaming staff members. Additionally, there will be a review of training for gaming and other related staff</p> | <ul style="list-style-type: none"> Crown recruited five additional Responsible Gaming Liaison Officers (renamed Responsible Gaming Advisors (RGAs) and there are now 12 RGAs, which have assisted in having a greater presence on the gaming floor. The Gaming Machines and Table Games staff training framework has also been reviewed - Crown remains of the view that the referral to expert RG staff remains a corner stone of its RG model. However, revised training for Gaming Machines staff is being settled with the VCGLR and additional Senior Manager Training is being provided to all (330) Table Games Area Managers (over 12 months). A letter outlining the actions taken by Crown was submitted to the VCGLR on 23 December 2019. | <p>1 January 2020</p> | <p>Yes</p> | <p>In response to Crown's submission of 23 December 2019, the VCGLR sent Crown some clarifying questions on 7 and 24 February 2020 (e.g. how many hours per week does an RGA work etc.), which Crown responded to on 20 and 26 February 2020.</p> <p>By letter dated 5 May 2020, the VCGLR noted that Crown had implemented Recommendation 6.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|---|--|--|---------------------|--|---|
| <p>Recommendation 7</p> <p>The VCGLR further recommends that Crown Melbourne use observable signs in conjunction with other harm minimisation measures such as data analytics to identify patrons at risk of being harmed from gambling.</p> | <p>Recommendation Accepted</p> <p>A new data analytics trial has commenced in relation to carded players.</p> | <ul style="list-style-type: none"> Crown has continued to use observable signs as a key element to its responsible gaming framework, together with the enhancement of its Play Period monitoring tool and the Crown Model. Crown has developed a data analytics program called the "Crown Model", which has been developed from data and behaviours of former patrons who have self-excluded from Crown Melbourne. The Crown Model is designed as a predictive tool to assist in proactively identifying patrons who may be gambling in a manner which could be an indicator of potential harm. The trial of the Crown Model commenced on 25 June 2018 with operational procedures developed to respond to players of interest that are identified. The Crown Model is in its early stages with processes being adjusted as we learn from outputs. The first six month review is complete and the team is meeting regularly to discuss refinements. The 12 month trial has finished with the results being considered by the Responsible Gaming and Data Analytics team. Crown is also in the process of obtaining a separate external review of the methodology. A letter (in combination with the response to Recommendation 8) outlining the actions taken by Crown was submitted to the VCGLR on 30 December 2019. | Ongoing | Yes | <p>In response to Crown's submission of 30 December 2019, the VCGLR sent Crown some clarifying questions on 18 and 19 February 2020 (e.g. how many staff are in the Customer Analytics Team etc.), which Crown responded to on 24 and 26 February 2020.</p> <p>A further question was received from the VCGLR on Friday, 27 March 2020, which Crown responded to on 31 March 2020.</p> <p>Crown awaits the VCGLR's response to this Recommendation.</p> |
| <p>Recommendation 8</p> <p>The VCGLR recommends that Crown Melbourne proceed with development</p> | <p>Recommendation Accepted</p> <p>As referenced above,</p> | <p>Rec 8(a)</p> <ul style="list-style-type: none"> Crown Melbourne has commenced its Crown | Recommendation 8(a) | <p>8(a) submitted.</p> <p>8(b) submitted</p> | <p>The VCGLR noted Crown's commencement of the comprehensive study for Recommendation 8(b), by letter</p> |

2.2

Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|---|--|--|--|---|---|
| <p>and implementation of comprehensive data analytics tools for all patrons, to proactively identify for intervention patrons at risk of harm from gambling. These tools would utilise both historical data (with parameters developed from the second player model), and real-time monitoring of play periods. Crown Melbourne should look to models in other jurisdictions, and consult with external data analytics experts, with a view to implementing world-class, proactive approaches with real-time (or near-real time) operational effectiveness. In particular—</p> <p>(a) for carded play (that is, player activity which can be systematically tracked), Crown Melbourne will have in operation a comprehensive real-time player data analytics tool by 1 January 2020, and</p> <p>(b) for uncarded play (that is, all other player activity), Crown Melbourne will, by 1 January 2019, commence a comprehensive study of all the practical options for a real time player data analytics tool, with a view to reporting in detail (including legal, technical and methodological issues) to the VCGLR by 1 January 2020 and the tool being in operation by 1 July 2022.</p> | <p>Crown has commenced a data analytics trial in relation to carded players.</p> <p>Further, work will be undertaken on systems to explore and implement real-time concepts by 1 January 2020.</p> <p>Crown also supports reviewing the extent to which further data analytics tools might enhance the framework into the future. In this respect, the use and reliability of data from uncarded play is new ground for the land based gaming industry which is not yet supported by reliable research and evidence.</p> <p>Crown will commit to carrying out a study of the options available and assess and analyse the research and expert evidence available with a view to exploring appropriate tools and options available to it for uncarded play.</p> | <p>Model trial (refer Recommendation 7).</p> <ul style="list-style-type: none"> Crown has commenced its review of relevant literature and other jurisdictional experiences. The “real time monitoring” of play periods is currently under consideration and development including the recent adjustment of Crown’s own “Play Periods” whereby RG, in conjunction with IT, is developing a reporting system, that identifies if a carded patron has been on the property for 12 hours or more and play has been recorded. A tool for monitoring Play Periods has been developed. A phone alert has been developed. <p>Rec 8(b)</p> <ul style="list-style-type: none"> On 24 December 2018 Crown wrote to the VCGLR noting that it had commenced a comprehensive study of all the practical options for a real time player data analytics tool. Undertaking regular meetings with Gaming senior management to discuss possible approaches for monitoring uncarded play. Crown has held discussions with external parties regarding possible solutions. A letter (in combination with the response to Recommendation 7) outlining the actions taken by Crown for Recommendations 8(a) and 8(b) was submitted to the VCGLR on 30 December 2019. No solution for 8(b) has yet been identified. | <p>1 January 2020</p> <p>Recommendation 8(b)</p> <p>Commence study by 1 January 2019</p> <p>Report to the VCGLR by 1 January 2020</p> <p>Commence operation by 1 July 2022</p> | <p>for 1 January 2019 and 1 January 2020 requirements. 1 July 2022 requirement in progress.</p> | <p>dated March 2019.</p> <p>In response to Crown’s submission of 30 December 2019, the VCGLR sent Crown some clarifying questions on 18 February 2020 (e.g. how many Customer Analytics Teams does Crown have etc.), which Crown responded to on 24 February 2020. A further question was received from the VCGLR on 31 March 2020, which Crown responded to in April.</p> <p>On 27 April 2020, the VCGLR asked Crown if it would agree to the information and data from Recommendation 8 being provided to the VRGF. Crown responded on 30 April 2020 that is not comfortable with the information and data from Recommendation 8 being provided to the VRGF, as:</p> <ol style="list-style-type: none"> It was not a requirement of Recommendation 8 to liaise with or involve the VRGF in this Recommendation, as it was for others; It was therefore not part of what Crown had agreed to in accepting the Recommendation; and The information is commercially sensitive to Crown and its confidentiality should therefore be protected. |

2.2

Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|---|--------------------------------|---|------------------------|------------------|--|
| <p>Recommendation 9</p> <p>The VCGLR recommends that Crown Melbourne arrange, at its expense, for an independent assessment of the real-time player data analytics tool for carded play (see Recommendation 8(a)), to be completed 12 months after implementation of the tool. The independent assessment is to be undertaken by a person approved by the VCGLR, after consultation with Crown.</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> Will be progressed in due course | <p>1 December 2020</p> | <p>No</p> | |
| <p>Recommendation 10</p> <p>The VCGLR recommends that, by 1 July 2019, Crown Melbourne undertake a comprehensive review of its policy for the making and revocation of voluntary exclusion orders under section 72(2A) of the <i>Casino Control Act</i>. The comprehensive review should be undertaken in conjunction with the VCGLR, VRGF and other relevant external stakeholders. The review should be undertaken with a view to implementing policies that facilitate:</p> <ul style="list-style-type: none"> Crown Melbourne issuing short term exclusion orders for 3, 6, 12 or 24 months under section 72 of the <i>Casino Control Act</i>, considering the specific circumstances of the person and their preferred time period for exclusion, and conditional on the person undertaking to comply with the order and with other matters (such as obtaining treatment), and | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> Literature review completed. The VCGLR, VRGF and Crown had their first meeting on 29 November 2018 to commence discussions on this recommendation. The VCGLR, VRGF and Crown held six tripartite meetings to discuss Recommendation 10. Crown has obtained external opinion on its proposals for recommendation 10. Crown considered voluntary exclusion orders, which are more than 10 years old and determined not to revoke them. Crown has amended its Self-Exclusion Program to allow patrons to determine the number of years they will be Self-Excluded for (minimum of 12 months) and has amended its Time-Out Program to include a 3 and 6 month Agreement. A letter outlining the actions taken by Crown was submitted to the VCGLR on 28 June 2019. Further inquiries were made by the VCGLR on 16 September 2019 in relation to the benefits | <p>1 July 2019</p> | <p>Yes</p> | <p>On 16 September 2019, the VCGLR wrote to Crown in response to its submission, asking for further clarifying information.</p> <p>Crown responded to the VCGLR's requests on 26 September 2019.</p> <p>By letter dated 13 November 2019, the VCGLR noted Crown's undertaking of the Recommendation. The letter further requested data from Crown's 12 month trial of the Time Out Program.</p> <p>On 15 January 2020, the VCGLR wrote to Crown setting out its requirements for the provision of data, which Crown provided as required on 24 February 2020.</p> <p>No further communication has been received from the VCGLR on this Recommendation.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|---------------------------------------|---|---------------------------|-------------------|--|
| <ul style="list-style-type: none"> Crown Melbourne reviewing voluntary exclusion orders which are more than 10 years old to consider whether the continued operation of these orders serves a useful purpose, with a view to retaining only those orders that are beneficial to the persons who are subject to them, and can be adequately enforced. The VCGLR further recommends that the review of such orders occurs in an orderly manner between 1 July 2019 and 30 June 2020. | | of the Time Out program and its comparison to the Exclusion Program, which were answered by Crown on 26 September 2019. | | | |
| <p><u>Recommendation 11</u></p> <p>The VCGLR recommends that, by 1 July 2019, Crown Melbourne develop and implement a policy and procedure to facilitate Crown Melbourne issuing involuntary exclusion orders under section 72(1) of the <i>Casino Control Act</i> at the request of family members and friends in appropriate cases. The policy and procedure should be developed in conjunction with the VCGLR, VRGF and other external stakeholders. Crown Melbourne should include information about this option in all its responsible gambling publications, website and regularly provide information to relevant stakeholders, such as Gambler's Help and other similar organisations, about this option.</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> The Crown Perth Third Party Exclusion (TPE) Policy and Procedure was reviewed and adjusted, in draft, to suit Crown Melbourne. The VCGLR, VRGF and Crown at their tripartite meetings (refer Recommendation 10) considered the draft TPE Policy and Procedure. At the second tripartite meeting on 18 December 2018 the VCGLR requested further material for the literature review and that Crown Melbourne provide Third Party Exclusion statistics from Crown Perth. The VCGLR also indicated that it proposed to meet with the South Australian Regulator to discuss its processes. Various versions of the TPE Program were reviewed, amended and settled by the Tripartite group. A letter outlining the actions taken by Crown was submitted to the VCGLR on 28 June 2019. Further inquiries were made by the VCGLR on 16 September 2019 in relation to the methods of contact with Crown regarding Third Party Exclusions, which were answered | <p>1 July 2019</p> | <p>Yes</p> | <p>On 16 September 2019, the VCGLR wrote to Crown in response to its submission, asking for further clarifying information.</p> <p>Crown responded to the VCGLR's requests on 26 September 2019.</p> <p>By letter dated 13 November 2019, the VCGLR noted Crown's undertaking of the Recommendation.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|---|--|--|---|------------------|---|
| | | by Crown on 26 September 2019. | | | |
| <p>Recommendation 12</p> <p>The VCGLR recommends that, by 1 July 2019, Crown Melbourne expand facial recognition technology to cameras on all entrances to the casino and that Crown Melbourne provide written updates on a quarterly basis on its effectiveness to the VCGLR.</p> | <p>Recommendation Accepted</p> <p>Crown notes that it has already expanded its facial recognition capabilities and proposes to continue to do so in FY20.</p> | <ul style="list-style-type: none"> Facial recognition cameras are now operating on all entrances to the casino. A letter to the VCGLR confirming that all entrances to the Casino (including salons) are covered by facial recognition cameras was sent to the VCGLR on 28 May 2019 to close out the Recommendation. Crown commenced providing quarterly updates from October 2019 (which covered the period 1 July 2019 to 30 September 2019) on the effectiveness of its Facial Recognition Technology. | 1 July 2019 (and ongoing quarterly reports) | Yes | <p>On 24 June 2019 the VCGLR emailed Crown to arrange an inspection of the cameras at each entrance to ensure compliance. The audit was arranged for Wednesday 3 July 2019 and proceeded as scheduled.</p> <p>The VCGLR noted Crown's undertaking of the Recommendation by letter dated 6 August 2019.</p> <p>By email dated 22 November 2019, the VCGLR sought clarifying information regarding Crown's first provision of the Quarterly Update. The queries largely concerned whether an over-reliance on Neoface could reduce Crown's regular efforts at detecting breaches or attempted breaches. Crown responded no, as no existing processes were altered as a result of the implementation of Neoface.</p> <p>By letter dated 9 January 2020, the VCGLR noted Crown's provision of the first quarterly update, in line with Recommendation 12.</p> |
| <p>Recommendation 13</p> <p>The VCGLR recommends that, as part of developing a new responsible gambling strategy, by 1 July 2019, Crown Melbourne rebrand or refresh its</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> To be progressed upon finalisation of the RG Strategy (see recommendation 14). Initial drafts of new logo being developed. Marketing has been briefed regarding a | 1 July 2019 | Yes | <p>The VCGLR noted Crown's undertaking of the Recommendation by letter dated 3 September 2019.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--------------------------------|---|---------------------|------------------|---|
| responsible gambling messaging and publish new responsible gambling messages throughout the casino, in all Crown Melbourne publications, including online and social media platforms. | | <p>refresh and a new logo has been developed – ready for internal review/approval. Strategy will be set by 1 July 2019 and roll-out will commence at that time.</p> <ul style="list-style-type: none"> Crown finalised the new marketing design and refresh (including logo). Nomenclature changed from Responsible Gambling Support Centre to Responsible Gaming Centre and Responsible Gambling Liaison Officer to Responsible Gaming Advisors. Brochures and on-line material have been refreshed. A letter outlining the actions taken by Crown was submitted to the VCGLR on 29 June 2019. | | | |
| <p>Recommendation 14 The VCGLR recommends that, by 1 July 2019, Crown Melbourne develop and implement a responsible gambling strategy focusing on the minimisation of gambling related harm to persons attending the casino. The strategy should address:</p> <p>(a) early proactive intervention initiatives</p> <p>(b) player data analytics</p> <p>(c) proactive engagement with pre-commitment</p> <p>(d) intervening with local players with continuous play based on shorter timeframes which are more reflective of responsible gambling</p> <p>(e) the role of all staff in minimising harm</p> <p>(f) the effective use and monitoring of exclusion orders</p> <p>(g) internal reporting arrangements</p> <p>(h) integrating responsible gambling into proposals for trialing or</p> | Recommendation Accepted | <ul style="list-style-type: none"> A draft strategy was prepared and ratified by the Crown Resorts Limited Responsible Gaming Committee and is being implemented. A letter outlining the actions taken by Crown was submitted to the VCGLR on 29 June 2019. | July 2019 | Yes | <p>On 20 August 2019, the VCGLR wrote to Crown in response to its submission, asking for further clarifying information.</p> <p>Crown responded to the VCGLR's request on 26 August 2019.</p> <p>By letter dated 13 November 2019, the VCGLR noted Crown's undertaking of the Recommendation.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|---------------------------------------|---|------------------------------|-------------------|---|
| <p>introduction of new products and equipment</p> <p>(i) performance measures to assess the performance of the RGLOs, RGSC and casino staff in relation to harm minimisation</p> <p>(j) the roles of the Crown Resorts Responsible Gambling Committee and the Responsible Gambling Management Committee in driving harm prevention strategies based on world's best practice</p> <p>(k) the objectives of the RGSC in relation to minimising harm to patrons, and</p> <p>(l) the responsible service of gambling as a fundamental core business consideration when making strategic decisions regarding casino operations.</p> | | | | | |
| <p>Recommendation 15</p> <p>The VCGLR recommends that, within three months of implementing the new responsible gambling strategy (Recommendation 14), there is regular reporting to the Crown Resorts Responsible Gambling Committee for it to maintain oversight of Crown Melbourne's harm minimisation strategy for responsible gambling. Regular reports every two months should include numbers and types of interventions and other harm minimisation activities of RGSC and other staff, details of the number and nature of referrals to external service providers, exclusion orders, breaches, revocation and appeals, as well as results from player data analytics and</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> Revised reporting developed. A letter was sent to the VCGLR to close the Recommendation on 1 October 2019, notifying that reporting would commence at the next meeting of the Crown Resorts Responsible Gaming Committee, dated 9 October 2019. New reporting on statistics provided to CRL Responsible Gaming Committee. | <p>1 October 2019</p> | <p>Yes</p> | <p>By email on 12 November 2019, the VCGLR requested a copy of the RG Report that was provided to the Crown Resorts Limited RG Committee on 9 October 2019.</p> <p>Crown provided the Report with a covering letter concerning its confidentiality, on 26 November 2019.</p> <p>By letter dated 9 January 2020, the VCGLR noted Crown's undertaking of the Recommendation, additionally requiring that each report to the CRRGC be provided to the VCGLR after each meeting and that each report include 'results from player analytics' post completion of</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--------------------------------|--|---------------------|------------------|---|
| other initiatives to minimise gambling related harm. These reports should also be made available to the VCGLR for monitoring purposes. (The VCGLR intends to share this information, as appropriate, with the VRGF). | | | | | Recommendation 8. |
| Recommendation 16 The VCGLR recommends that within three months of implementing the strategy, a charter is developed for the Crown Melbourne Responsible Gambling Management Committee (staff committee) which includes reference to the role and responsibility of driving a harm minimisation culture. | Recommendation Accepted | <ul style="list-style-type: none"> Management is currently reviewing all Australian Resorts RG Committees to align processes where appropriate. A Charter has been developed. A letter was sent to the VCGLR attaching the Charter to close the Recommendation off on 1 October 2019. | 1 October 2019 | Yes | By letter dated 20 December 2019, the VCGLR noted Crown's undertaking of the Recommendation. |
| Recommendation 17 The VCGLR recommends that, by 1 July 2019, Crown undertake a robust review (with external assistance) of relevant internal control statements, including input from AUSTRAC, to ensure that anti-money laundering risks are appropriately addressed. | Recommendation Accepted | <ul style="list-style-type: none"> Crown met with AUSTRAC to discuss this recommendation. A new joint AML Program across Crown's Australian Resorts is being developed and will be reviewed by an external party. AUSTRAC is being kept informed of progress. Internal Controls have been reviewed, preliminary discussions with AUSTRAC have taken place and draft changes have been made for management review. In addition to a review of the ICSs, Crown also reviewed the primary tool to manage the risks associated with anti-money laundering, being the AML/CTF Program; Crown has performed an extensive review of its corporate risk management framework, ensuring its relevance and effectiveness to Crown. An extensive alignment effort was also undertaken, to ensure consistency across all key areas of the business, including the AML program. | 1 July 2019 | Yes | <p>On 21 August 2019, the VCGLR wrote to Crown noting its intention to conduct its own independent review of the ICSs for risk mitigation opportunities with regard to AML (was not part of the Recommendation).</p> <p>The VCGLR noted Crown's undertaking of the Recommendation by letter dated 29 October 2019. The letter further noted again, the VCGLR's intention to conduct its own independent review of the ICSs, with external assistance.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown’s Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|----------------|------------------|---|---------------------|------------------|---------------|
| | | <ul style="list-style-type: none"> • In March – May 2019, Crown conducted its annual ML/TF Risk Assessment of the designated services it provides, its delivery methods, the technology used and its customers. The ML/TF Risk Assessment includes a consideration of Junket Operators and Junket Players, and potential ML/TF risks arising in respect thereof. • Crown examined all relevant Internal Control Statements and Standard Operating Procedures, in light of the ML/TF Risk Assessment above, to ensure that we reflect in the relevant ICSs, the seriousness with which Crown focuses upon, and addresses, potential ML/TF risks that might be presented by its business. • We have also had regard to the language adopted for the Internal Control Manuals in NSW, which were accepted and approved by Liquor & Gaming NSW. • We further examined ancillary documentation (policies, procedures, training) to ensure that AML risks are appropriately addressed by Crown. • Since the last update, Crown has had further conversations with AUSTRAC regarding Recommendation 17. • Crown has packaged the extensive work it has undertaken over the past 6 months and sent it to AUSTRAC during the week commencing 27 May 2019, seeking its input. • Crown also sent the packaged to an external AML expert during the week commencing 27 May 2019, seeking its input. • Crown received input/responses from both AUSTRAC and the independent expert, which it incorporated into proposed ICS changes, | | | |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|---------------------------------------|--|--------------------------------|-------------------|---|
| | | <p>which will be submitted to the VCGLR for approval once their letter closing the Recommendation is received.</p> <ul style="list-style-type: none"> A letter outlining the actions taken by Crown was submitted to the VCGLR on 1 July 2019. On 21 August 2019 the VCGLR wrote to Crown requesting a copy of the expert report from Initialism Pty Ltd. Additionally, the letter noted that the VCGLR would conduct its own review of the relevant ICSs. Crown provided the Initialism Report on 28 August 2019. | | | |
| <p>Recommendation 18</p> <p>The VCGLR recommends, in all future submissions by Crown Melbourne to the VCGLR for approvals under the <i>Casino Control Act or Gambling Regulation Act</i>, that Crown document:</p> <ul style="list-style-type: none"> the purpose obligations under relevant provisions of legislation, the Transaction Documents, and existing approvals what changes the grant of the approval would make to products, rules and procedures, etc risks associated with the approval and how they will be treated how responsible gambling considerations have been taken into account in the process and the measures Crown will implement to mitigate the risk of gambling related harm, and <p>which areas of Crown will be responsible for managing implementation.</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> A new template for submissions to the VCGLR for seeking approvals was drafted and has been in use since July 2018. A letter was sent to the VCGLR to close the Recommendation off on 11 October 2019. | <p>Immediate effect</p> | <p>Yes</p> | <p>By letter dated 20 December 2019, the VCGLR noted Crown's undertaking of the Recommendation.</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown's Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|--|--|---|--------------------------------------|------------------|--|
| <p>Recommendation 19</p> <p>The VCGLR recommends that, by 1 July 2019, Crown Melbourne implement a policy to make an exclusion order under section 72 of the <i>Casino Control Act</i> in appropriate cases where a person has engaged in significant unacceptable conduct in the casino or is the subject of serious criminal charges.</p> | <p>Recommendation Accepted</p> <p>Crown notes that it has had a policy in place to issue Exclusion Orders for unacceptable behaviour for over ten years and does issue Exclusion Orders for this purpose in appropriate circumstances. Crown also notes that it issues withdrawal of licence notices to persons in appropriate circumstances, as it is entitled to do as a common law right, as those notices cover broader areas of the Crown property than the more limited area covered by Exclusion Orders.</p> | <ul style="list-style-type: none"> The existing 'Unacceptable Behaviour' policy statement has been reviewed and amended to strengthen the use of exclusion orders either instead of or as well as withdrawal of licences (in appropriate cases). Policy is currently under review by management. Management feedback has been received and the policy has been updated. A letter to the VCGLR to close out the Recommendation was sent on 27 May 2019. On 11 June 2019 the VCGLR wrote to Crown asking for further amendments, including explaining to staff when to issue each type of ban order (was not a requirement of the Recommendation). Various discussions and meetings were held between Crown and the VCGLR, including on the difficulty of amending a non-Regulated document, which operates effectively and will be amended annually. A further letter outlining Crown's policies was submitted to the VCGLR on 3 December 2019. The VCGLR made further queries of Crown and it provided amended versions of the Policies on 9 January 2020. | 1 July 2019 | Yes | <p>On 11 June 2019 the VCGLR wrote to Crown asking for further amendments, including explaining to staff when to issue each type of ban order (not a requirement of the Recommendation).</p> <p>A number of meetings and correspondence on the matter have since transpired. Crown last met with the VCGLR to discuss this matter on 24 October 2019.</p> <p>The VCGLR made further queries of Crown and Crown provided amended versions of the Policies on 9 January 2020.</p> <p>By letter dated 20 February 2020, the VCGLR noted Crown's undertaking of the Recommendation.</p> <p>Crown published the amended Policies on its intranet on 20 February 2020.</p> |
| <p>Recommendation 20</p> <p>The VCGLR recommends that, between November 2019 and March 2020, VCGLR Commissioners and directors of the Crown Resorts Board meet to review the implementation of the recommendations set out in this report.</p> | <p>Recommendation Accepted</p> | <ul style="list-style-type: none"> On 21 October 2019, MF called Alex Fitzpatrick (Director) requesting guidance on suitable Crown Resorts Directors to attend the meeting. Ms Fitzpatrick will consider and revert. Meeting dates and attendees have been proposed by Crown and are being reviewed by | Between November 2019 and March 2020 | In progress | <p>On 28 October 2019 the VCGLR wrote to Crown asking for further clarifying information as to date and attendee proposals.</p> <p>Crown responded to the VCGLR on 30 October 2019 advising that it is open to any dates whereby the</p> |

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Section 25 – Timeline – Implementation of Recommendations

| Recommendation | Crown’s Response | Proposed Action/Progress Update | Target/Action Dates | Completed Yes/No | VCGLR Outcome |
|----------------|------------------|--|---------------------|------------------|--|
| | | <p>the Commission.</p> <ul style="list-style-type: none"> The meeting has now been scheduled for 22 April 2020. | | | <p>Commissioners and Crown Directors are available (the VCGLR proposed three dates in March) and possible Directors, which was put to the Commission, however the dates were unavailable. Further dates were proposed and agreed, however, Crown had late unavailability.</p> <p>The VCGLR wrote to Crown by email on 22 January 2020 expressing that the meeting now won’t occur within the timeframe required by the recommendation, because of the unavailability of Crown Directors and proposing two new dates for the meeting, noting that the Commission will not consider an extension beyond the proposed dates. Crown confirmed 22 April 2020, which was one of the two proposed dates.</p> <p>The 22 April 2020 meeting has been postponed as a consequence of the COVID-19 pandemic.</p> |

2.2



AGENDA ITEM 3:
Litigation Report

REDACTED - PRIVILEGE



REDACTED - PRIVILEGE



REDACTED - PRIVILEGE



| | |
|---|-------------------------------|
|  | <h2>ANNEXURE A – DEBTORS</h2> |
|---|-------------------------------|

Local Debtors

| Patron details | Amount Owing | Last Receipt | History Summary | Progress Since Last Report |
|----------------|--------------|--------------|---|----------------------------|
| | | - | None currently the subject of litigation. | |

Interstate Debtors

| Patron details | Amount Owing | Last Receipt | History Summary | Progress Since Last Report |
|----------------|---|--------------|---|--|
| ██████████ | \$180,000 (Crown Melbourne) \$94,300 (Crown Perth) | | Crown Melbourne has issued proceedings against the debtor for the Melbourne debt. Crown Perth has also issued proceedings against debtor for Perth debt. | Crown Melbourne writ has been t served. Crown Perth writ has been served. Crown is considering ██████████ <small>REDACTED - PRIVILEGE</small> |


International Debtors

| Patron details | Amount Owing | Last Receipt | History Summary | Progress Since Last Report |
|--|--------------|--------------|-----------------|----------------------------|
| There are currently no international debtors greater than \$100,000 which are in litigation. | | | | |

3



AGENDA ITEM 4:
Anti-Money Laundering / Counter Terrorism
Financing – Update

| | |
|---|---|
|  | <p style="text-align: center;">Crown Melbourne Compliance Committee Agenda Item 4: AML/CTF Update May 2020</p> |
|---|---|

1. ACTIVITIES DURING COVID-19 CASINO CLOSURE

With the closure of Crown Melbourne, the vast majority of AUSTRAC reporting ceased due to no gaming and gaming related activity, noting that the AML Team continues to monitor any activity in order to report and comply with our AML/CTF legislative obligations.

The majority of the AML Team has continued to work during the period of closure to progress a number of key projects related to the Joint AML/CTF Program, various enhanced initiatives to support the AML framework and engagement with AUSTRAC on its industry wide Junket Risk Assessment.

2. AUSTRAC

(a) AUSTRAC Compliance Assessments

As previously noted, AUSTRAC commenced its AML/CTF Program Compliance Assessment in September 2019 on Crown Melbourne in the form of a s167 Notice which focused on Politically Exposed Persons and High Risk Customers active during FY16 and FY19. Crown Melbourne responded to the Notice on 19 October 2019, receiving a follow up Notice on 30 October 2019, with Crown's response completed on 12 December 2019.

In late March 2020, AUSTRAC advised of its intention to conduct an onsite visit as a follow up to the 2019 Compliance Assessment. Dates were agreed and accepted by the Crown AML Team, however AUSTRAC then advised that due to COVID-19 the visit would have to be postponed indefinitely.

AUSTRAC enquired as to whether the Crown AML Team would be available remotely to answer questions or further assist the AUSTRAC Assessment team in the interim period to which this undertaking was given. Crown confirmed that the AML Team would continue to be available remotely.

Further, as previously noted, AUSTRAC has advised that the Perth Compliance Assessment has been postponed until 2020. Crown has yet to receive any further information as to the timing of this Assessment.

(b) Section 167 Notices – Risk Assessment of Junkets

As previously noted, Crown Melbourne and Crown Perth has been working with AUSTRAC regarding its industry wide Risk Assessment of Junkets providing a range of information and meeting with AUSTRAC to discuss Junkets generally and specifically with respect to Crown.

On 6 April 2020, Anna Lewkowicz, Director of Risk Assessments at AUSTRAC provided the Draft Risk Assessment for review and comment by the relevant stakeholders.

Crown prepared a response which was considered and endorsed by the Crown Resorts Limited Risk Management Committee and submitted to AUSTRAC on 13 May 2020. A copy of Crown's response dated 13 May 2020 annexing AUSTRAC's Confidential draft Risk Assessment (incorporating Crown's comments on the draft Risk Assessment) is attached as



Annexure A for your reference.

3. AUSTRAC Reporting and Program Matters

(a) Joint Program and AML/CTF Framework

As previously reported, operational implementation of the components of the Joint AML/CTF Program (**Joint Program**) will be progressively implemented during 2020. The new Group GM-AML has identified certain areas for focus and will table a detailed implementation plan, noting any proposed changes to the plan, at the next AML/CTF Compliance Committee.

During the current shutdown of the casino, Crown has taken the opportunity to make further enhancements to the Joint Program and AML/CTF Framework with a view to having these operational when Crown's casinos reopen.

Subject to the progress of the implementation of the Joint Program, Crown was originally planning to have an Independent Review of Part A of the Joint AML/CTF Program conducted in mid-2020 by an international consulting/audit firm. With the current closure of the casinos, this review will likely be delayed until the second half of 2020 at the earliest.

(b) IFTI Reporting and Telegraphic Transfers

The AML Team is undertaking a fresh review of Crown's Threshold Transactions (**TTR**) and International Funds Transfer Instructions (**IFTI**) processes, including third party transfers. A number of control enhancements have been identified to add to the existing reporting regime and improve Crown's ability to manage and mitigate ML/TF risk. In this respect, as of 8 April 2020 Crown implemented a prohibition on third party payments (save for where senior management (including approval from the AML Team) approval is obtained).

(c) Training

Crown Melbourne's compliance rates for the AML Risk Awareness Module currently sit at 89.8%, a drop of approximately 5% since the last meeting. This drop is likely attributed to the casino shutdowns with a significant number of employees currently stood down and unable to complete their training.

When Crown re-opens and employees return to work, follow up emails will be sent to the relevant department managers of the employees who have not completed their on-line courses for actioning.

The AML Team is currently reviewing the online training module with the Learning and Development Team and external training consultant PTA. The AML Team is working towards completing the updated module in time for when Crown reopens. The AML Team will also look to use the new functionality within the Crown Learn platform to develop targeted periodic refresher training and specific targeted training for employees in high ML/TF risk roles.

The AML Team has not provided any targeted training during the period since the last



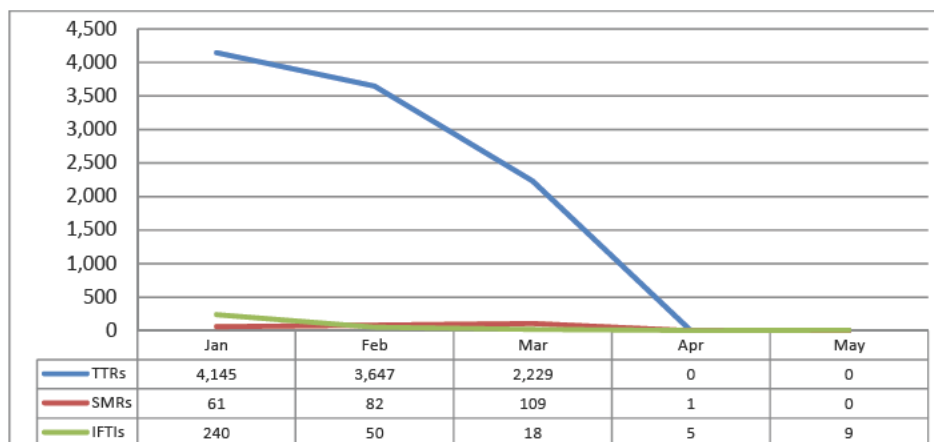
meeting.

(d) Existing Designated Services – Risk Assessment

As part of the enhancements to the AML/CTF Framework, the AML Team is updating the risk methodology which will be used to conduct the 2020 annual risk assessment of Crown Melbourne’s ML/TF risks.

(e) Reporting statistics (1 January 2020 – 18 May 2020)

The below table details the number of Suspicious Matters Reports (SMR), IFTIs and TTRs reported to AUSTRAC by Crown Melbourne for calendar year 2020 (reported by transaction date):



4. AML Projects

(a) Case Management

As previously reported, in September 2019, the decision was made to postpone the Case Management Project. The responses to the RFP far exceeded the budget for the project. Crown has started additional work with the AML Sentinel Team to improve the workflow of actioning alerts from AML Sentinel, which will assist with the Transaction Monitoring Program in the interim.

The AML Team intended to engage the relevant stakeholders in early 2020 to revisit the case management solution, as this project is a critical tool for the AML Team to manage ML/TF risk under the Program. Due to the casino shutdowns, this project has been delayed. However, the AML Team will review iTrak’s case management module with Security, Surveillance, Compliance and RSG as part of the Sydney Project to assess if it is suitable.



(b) AML Sentinel Project

The AML Team is continuing to work with IT to develop AML Sentinel. Since the last meeting the Sentinel Team has developed a Risk Metrics Dashboard to capture:

- Threshold transactions broken down by customer segment and value;
- Melbourne SMRs by customer segment;
- Third party transactions; and
- Certain transactions by customers from heightened ML/TF risk jurisdictions.

The Sentinel and AML Teams will continue to test the Risk Metrics Dashboard when customers return, and data is ingested into the system.

The Sentinel and AML Teams have also started discovery and development work on some additional rules that combine multiple factors to create a notification to be investigated by the AML Team.

Live testing of AML Sentinel, alongside our existing Transaction Monitoring Program system (being largely a manual system) will continue when customers return to Crown, and data is ingested into Sentinel, to further refine the triggers for automated reports and create new appropriate triggers. When Crown becomes satisfied with the triggers, and the performance of the automation functionality, we will look to phase out the manual review of reports.

(c) Crown Program Play

Following the Crown Program Play (CPP) unification that occurred in November 2019, issues arose in relation to ID syncing between CC2 and SYCO which had a potential impact to the integrity of data being uploaded to AUSTRAC. IT worked with the relevant business units to fix issues as they arose and are also working on permanent fixes.

Once the integration issues are fixed, the AML Team expects that in the long term, the CPP unification will improve data quality and integrity.

(d) CURA – AML/CTF Customer Risk Register

The Melbourne element of CURA for AML is now operational, and the AML Team and IT department are working together to further develop CURA so that more information can be captured in the database, such as Unusual Activity Reports, ECDD materials and Law Enforcement Requests.

Further, Crown will continue investigating the integration of the CURA Customer Risk Register with Crown's source system Crown Connect allowing automated updates on KYC, replacing the existing manual process. This model will also be used for Crown Sydney in due course.

The Group GM – AML is also reviewing the current risk rating methodology.



(e) eKYC Project

The AML Team is currently working with the Sydney project team on the digital onboarding journey in advance of Crown Sydney opening. Whilst as part of this process, Crown will collect KYC information via the digital process and utilise DVS checks to confirm Australian and New Zealand identification documents as genuine, Crown will still rely on the face to face verification of identification documents.

(f) Bankruptcy Screening

An agreement was signed with Equifax on 24 September 2019 to screen certain segments of Crown's customer database for bankruptcy.

The results from the first tranche of searches have all been actioned in accordance with Crown's Bankruptcy Policy since the last meeting.

Crown still has capacity under the original budget to conduct further Bankruptcy screening, however due the reduced capacity of the AML and Compliance teams during the casino shutdowns and the potential change in the circumstances of customers during this time, the next round of bankruptcy screening has been delayed.

5. Customer Due Diligence

Dow Jones Risk and Compliance Screening

Another issue that has arisen in relation to the CPP unification (and related merge project) was in relation to Dow Jones Risk and Compliance Screening. Each customer who was unified or merged became "active" in Crown's system regardless of whether they had been on site or not. This resulted in a significant number of additional customers being screened through Dow Jones.

Whilst the majority of the new alerts created in the Dow Jones Risk and Compliance Screening tool are false positives, dispositioning of the alerts takes a considerable amount of time. The majority of confirmed matches of these new alerts are for customers who have not been active in the business for some time, some in over 10 years.

The AML Team, taking a risk-based approach, has prioritised the clearing of any potential matches in the PEP, Sanctions and Other Exclusion List categories which has been completed with any matches actioned.

As part of the enhancements to the AML Framework, the AML Team has developed a detailed procedure on how Crown Entities conduct name screening and watch list filtering using the Dow Jones Risk and Compliance tool.

6. New Designated Services (or new methods of delivery of existing) – Risk Assessment

A number of Gaming Initiative Forms were reviewed during the period, none of which required an update to the ML/TF Risk Register.



7. Employee Due Diligence

There have been no issues raised to the AML Team in relation to Employee Due Diligence issues.

8. ANZ Relationship update

As noted at the previous meeting, ANZ is requesting Crown to provide the identity details of junket operators and high value customers transacting through junket operators. ANZ is also requesting Crown provide underlying details of junket customers as part of a junket. ANZ has stated that they have requested this information from other remittance providers and correspondent banks that use the ANZ to facilitate payments. ANZ has cited the recent issues Westpac had encountered and wanted to work with Crown in a closer manner so it can meet its own enhanced due diligence requirements in relation to IFTIs.

There are a number of privacy considerations Crown will need to work through prior to providing this information to ANZ. In the short term, Crown is assessing a process to request customers to include their full name along with their SYCO number when transferring money into Crown, enabling ANZ to conduct its own due diligence on the origin of funds being transferred through its bank.

Travis Costin is leading this project and discussions with ANZ are ongoing.

9. Countries

During the period no new countries have been added to the following lists:

- Department of Foreign Affairs (DFAT) – Australia’s Implementation of UN Security Council sanctions (<https://dfat.gov.au/international-relations/security/sanctions/pages/sanctions.aspx>);
- DFAT – Autonomous Sanctions; or
- FATF – High-Risk Jurisdictions subject to a Call for Action (<http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/>).

10. Compliance Breaches

AML/CTF Program compliance breaches are reported:

- on the monthly Legal Compliance Certificates to the Crown Melbourne Property Compliance Committee by the AML Team and by each individual Business Unit (as applicable); and
- directly to the Group General Manager – AML, which is then escalated to the AML/CTF Compliance Officer.

There were no compliance breaches during the reporting period 1 January to 23 March 2020.



| Type of Breach | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Failure to obtain residential address for a Threshold Transaction from a Customer | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Expired ID obtained from Customer at time of Threshold Transaction | - | - | - | - | - | - | - | - | - | - | - | - | - |

Crown Melbourne will continue to address non-compliance matters in the form of training 'Alerts' to the relevant Business Units.

11. Legislative Changes and other relevant information

(a) Updates to the AML/CTF Act

There has been no update to the AML/CTF Act since the last meeting of the Committee.

On 14 November 2019 the Senate referred the provisions of the Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 to the Legal and Constitutional Affairs Legislation Committee for inquiry and report by 10 March 2020. A report has not yet been released.

The Bill was considered by the Parliamentary Joint Committee on Human Rights and a Human rights scrutiny report was released on 9 April 2020. The report considers "entrapment" as it relates to the Bill, which should not affect Crown.

We will continue to monitor the progress of the Bill.

(b) Updates to the AML/CTF Rules

There have been a number of COVID-19 Pandemic amendments to the AML/CTF Rules since the last meeting of the Committee. These changes do not adversely impact Crown.



Annexure A

Contact: Joshua Preston / Nick Stokes
 Direct Line: [REDACTED]
 E-mail: [REDACTED]
 Document No: LEGAL_525173.1

13 May 2020

Ms Anna Lewkowicz
 Director
 Risk Assessments
 Australian Transaction Reports and Analysis Centre
 PO Box 5516
WEST CHATSWOOD NSW 1515

By email: [REDACTED]

Dear Ms Lewkowicz

**Junket Tour Operations in Australia - Money laundering and terrorism financing risk assessment
 (Junket Review)**

We refer to:

- your email dated 6 April 2020, providing a copy of AUSTRAC's draft Junket Risk Assessment (**draft Junket Risk Assessment**) requesting further collaboration with Crown Melbourne Limited and Burswood Nominees Limited (**Crown**) during AUSTRAC's development of its ML/TF risk assessment of junket tour operations in Australia (**Junket Risk Assessment**); and
- your teleconference with Nick Stokes, Crown's Group General Manager Anti-Money Laundering, on 21 April 2020.

We thank you for granting Crown an extension of time to provide comment on the draft Junket Risk Assessment.

Crown welcomes, and is grateful for, the opportunity to continue to participate in the consultation phase in respect of AUSTRAC's draft Junket Risk Assessment. Crown recognises the importance of the Junket Risk Assessment for all casino operators and other businesses (such as banks) which interface regularly with junkets.

This letter has two parts. The first part sets out Crown's key high level comments on the draft Junket Risk Assessment, which are set out under the headings "Junket operations in Australia" and "Junket risk profiles and ML/TF controls". Crown has also provided specific comments directly into a copy of the draft Junket Risk Assessment, which is enclosed with this letter. Crown would be happy to provide any further detail or context that AUSTRAC or its partner agencies require in relation to these high level and specific comments.

The second part of this letter concerns further engagement that Crown seeks to have with AUSTRAC in light of aspects of the draft Junket Risk Assessment, to assist Crown with identifying and implementing further strategies to mitigate ML/TF risks within its operations.

Part 1

Junket operations in Australia

Crown raises for AUSTRAC's consideration whether the draft Junket Risk Assessment might be assisted by the inclusion of the following contextual information:

- junket tour operations are an element of international tourism business for Australia, generating both gaming revenue (and associated taxes), employment and indirect revenue in the economy;
- junket tour operations are a significant, regulated aspect of the casino industry both in Australia and other jurisdictions (and have been for decades);
- junket tour operations, and the wagering which takes place during junket programs, are subject to detailed regulation and oversight; and
- recent media allegations have focussed on a small number of junket tour operators, being a small proportion of the junket operators which conduct business in Australia.

Junket risk profiles and ML/TF controls

As AUSTRAC is aware as a result of the presentations and information provided by Crown during the course of the Junket Risk Assessment project, Crown has a range of detailed processes and measures in place that are specifically directed towards mitigating ML/TF risks associated with the conduct of junket activity, including detailed initial and ongoing due diligence and probity checks in relation to all junket operators and ongoing daily due diligence screenings through third party external providers in relation to all active junket operators, representatives and players, as well as ongoing review of all junket activity through Crown's Transaction Monitoring Program.

The draft Junket Risk Assessment notes that the risk mitigation strategies listed on pages 34 and 35 (or a combination of these measures) contribute to mitigating and managing the ML/TF risk associated with the conduct of junket activity, particularly in the areas of transaction monitoring and suspicious matter reporting.

In Crown's view, the measures which Crown and other industry participants have in place to mitigate these risks are important context for the Junket Risk Assessment, and should be factored into junket risk profiles.

However, on page 41 AUSTRAC concludes that *'at a sector level, limited systems and controls have been implemented to mitigate vulnerabilities.'*

It is not clear to Crown whether AUSTRAC intends for a distinction to be made between the inherent or unadjusted risk profile attaching to junkets and junket activity, and the risk profile after the application of risk mitigants and control measures.

Accordingly, Crown queries AUSTRAC's conclusion at page 41 that there are limited systems and controls in the casino industry to mitigate vulnerabilities in respect of junket activity.

Moreover, Crown is currently in the process of reviewing its due diligence procedures for junket operators, representatives and players in order to identify opportunities for further enhancements to existing risk mitigation measures. These further enhancements will build upon a range of measures that have been implemented in recent years.

Crown will ensure that any insights and recommendations from the Junket Risk Assessment and any other aspects of AUSTRAC's consultation process are considered and implemented as appropriate.

Part 2

Reporting and information sharing

Crown welcomes the observation by AUSTRAC in the draft Junket Risk Assessment that '*SMRs submitted by reporting entities provide valuable intelligence to AUSTRAC*'. This aligns with other recent observations AUSTRAC has made about Crown and other industry participants being very good at complying with their reporting obligations.

For its part, Crown takes its reporting obligations very seriously and is keen to enhance and explore other ways in which Crown can assist AUSTRAC and other law enforcement agencies in discharging their functions.

As a commercial operator, Crown does not have the same level of access to information that AUSTRAC (or its partner agencies) do in respect of junket operators, representatives and players. Crown would welcome a discussion around any measures which would allow for increased information sharing and collaboration with AUSTRAC and other law enforcement agencies, in order to allow commercial operators to have a more complete understanding of the criminal threat environment.

For instance, Crown notes that AUSTRAC's conclusions about the level of involvement of significant organised crime groups and high risk entities do not accord with Crown's own experience and understanding, including through its own engagement with law enforcement agencies. Accordingly, Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible. Indeed, if this was the fact, Crown is surprised that law enforcement and/or regulatory agencies have not brought this to the attention of Crown (or the industry), particularly in light of the extensive reporting that Crown (and we expect the industry) undertakes and engagement that Crown has with those government agencies.

Crown also notes that the draft Junket Risk Assessment considers information gathered from various industries and includes typologies relevant to the casino industry and to the banking industry. Crown considers that there is an opportunity for casinos to work more closely with related industries (such as banks) in order to collectively enhance controls to reduce money laundering risks faced by all industries. Crown remains keen to play a continuing role in sharing its industry knowledge with other sectors.

Development of industry-leading practices

Crown notes AUSTRAC's encouragement in the draft Junket Risk Assessment for '*casinos to develop industry-leading practices*.'

Crown is of course committed to continuous improvement and enhancement to its ML/TF risk management strategies and welcomes any suggestions from AUSTRAC about any other ML/TF risk mitigation practices it could consider.

Crown would welcome any guidance that AUSTRAC can provide on risk mitigation strategies and measures that AUSTRAC considers to be the most effective in practice in addressing vulnerabilities associated with junket activity. Provision of this information will assist Crown in enhancing its own risk mitigation strategies.

Money laundering typologies

Crown has reviewed the specific typologies set out in the draft Junket Risk Assessment and would be grateful for the opportunity to discuss and engage further with AUSTRAC in relation to these typologies, some of which Crown has not directly identified in its operations. These are set out in greater detail below.

Offsetting

Crown has had limited visibility of these issues and has not identified *offsetting* conduct through its usual reporting and information gathering processes.¹ To the extent AUSTRAC has identified this as an emerging typology within the Australian casino sector,² Crown would welcome the opportunity to obtain further information that AUSTRAC and/or its partner agencies can provide about this typology so that Crown can fully appreciate the risk associated with this issue and consider the manner in which Crown can put in place measures and controls to mitigate this risk.

Crown is open to considering the introduction of further controls to address the risk of illegitimate offsetting, and would welcome any insights AUSTRAC can provide on these issues.

Acquiring shares in foreign companies

Crown has not encountered this type of transaction (and if a transaction of this nature has occurred, the information that Crown collates and reviews in order to comply with its reporting obligations has not brought the issue to Crown's attention).

As such, Crown would appreciate any further intelligence that AUSTRAC can provide, to assist Crown to assess whether it is exposed to this risk and, if it is, to implement relevant controls.

Visa Controls

Under its assessment of the Criminal Threat Environment, the draft Junket Risk Assessment on page 6 states '*Actions that may contravene visa controls to facilitate junket tour operations undermines the integrity of Australia's migration system.*'

Crown welcomes any additional detail that AUSTRAC can provide about this matter, as it is not aware of any such actions in connection with its junket processes.

¹ This concept of offsetting or offsetting arrangements appears to Crown to be a new typology referenced by AUSTRAC in the context of the casino sector (in contrast with remittance service providers who are also reporting entities under the AML/CTF Act).

² AUSTRAC's 2014 Typology Report does not reference offsetting as a typology.

Infiltration by SOCGs

Under its assessment of the Criminal Threat Environment, the draft Junket Risk Assessment on page 17 has a section headed '*Junkets and domestic and transnational SOCGs*'.

Media attention in relation to the infiltration of junket operators has focussed on a small number of JTO's and junket players, representing a small proportion of overall junket tour operators, representatives and players. Media allegations aside, AUSTRAC's conclusions about the level of involvement of SOCGs and high risk entities do not accord with Crown's experience and understanding.

Crown welcomes the opportunity to discuss AUSTRAC's conclusions and the basis for them to the fullest extent possible. This information would assist Crown to put in place strategies and measures to minimise the risk of its operations being exploited by JTOs that have been infiltrated by transnational and SOCGs.

Transactions with "high-risk" jurisdictions

In relation to the discussion of transactions with "high-risk" jurisdictions on page 33, Crown is interested to understand whether AUSTRAC is referring to a particular index when concluding that certain countries pose a high risk.

Crown's understanding is that:

- there are no defined 'high risk' countries identified by AUSTRAC;
- according to FATF, some countries are designated 'prohibited' (Iran / North Korea) or high risk (Bahamas, Botswana, Cambodia, Ghana, Iceland, Mongolia, Pakistan, Panama, Syria, Trinidad & Tobago, Yemen, Zimbabwe); and
- reporting entities taking a risk-based approach either subscribe to a vendor's country risk methodology (e.g. Promontory's AML Atlas) or develop their own methodology based on international standard setters like FATF, Basel, Transparency International etc.

Crown would also welcome any detail about why AUSTRAC considers that a risk is posed by a significant volume of funds being sourced from jurisdictions in which gambling restrictions apply.

Appendix A of the draft Junket Risk Assessment

In relation to Appendix A of the draft Junket Risk Assessment, in addition to the matter on page 41 identified above:

- Crown would welcome any further specificity AUSTRAC can provide about the levels of high risk customer activity that AUSTRAC has observed (as this does not accord with Crown's experience and understanding). Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible.
- Crown is interested to understand what is meant by the term 'remote services'. From Crown's point of view, all gambling services in the casino sector are provided face to face.
- Similar to the above, Crown is interested to understand what is meant by 'complex delivery

arrangements' (and would welcome further detail about AUSTRAC's observations in this area).

Next steps

Crown welcomes AUSTRAC's openness to engaging with the casino sector in order to understand the complexity of casino operations and to enhance the collective understanding of ML/TF risks. Crown looks forward to a continued constructive dialogue with AUSTRAC regarding these matters. If a meeting with Crown would be of assistance to AUSTRAC in discussing any of the matters above, we are of course more than happy to participate in such a meeting.

Please do not hesitate to contact me or Nick Stokes to discuss any of the issues set out above or in the attached version of the draft Junket Risk Assessment.

Yours sincerely



Joshua Preston
Chief Legal Officer - Australian Resorts

Encl



Australian Government

**Australian Transaction Reports
and Analysis Centre**

JUNKET TOUR OPERATIONS IN AUSTRALIA

Money laundering and
terrorism financing
risk assessment

4

INSIDE COVER: INFOGRAPHICS

JUNKET TOUR OPERATIONS IN AUSTRALIA

From 1 April 2018 - 31 March 2019:

Eight out of the thirteen licensed casinos in Australia conducted junket programs during the assessment period.¹ Over two-thirds of junket programs were held at two casinos. Over 500 individual junket tour operators/representatives (JTOs/JTRs) are responsible for in excess of 1,000 junket programs at Australian casinos each year.

Reporting

During the reporting period, Casinos submitted 387 suspicious matter reports (SMRs) with a value of \$130.4 million, 651 international funds transfer instructions (IFTIs) (\$352.9 million incoming and \$104.5 million outgoing) and 4,638 threshold transaction reports (TTRs) (\$81.1 million incoming and \$165.2 million outgoing) that they identified as relating to activity on JTOs' accounts at casinos.

AUSTRAC identified a further 153 SMRs with a value of \$107.1 million, 31 IFTIs (\$15.6 million incoming and \$760,886 outgoing) and 1,401 TTRs (\$29.7 million incoming and \$38.5 million outgoing) submitted by casinos that related to activity by JTOs or JTRs. These reports are likely to relate to activity JTOs and JTRs conducted at casinos outside of junket play.

AUSTRAC also identified 95 SMRs with a value of \$125.6 million, 880 IFTIs (\$164.5 million incoming and \$46.3 million outgoing) and 321 TTRs (\$5.0 million incoming and \$5.1 million outgoing) submitted by other reporting entities that related to financial activity of JTOs or JTRs outside of the casino sector.

This risk assessment is intended to provide a summary and general overview; it does not assess every risk relevant to junket tour operations. It does not set out the comprehensive obligations under the *Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act 2006*, AML/CTF Regulations and AML/CTF Rules. It does not constitute nor should it be treated as legal advice or opinions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that independent professional advice be sought.

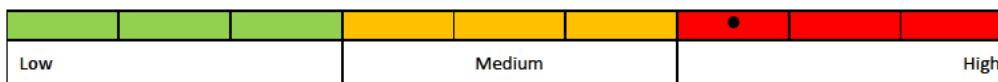
¹ One casino that offered junkets over the time period has ceased its junket operations.

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EXECUTIVE SUMMARY

Overall risk rating



AUSTRAC assesses the overall money laundering and terrorism financing (ML/TF) risk associated with the junket tour operations sector to be **high**. This rating is based on assessments of the criminal threat environment, the vulnerabilities present in the sector, and the consequences associated with the criminal threats.

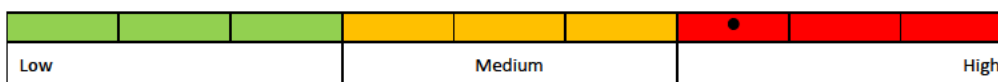
Not all junket tour operations are the same, and the level of risk associated with each operation varies depending on many factors, including but not limited to the domicile of JTOs and players, and the effectiveness of the risk mitigation systems applied by casinos.

This assessment draws upon a range of information and intelligence held by Australian government agencies. While efforts have been made to convey the classified findings for a public audience where the intelligence has been classified as sensitive, **some of the information relied upon to support AUSTRAC's conclusions cannot be released publically.**

Crown comments

- Crown considers an express acknowledgement that casinos do not have access to the same level of information in relation to individuals involved in junket activity would be appropriate in this context.

Criminal Threat Environment



AUSTRAC assesses that junket tour operations are associated with a **high** level of criminal threat.

Some junket tour operations have been exploited, and in some instances infiltrated by serious and transnational criminal entities, including by individuals reported to be engaged in activities that could possibly be regarded as foreign interference.

The use of offsetting arrangements used by some junket tour operators to facilitate junket-related funds flows is **highly likely** to be exploited by criminal entities, and in being conducted can circumvent international funds transfer reporting requirements and facilitate the laundering of domestically-generated proceeds of crime.

Some junket tour operators have been identified as having been associated with a range of illicit activities including instances of tax evasion, visa misuse, possible corruption and unregulated prostitution.²

AUSTRAC did not identify any links between junket tour operations and terrorism financing.

Crown comments

- Crown queries the basis for the statement that the use of offsetting arrangements is 'highly likely' to be exploited by criminal entities.
- AUSTRAC may wish to consider whether further clarity would be provided by explaining more fully the vulnerability associated with offsetting and assessing the controls that casinos have available to them to mitigate against this risk.

² Unregulated prostitution refers to prostitution services that do not comply with criteria in state and territory laws legalising some prostitution activities.

Vulnerabilities



AUSTRAC assesses that junket tour operations are exposed to a **high** level of ML/TF vulnerability.

At a sector level, the junket model **used by casinos** has a number of money laundering vulnerabilities. A key vulnerability is the lack of transparency and level of anonymity created by the pooling of all players' funds and transactions under the name of the JTO, and that the financial arrangements between the JTO and junket players are not disclosed to the casino. **There is also a long and complex value chain associated with junkets' funds flows that makes it difficult for a single reporting entity to understand the purpose of transactions or the beneficial owner/ultimate beneficiary of value moved.**

A number of JTOs and JTRs have been identified as having criminal or foreign political associations.

JTOs' casino accounts are being used to facilitate the storage and movement of significant amounts of money, both domestically and internationally. On a per-transaction and per-customer basis, the junket tour operations sector is also significantly exposed to the risks associated with high-value cash activity. The destination of large cash withdrawals from JTO accounts remains a key intelligence gap.

Inherent to the junket tour operations sector is exposure to some higher ML/TF risk jurisdictions with ninety-five per cent of junket players over the reporting period being foreign nationals.

Collectively, these elements can undermine the robustness of due diligence and enhanced due diligence efforts. In accordance with existing regulatory obligations and good practise, casinos have implemented a range of measures to help mitigate the risks posed by junket tour operations, including:

- systems and controls to monitor transactions, lodge suspicious matter and other transaction reports,
- conducting due diligence on persons applying to be JTOs, and
- collaboration with state-based regulatory and law enforcement agencies.

It is recognised that Australian casinos compete in a highly competitive junket market, both locally and internationally. AUSTRAC encourages casinos to review the robustness of their risk mitigation and management processes, having regard to the threats and vulnerabilities identified as being associated with junket tour operations, in order to better protect their businesses from criminal exploitation.

Crown comments

- AUSTRAC may wish to consider the use of the phrase '*used by casinos*'. Casinos interact with and enter into arrangements with JTO's, but they do not themselves use junket model.
- Crown agrees that it can be difficult for reporting entities to understand the beneficial ownership of value moved, not only in connection with JTOs.
- Crown notes that it retains detailed records in connection with the gaming activity of junkets, which Crown remains willing to share with AUSTRAC and/or its partner agencies. This information comprises all individual junket player gaming activity, and includes individual wins and losses.

Consequences

| | | | | | | | | |
|-------|--|--|----------|--|---|-------|--|--|
| | | | | | ● | | | |
| Minor | | | Moderate | | | Major | | |

AUSTRAC assesses the consequences of criminal abuse and exploitation of the junket tour operations sector to be **moderate**.

Individuals are likely to be affected by some crimes associated with the sector, such as persons suffering from dependence on illicit drugs.

The casino sector has recently been the subject of adverse media relating to alleged criminal activities associated with junket tour operations. As has been observed to date, **widespread criminal exploitation of junket tour operations** may decrease VIP patronage, increase regulatory scrutiny and heighten public expectations concerning the operations of the casinos sector.

The Australian community and economy is also impacted by criminality in this sector. Money laundering perpetuates the profitability of crime and can enable further crimes to be committed. Further, any decline in the operation of junket activity will have implications for the taxation revenue of the states that host junkets. **Actions that may contravene visa controls to facilitate junket tour operations undermines the integrity of Australia's migration system.**

Widespread criminality through the junket sector would also be likely to impact on Australia's international AML/CTF reputation and attractiveness as a place to do business.

The exploitation of junkets by foreign interference entities can undermine and compromise Australia's national security and broader public confidence in our institutions.

Crown comments

- Crown queries the reference to 'widespread criminal exploitation' of JTOs. Whilst Crown acknowledges that there have been media reports of alleged criminal associations of a small number of JTOs and junket players, Crown is not aware of evidence of 'widespread criminal exploitation' of JTOs. Crown welcomes any additional detail that AUSTRAC can provide about this matter, as it is not aware of any such actions in connection with its junket processes.
- To the extent that AUSTRAC's comments in the report are based on media allegations, Crown considers that this should be referenced explicitly.

PURPOSE

This assessment provides sector-specific information on the ML/TF risks associated with junket tour operations at the national level. Its primary aim is to assist casinos to identify, mitigate and manage the risks of ML/TF enabled through the conduct of junket tour activity. It will also assist JTOs, law enforcement and regulatory agencies to better understand the ML/TF risk associated with junkets, in order to consider potential responses.

METHODOLOGY

The methodology used for this risk assessment draws on Financial Action Task Force (FATF) guidance that states that ML/TF risk can be seen as a function of criminal threat, vulnerability to exploitation, and consequences of exploitation. According to this methodology:

- **Criminal threat environment** refers to the nature and extent of ML, national security and relevant predicate offences in a sector.³
- **Vulnerability** refers to the characteristics of a sector that make it attractive for ML/TF purposes, including features of the sector that can be exploited, such as customer types, products and services, delivery channels and the foreign jurisdictions with which the sector deals. Vulnerability is also influenced, and in certain circumstances minimised, by the risk mitigation strategies the sector has implemented.
- **Consequence** refers to the impact or harm that ML/TF activity through the sector may cause.

This assessment considered 19 risk factors across the above three categories. An average risk rating was determined for each category, and the average of each category determined an overall risk rating for the sector.

Further information on the methodology and how it was applied to the sector is in Appendix A.

Four main intelligence inputs informed the risk ratings within this assessment:

- analysis of transaction reports submitted during the reporting period, as well as other AUSTRAC information and intelligence,
- reports and intelligence from a variety of state and Commonwealth government agencies, including intelligence, law enforcement and regulatory agencies,
- feedback and professional insights offered during interviews and consultations with a range of casinos, banks and regulatory and law enforcement bodies at the state and Commonwealth levels, and
- qualitative and quantitative information about the scale and nature of junket operations carried out in Australian casinos between 1 April 2018 and 31 March 2019. Casinos provided this information voluntarily and in response to two notices issued to them under section 167 of the AML/CTF Act.

The information and intelligence held by AUSTRAC or partner agencies used to inform this assessment was for the period up to 19 November 2019.⁴

³ For ML/TF Risk Assessments, predicate offence refers to an offence which generates proceeds of crime, or other related crimes such as identity fraud.

⁴ AUSTRAC acknowledges various adverse allegations about the activities of junkets have been reported in the public domain. AUSTRAC has not in this risk assessment and cannot comment on the nature or extent of any investigations into these allegations.

BACKGROUND

What is a junket?

For the purpose of this report, a junket is an arrangement between a casino and a JTO to facilitate a period of gambling by one, or a group, of high wealth player(s) at the casino. In return for bringing the player(s) to the casino, the casino pays the JTO a commission based on the collective gambling activity of player(s) on the junket. **Casinos have negotiated with State and territory governments to levy a lower gaming tax rate, in order to attract players from interstate and foreign jurisdictions.**

Players, who are often persons of high-net worth, may prefer to participate in junkets over individual play for several reasons:

- junkets are often organised as holiday entertainment for tourists, and can involve complimentary transport, accommodation, food and beverages provided by the casino,
- junket players will generally be accompanied by a JTO or JTR who may be able to see to their needs in a manner beyond that which could be facilitated by the casino,
- the JTO or JTR is responsible for conducting all financial transactions with the casino, enabling players to focus on their gambling activity
- JTOs often offer financial incentives to players, such as a portion of the commission the casino pays the JTO, and
- players can play in a group of their peers and pool their funds which may be more enjoyable.

Junkets are also attractive to casinos for several reasons:

- JTOs are often foreign nationals who have greater capacity to identify and attract players from foreign jurisdictions, and pursue them for gaming debts,
- the JTO is the primary customer of the casino, therefore, it is logistically more convenient to administer a financial arrangement with one person than it is to administer several arrangements with several people,
- JTOs' business models rely on repeat access to the same casinos, making them more likely to repay their debts, and
- concessional tax rates offered by states increase the profitability of junket operations.

Australian casinos operate in a highly competitive global environment in terms of junket tour operations, predominantly from south-east Asian casinos. Eight out of the thirteen licensed casinos in Australia conducted junket programs during the reporting period, with over two-thirds of junket programs being conducted by two casinos. There were in excess of 1,000 junket programs at Australian casinos in the assessment period with estimates of gambling activities associated with those junket tours in the multi-billion dollars.

Crown comments

- Crown notes that lower gaming tax rates were negotiated by casino operators in order to ensure that casinos could remain competitive in the global market, particularly in light of Crown's understanding that junkets operate with relatively low profit margins.

How do junkets operate?

The operation of junkets is different between State jurisdictions and can vary further depending on the casino, the JTO, and the arrangement made between the two in respect of each individual junket program. Operations may also differ based on the regulatory requirements in the state in which the casino is located. Broadly speaking, however, junkets work in the following way:

Step 1:

The casino conducts due diligence on a prospective JTO (and their nominated representatives) and, if deemed suitable, the casino and the JTO enter into a written agreement setting out the terms of the arrangement between the two parties.

Step 2:

The JTO will identify prospective junket players who will generally be residents of a foreign country. The junket players enter into an arrangement directly with the JTO to either provide an amount of front money to, or enter into a private funding arrangement with the JTO which may include borrowing front money from the JTO. The casino is not privy to any financial arrangement between the players and the JTO.

Step 3:

Once the JTO has identified all the players who will participate in a specific junket program, and the total amount of front money for gambling purposes, the JTO will enter into an agreement with the casino for that specific program. The agreement will set out whether the JTO will provide the front money for all the players from their casino account, or whether the casino will provide the front money to the JTO as a line of credit or via cheque cashing facility. The agreement will also set out:

- the relevant terms of any credit or cheque cashing facility negotiated with the casino (if applicable),
- the amount of front money/turnover expected of the players,
- the amount of commission payable to the JTO by the casino (having regard to the amount of front monies and/or turnover of the junket), and
- what, if any, "complimentaries"⁵ will be provided by the casino as part of the agreement.

The casino does not enter into an arrangement or agreement with the junket players.

Step 4:

Players arrive at the casino and their identities are verified by casino staff. The casino provides the JTO or JTR with specialised chips up to the equivalent dollar amount of the front money provided.⁶ The JTO then distributes these chips amongst the players as privately agreed by the JTO and the players. The amount of funds available for gambling purposes can be increased by agreement between the JTO/JTR and the casino as the program progresses, and this may result in revisions to the agreement. **The JTO (or their JTR) is responsible for all gaming and financial transactions with the casino.**

Step 5:

Players gamble using the specialised chips for the duration of the junket. These chips cannot be exchanged for cash or the equivalent value. In some circumstances, individual junket players may leave the program before it ends, settling privately with the JTO, and new players may be added to a program while it is progressing.

Step 6:

⁵ "Complimentaries" refers to incentives such as food and drinks packages and free/subsidised accommodation, transport and/or entertainment.

⁶ These chips are only for junkets and are used to help calculate the amount of state gaming taxes and the commission payable to the JTO. These chips cannot be used on the main gaming floor or redeemed at the cage for cash and must be returned to the casino for junket settlement.

At the end of the program, players return all chips either won or not used to the JTO. The casino calculates turnover, to determine whether the junket won or lost, in turn determining the amount of tax payable to the state government, the commission payable to the JTO and any liability the JTO may have to the casino (in the event of a loss where front money was advanced to the JTO via a line of credit or a cheque cashing facility, for example).

The casino pays out any winnings and commission as instructed by the JTO.⁷ This may be by paying all monies to the JTO, who will then distribute the funds as privately agreed to the players. This distribution will often occur offshore. In other circumstances, the JTO may instruct the casino to disburse funds directly to the players, or, in some cases, to third parties. If the junket loses, the JTO is liable for paying the amount of the loss to the casino, irrespective of which players' bets contributed to the loss.

Crown comments

- In relation to 'Step 4', whilst junket operators are responsible for the financial transactions with the casino, the junket players are responsible for their own gaming transactions and ultimately control how they bet. The financial transactions that take place are a function of individual player activity.

⁷ The JTO or their agent must formally sign the settlement arrangements with the casino.

CRIMINAL THREAT ENVIRONMENT



The criminal threat environment refers to the nature and extent of ML, TF, other national security and predicate offences that are associated with junket tour operations in Australia. AUSTRAC assesses that junket tour operations are associated with a **high** level of criminal threat. This assessment is based on SMRs submitted by reporting entities in relation to junket tour operations and service providers,⁸ as well as an analysis of intelligence and information collected from Australian Commonwealth and state-based government agencies, banks and casinos.

Suspicious matter reporting relating to JTOs and JTRs from 1 April 2018 to 31 March 2019.⁹

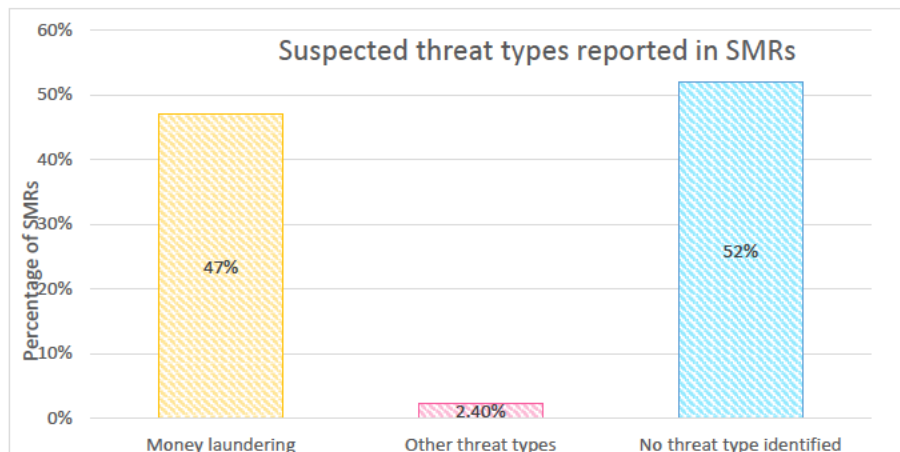
635 SMRs were submitted by 15 reporting entities in the casino, banking and remittance sectors. The total value of transactions reported in SMRs was \$363.1 million, including a cash component of \$64.7 million.

Seven casinos submitted 540 SMRs.¹⁰

Seven banks submitted 94 SMRs.

One remittance provider submitted one SMR.

Two casinos accounted for over two-thirds of the SMRs submitted.



Percentage amounts sum to more than 100 because some SMRs were assigned more than one threat type.

⁸ Service providers refers to JTO and JTRs.

⁹ This dataset consists of SMRs identified by casinos as relating to activity on junket accounts, SMRs lodged by any reporting entity that involved a junket tour operator or representative identified by casinos as operating from 1 April 2018 to 31 March 2019, SMRs in which the industry/occupation of a party referred to "junket", and SMRs that had "junket", "JTO" and/or "JTR" in the grounds for suspicion field of the SMR. False positives were manually excluded from the dataset.

¹⁰ One casino submitted an SMR about a JTR despite the casino not offering junket programs during the reporting period. Two in-scope casinos did not submit any SMRs during the sample period.

Potential money laundering was the key threat indicated in SMRs, with 47 per cent of SMRs observing **possible money laundering attempts**. A small number of SMRs were in the “other threat type” category, and included suspicions relating to corruption, counterfeit currency and money lending.¹¹

Fifty-two per cent of SMRs were not assigned a threat type. This is because activity described in the SMRs, while unusual, was not indicative of a specific criminal or related offence. For example, 32 per cent of SMRs in the dataset were reported as a result of domestic electronic funds transfers to/from third parties whom the casino noted were not players participating in the relevant junket, and 11 per cent were reported because players had large or frequent gambling losses.

SMRs play a crucial role in supporting law enforcement

Under the AML/CTF Act, reporting entities have an obligation to report suspicious matters to AUSTRAC. A reporting entity must submit an SMR if they form a suspicion on reasonable grounds that a transaction they have facilitated or been asked to facilitate may be relevant to the investigation or prosecution of a crime. The full range of circumstances in which an SMR must be submitted is set out in [section 41 of the AML/CTF Act](#).

SMRs submitted by reporting entities provide valuable intelligence to AUSTRAC. Working with its partner agencies, AUSTRAC pieces together intelligence from a range of sources to develop a picture of criminal activities and networks. Many of AUSTRAC’s partner agencies – including the Australian Federal Police (AFP), Australian Criminal Intelligence Commission (ACIC) and the Australian Taxation Office (ATO) – have access to SMRs in order to generate leads and conduct further analysis and investigation.

Crown comments

- *‘possible money laundering attempts’* might be more accurately described as a suspicion in relation to possible money laundering.

¹¹ Counterfeit currency and money lending are not assessed as being significant threats and are not discussed further in this risk assessment.

Money laundering

AUSTRAC considered the nature and extent of the money laundering threats associated with junket tour operations, and assesses the risk to be high. Money laundering through junket tour operations has been identified as being associated with:

- the use of offsetting, often relating to the evasion of international funds transfer instruction (IFTI) reporting and laundering of domestically-generated proceeds of crime,
- the onshore supply of large volumes of cash for unknown purposes,
- extensive cash, remittance and gambling-related transactions by JTO/JTRs through bank accounts, indicating use of banks to further layer funds and obscure financial activity, and
- involvement of international criminals and organised crime groups.

Offsetting

The assessment found that many junket tour operations use offsetting arrangements, including through third parties, as a means of transferring value between jurisdictions. AUSTRAC assesses these arrangements have, in some circumstances, been targeted and exploited for the purpose of money laundering. Offsetting enables the international transfer of value without actually transferring money and is attractive to money launderers who want to move money undetected. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more persons in different countries. It also provides an opportunity to co-mingle legitimately-derived funds with illicit cash generated onshore.

How offsetting works

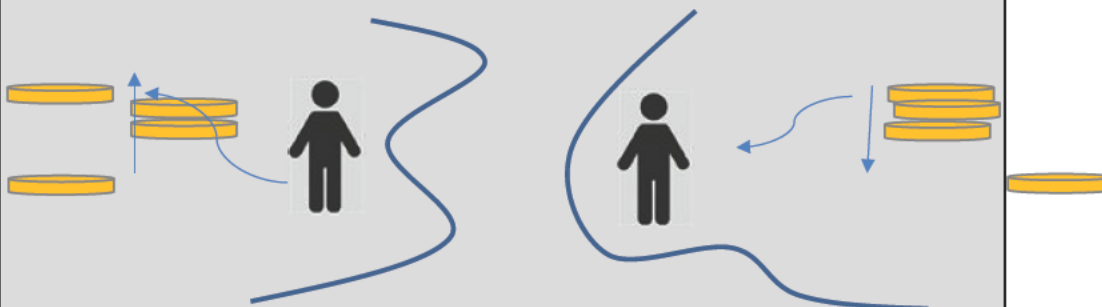
In relation to junkets, a typical offsetting scenario involves a prospective junket player depositing money into an offshore account controlled by the entity providing the offsetting service. That money remains in the offshore location, and when the player arrives in Australia to gamble, an agreed amount of value is made available to them from the funds the JTO has access to through the casino. In those circumstances where offsetting is used to disguise the movement of value, **it is likely that no IFTI is reported to AUSTRAC by the provider in relation to the transaction.**¹² This arrangement can also occur in reverse, allowing covert movement of value out of Australia.

Offsetting provider's offshore account -

no money appears to leave the country

JTO's account at an Australian casino -

no money appears to enter the country



Offsetting does not necessarily indicate that the money being moved is illegitimately sourced or that Australian laws are being broken. However, AUSTRAC and partner agencies consider it highly likely the offsetting activity facilitated in relation to junkets is being exploited by some persons in order to circumvent IFTI reporting obligations and launder domestically-generated proceeds of crime. Simultaneous demand for informal outgoing and incoming remittances means money can be offset in both directions, and illicit funds can flow both into and out of Australia without detection.

Crown comment

- Crown notes that its practice is to report IFTIs if Crown is a party to the IFTI, even if the transaction does not involve any actual movement of funds, noting that Crown is not in a position to report on transactions that it is unaware of.

¹² AUSTRAC notes the details of offsetting arrangements and activities vary between junket tour operations, and some circumstances may not give rise to IFTI reporting obligations.

Acquiring shares in foreign companies rather than depositing monies in a bank account

One of AUSTRAC's partners is aware of a potential methodology whereby money to fund players' junket activity is raised by directing the player to purchase shares in a foreign company, rather than simply depositing the money into an offshore bank account. While more complex and sophisticated, this is essentially the same process as the offsetting model described above.

Illicit cash

There is a high likelihood that funds held in some JTOs' casino accounts to offset against money in accounts held overseas is partially derived from onshore individuals known as "cash collectors" moving money from domestic serious organised crime groups (SOCGs) to JTO casino accounts. During consultations, partner agencies indicated the proceeds of drug sales to be the likely source of illicit cash deposited into JTO accounts. One partner agency indicated cash may also be derived from trade at brothels, and entertainment venues - likely as a means to evade tax.

Domestic sources of funding for JTO accounts

AUSTRAC identified 29 SMRs totalling \$6.7 million in the reporting period that related to cash deposits made into 22 JTO accounts by persons who were not recorded by the casinos as players on the junket or operating as the JTO/JTR.¹³ A total of 11 SMRs indicated that 13 JTOs were transferring cash domestically between one another. A further 45 SMRs indicated 28 JTOs were electronically transferring funds domestically between each other, and 187 SMRs indicated funds were being deposited into 35 JTOs' accounts via domestic electronic transfer.

Further, information provided by casinos demonstrates the majority of front money for junkets is provided to the JTO by the casino as a line of credit or via a cheque cashing facility.

The domestic source of funds or lines of credit used to gamble by predominantly foreign players supports AUSTRAC's finding that some JTOs use offsetting, whereby the funds paid to the JTO by players are collected and remain offshore, and the JTO offsets these with domestically sourced funds to meet their financial commitments to the player and/or casino.

Provision of cash

There is evidence that some junket tour operations provide cash to players and third parties while they are onshore.

AUSTRAC identified 64 SMRs concerning 33 JTOs during the reporting period that related to large cash withdrawals from junket accounts with a total value of \$23.6 million. These SMRs described JTOs providing large cash amounts under a range of circumstances, such as persons who were losing, persons withdrawing large amounts of cash and then immediately leaving the gaming floor, and junket staff providing cash to individuals who were not players on the junket.

The ultimate use of much of the cash provided by junkets remains an intelligence gap, though there is some indication it may be used to pay for goods and services (including illicit goods and services) supplied onshore. JTOs and JTRs may also be retaining the cash themselves, in order to avoid having to pay income tax on commissions paid by the casino.

Activity of JTOs/JTRs on bank accounts

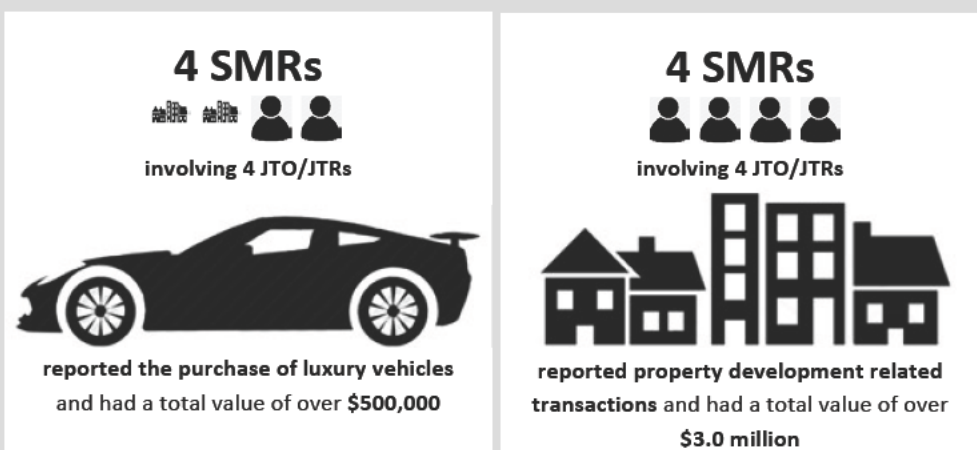
The assessment identified SMRs lodged by banks in relation to JTOs and JTRs that describe extensive gambling-related transactions. These SMRs suggest that a number of JTOs/JTRs use a personal Australian bank account to conduct their junket business activities. It is also recognised, however, that given the account and remittance facilities offered by casinos, extensive gambling transactions on personal bank accounts can likely indicate efforts to layer or further obfuscate financial activity. Such activity can also indicate attempts to disguise the origins of funds by spreading activity across several reporting entities. **One partner agency emphasised the difficulty for banks and law enforcement when customers make deposits of monies that originated at a casino, because source of funds can often be justified as winnings even if it was not actually won.**

¹³ These transactions may be indirect. For example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not playing on the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

Crown comments

- Crown maintains detailed records of junket program play, including junket gaming play together with individual junket player gaming play. This information comprises all individual junket player gaming activity and includes individual wins and losses, which Crown considers presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.
- Crown regularly provides intelligence to law enforcement and other regulatory agencies on whether funds claimed to be winnings from the casino can be confirmed as winnings.
- This information can be made available to agencies who are looking to ascertain the source of funds in connection with a particular transaction upon request.

JTOs' and JTRs' bank accounts are also used by JTOs and JTRs to receive incoming funds transfers, and SMRs demonstrate significant cash activity, including structuring and possible cuckoo smurfing.¹⁴ Accounts are also used to send international funds transfers and purchase high-value assets such as real estate and luxury vehicles.

Purchase of high-value assets

The purchase of high-value assets is an established money laundering method. High-value assets may be the final destination of the proceeds of crime, or may be on-sold by the money launderer, inserting another transaction between the wealth and its illicit origins.

SMRs reported by banks in relation to JTO and JTR activity describe trade in high-value assets in Australia. A key indicator of this activity was the purchase of large bank cheques issued in favour of lawyers, real estate agents, property developers and luxury car dealers. Activity on the personal bank accounts of the JTO/JTR in these SMRs also often included incoming and outgoing transactions with casinos, and large cash deposits.

AUSTRAC identified that one of the JTRs operating in Australian casinos is also a real estate agent, magnifying the money laundering risk associated with that particular JTR.

¹⁴ As defined in the Glossary in Appendix B, cuckoo smurfing is money laundering process in which non-complicit beneficiary customers of international remittances have proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore.

Occupation of JTOs and JTRs

In submitting SMRs relating to junket activity, casinos regularly report the occupation of the JTO and/or JTR accordingly, however, it is not uncommon for JTOs/JTRs to have additional employment which serves as their primary or secondary income, and which is unrelated to junket play. Suspicious matter reporting from banks about these entities indicates they are supplying these other occupations as their source of funds when dealing with the banks.¹⁵

Consultations with banks indicated that customers employed in junket provision may be considered higher risk, or even entirely outside the bank's risk appetite. Common transaction patterns observed in SMRs that may assist banks to identify JTOs or JTRs are:

- incoming IFTIs followed by transfers or bank cheques to casinos
- incoming transfers from casinos, the value of which is then transferred to multiple third parties, including third parties located offshore
- incoming transfers from one casino, followed by transfers to another casino
- large and frequent transfers between casinos and individuals who do not appear to have occupations that support their financial activity (e.g. student, retired, unemployed, home duties)
- lower value cash deposits, possibly indicating remuneration for services being paid in cash.

Junkets and domestic and transnational SOCGs

AUSTRAC assesses the junket tour operations sector is exposed to infiltration by transnational and SOCGs, with partner agency intelligence indicating that:

- several international JTOs are or were linked to organised crime groups
- Overseas-based transnational serious and organised crime (TSOC) groups exploit junkets in order to move money to Australia and launder the proceeds of crime through Australian casinos. Given the use of offsetting practices to transfer value into Australia for use by a number of junkets, overseas TSOC groups are effectively creating an opportunity for domestic SOCGs to launder illicit cash by arranging for it to be deposited into junket accounts at casinos as a means to balance the domestic side of the offsetting ledger.
- Some junket tour operations have links to South-East Asian crime groups.

National Security

AUSTRAC assesses that junket tour operations present a medium threat from a national security perspective.

Terrorism financing

AUSTRAC did not identify any links between junket activity and the financing of terrorism. AUSTRAC notes one partner agency observed that the anonymity facilitated by the junket business model makes it impossible to assess whether junkets pose a risk in relation to terrorism financing because the source and beneficiary of transactions is obscured, and the transactions of individual targets cannot be assessed against actual gaming.

Foreign interference

For the purposes of this assessment, foreign interference includes covert, deceptive and coercive activities intended to affect an Australian political or governmental process that are directed, subsidised or undertaken by (or on behalf of) foreign actors to advance their interests or objectives. In contrast, foreign influence, is commonly practiced by governments and is lawful when conducted in an open and transparent manner.

The junket business model facilitates the transfer of large amounts of foreign funds or value into Australia, often outside the formal banking system and with the potential to obscure the purpose of, and beneficial ownership of the source of funds. Further, and as described in the Vulnerabilities section below, junkets are facilitated and may involve play by individuals who may also be classified as foreign politically-exposed persons (PEPs). The involvement of foreign PEPs in junket tour operations increases the risk and vulnerability of this sector to exploitation for the purposes of foreign interference.

AUSTRAC has identified a small number of links between junket tour operations and possible foreign interference activities. Transactions indicate that entities who may be of concern from a foreign interference perspective could be using money held in casino accounts to make political donations with a link to foreign interference. The provision of political donations in itself is not illegal, however the unusual source of the funds, involving potentially covert international money movement, raises concerns for potential foreign interference.

Independent Commission Against Corruption (ICAC) Inquiry into Political Donations

Open source information indicates that a \$100,000 cash withdrawal from a junket funded by an entity who is:

- one of the key figures in the 2019 ICAC inquiry into political donations
- the subject of extensive suspicious matter reporting by banks and casinos
- heavily involved in Australian property development
- noted in open source information as being involved in corruption in both Australia and his country of origin,

may have donated to a NSW political party in a manner contrary to political donation laws.¹⁶ Open source information further indicates this entity has been excluded from re-entering Australia due to concerns over his association with foreign influence activities,¹⁷ and that his assets have been frozen at the request of the ATO, which is pursuing him for over \$100 million in unpaid tax.¹⁸

¹⁶ Australian Broadcasting Corporation – 'ICAC hears \$100,000 cash withdrawn from The Star casino days before same amount banked by NSW Labor' (<https://mobile.abc.net.au/news/2019-12-12/icac-cash-withdrawal-from-star-casino-before-labor-banked-money/11794496>)

¹⁷ The Sydney Morning Herald - 'Dodgy donations and influence peddling: explosive allegations to be investigated by ICAC' (<https://www.smh.com.au/politics/nsw/dodgy-donations-and-influence-peddling-explosive-allegations-to-be-investigated-by-icac-20190802-p52d9g.html>) (O); The Guardian – 'Packer sold share of Crown Resorts to tycoon who was director of 'banned' company' (<https://www.theguardian.com/australia-news/2019/aug/08/packer-sold-share-of-crown-to-tycoon-who-was-director-of-banned-company>) (O)

¹⁸ The Sydney Morning Herald – 'ATO seeks to bankrupt Huang Xiangmo over \$140 million bill' (<https://www.smh.com.au/national/ato-seeks-to-bankrupt-huang-xiangmo-over-140-million-bill-20191017-p531ll.html>) (O)

Predicate Offences

AUSTRAC assesses that some junket tour operations are linked to a range of predicate offences, perpetrated at both the player and JTO/JTR levels.

Tax evasion

Partner agency information indicates a level of non-compliance with Australian taxation laws by some JTO/JTRs, including failure to declare income earned through junkets on income tax returns.

There is a correlation between the foreign domicile of many JTO and JTRs and the sector's vulnerability to tax evasion, because:

- the residency status of JTOs/JTRs may be unclear, leading to uncertainty as to whether their income is taxable in Australia, and
- given the international reach of many junket tour operations, personal income/commissions paid to JTOs/JTRs in relation to work done in Australia may be said to have been derived in another jurisdiction for the purposes of taxation law. This may have implications for Australia's ability to tax that income.

Further, the taxable income of JTOs/JTRs may be in cash or "in-kind" – such as in accommodation, transport or entertainment - making it easier to conceal from the ATO.

One of AUSTRAC's partner agencies assessed that a resident JTOs had set up complex arrangements to avoid their taxation obligations, including using their junket accounts to anonymously purchase assets, and distribute profits from the junket to family and friends.

Working against visa conditions

It is highly likely some JTOs and JTRs are working in contravention of visa conditions. Data matching with partner agency holdings indicates a large number of the JTOs and JTRs on junkets that occurred over the reporting period were on tourist or bridging visas, which are unlikely to allow the holder to work except in some cases of financial hardship.

Corruption

AUSTRAC identified SMRs from a bank in relation to a customer who acted as a JTR for a casino over 2017-2018. The bank reported the customer for multiple cash deposits, collectively in excess of \$150,000. Bank records indicated the customer was unemployed, but open source information led the bank to identify that the customer was in fact a politically exposed person who had been implicated in a corruption probe in their home country.

Further review of the customer's transaction reports in AUSTRAC's database revealed significant TTR activity with casinos, SMRs from casinos in relation to significant losses on junkets, as well as a residential property purchase which is likely to have been funded at least in part with a significant amount of cash.

Sanctions

AUSTRAC has received intelligence that a person who was the subject of a United Nations travel ban participated in junkets in Australia, both during and subsequent to the ban. AUSTRAC is aware that the junket tour operation with which the travel ban subject played was still operating in Australian casinos as at 2018. One partner agency assessed that it was likely that the subject of the ban was laundering the proceeds of crime as a junket participant in Australia.

Crown comment

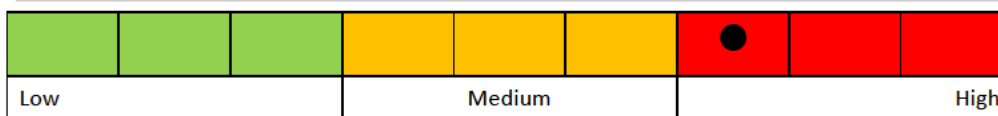
- Crown notes that while the residency status of the junket operator may vary, Crown's practice is to require junket operators to obtain and provide an ABN before commencing as a junket operator at Crown.

Non-gambling activities of junket participants

AUSTRAC is aware of information indicating that some junket participants engage in illegal recreational activities while in Australia, such as the purchase and consumption of illicit drugs and unregulated sexual services. AUSTRAC is also aware that one of the JTRs operating in Australian casinos is alleged to have been associated with a brothel operation, itself implicated with exploiting vulnerable women by forcing them into sexual servitude.

AUSTRAC recognises the harms that these activities cause in the Australian community, however, they are outside of the scope of this report as they do not involve the provision of gambling services by casinos.

VULNERABILITIES



Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. AUSTRAC's assessment of vulnerabilities falls into five categories: customers, products and services, delivery channels, exposure to foreign jurisdictions and level of implementation of risk mitigation strategies.

Overall, AUSTRAC assesses the junket operations sector is subject to a high level of ML/TF vulnerability.

Customers

AUSTRAC assesses that the customer base associated with junket tour operations poses a medium level of vulnerability. The size of the customer base is very small compared to other sectors assessed by AUSTRAC, but the average transaction value is relatively high, and the customer base is associated with several higher-risk attributes that increase vulnerability.

Size of the customer base

AUSTRAC assesses the size of the junket tour operations sector's customer base to present a low level of vulnerability. Information provided by casinos indicates that the numbers of JTOs, JTRs and players combined amount a very low exposure in terms of numbers.

However, the transactional activity relating to junkets is significantly high. In relation to junket activity alone, casinos had approximately two customers per threshold transaction report (TTR) per year, and \$55,000 per TTR.

AUSTRAC recognises junket tour operations may be unique in some of the services they offer, and the types of customers they have, as well as the fact it is not unusual for junkets (or casinos more broadly) to be associated with higher levels of cash transactions than may be typically observed in other sectors, as stated in the Products and Services section below. However, the relatively high transactional activity associated with junket tour operations increases the vulnerability level above what would generally be assessed for a customer base of its size.

High risk customers

AUSTRAC assesses the risk profile of persons involved in junkets to be high. Under current arrangements, it is not possible to clearly determine beneficial ownership and control of the funds while the use of cash increases anonymity. Under the junket arrangements, the primary customer of the casino is the JTO while the relationship between the casino and the junket players is more opaque.¹⁹

Crown comments

- Crown notes that there are various persons involved in junket programs, including the junket operator, junket representatives and junket players. Crown believes that:
 - there are different levels of risk associated with junket operators, representatives and players;
 - within these categories, each patron will have a different risk rating depending on various factors such as country of origin, PEP status and any other matters identified during due diligence processes; and
 - the risk level ascribed to a particular patron may vary after the application of controls that casinos put in place to mitigate against risk.
- Crown therefore queries the statement that persons involved in junkets are inherently high risk. Crown obtains the same KYC information for junket players as that obtained for non-junket players. However,

Crown also retains detailed gaming records for junket players, which results in Crown having more information about junket players than Crown is able to obtain from patrons who participate in casual gaming without having registered with Crown as a customer.

The "customer" of the casino and beneficial ownership

Consultation with AUSTRAC's partner agencies highlighted concerns arising from the obscuring of the ultimate beneficiary of activity on junket accounts, identifying it as a key vulnerability associated with the sector, in terms of criminal exploitation of the casino as well as the intelligence gaps faced by law enforcement.

Under the AML/CTF Act, a reporting entity is required to conduct due diligence on its customers proportionate to the level of ML/TF risks they pose. When a transaction occurs on a casino junket account, the customer of the casino is the JTO (or any JTRs who may be acting as agents of the JTO). However, the funds being deposited in, stored in or withdrawn from the JTO's account may not be beneficially owned or controlled by the JTO. In fact, it would be assumed that for the purposes of the junket that much of the money stored in the JTO's account would be beneficially owned by players.

This arrangement causes two significant vulnerabilities. First, the pooled nature of the funds in junket accounts makes it more difficult for the casino and law enforcement to link transactions made by the JTO/JTR to specific junket players. Second, transaction reports submitted to AUSTRAC about transactions requested by players are likely to be reported under the JTO's name (with the JTR as agent) rather than under the player's name. This obscures the true actor and makes it difficult for AUSTRAC and its partners to understand who is causing what transactions to occur, who or where the funds come from, and where they go.

To add a further layer of complexity, SMRs assessed by AUSTRAC reveal that junket accounts are also used by persons who do not appear to have any direct association with the conduct of the junket.

AUSTRAC identified 200 SMRs in the dataset that reported that a third party was depositing money into a junket account. Some of these SMRs indicated *indirect* deposits - for example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not participating in the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

Of the 200 SMRs indicating third party deposits,

- 167 SMRs indicated that \$39.6 million was deposited by domestic electronic funds transfer (EFT) into 32 JTO accounts,
- 29 SMRs indicated that \$6.7 million was deposited in cash into 22 JTO accounts,
- 17 SMRs indicated that \$6.4 million was deposited by intra-casino transfers into 15 JTO accounts,
- nine SMRs indicated that \$6.2 million was deposited by IFTI into eight JTO accounts, and
- four SMRs indicated that \$570,000 was deposited in chips into four JTO accounts.²⁰

A further 63 SMRs described funds in junket accounts being disbursed to third parties. Some of these SMRs indicated *indirect* withdrawals or disbursements - for example, cash withdrawals from a junket account may have been made by a JTO/JTR and then handed to a third party.

Of the 63 SMRs indicating disbursements to third parties,

- 35 SMRs indicated that \$24.5 million was disbursed via domestic electronic funds transfer from 38 JTO accounts,²¹
- 24 SMRs indicated that \$5.4 million was disbursed in cash from 18 JTO accounts,
- 11 SMRs indicated that \$8.8 million was disbursed by intra-casino transfers from ten JTO accounts,
- two SMRs indicated that \$639,200 was disbursed by IFTI into three JTO accounts,²² and

²⁰ These figures amount to 226 SMRs because some reports involve third parties depositing funds using more than one method e.g. a third party depositing funds via cash and domestic transfer.

²¹ Some SMRs described activity on more than one JTO account.

- two SMRs indicated that \$214,000 in chips was disbursed from two JTO accounts to third parties.²³

This level of transacting on junket accounts by persons identified by the casino as not being related to the junket is consistent with our finding that junket accounts can be used for purposes other than junket activity. One partner agency indicated its concern that transactions from junket accounts to third parties may be going towards the purchase of Australian real estate.

Multiple parties depositing cash into a JTO casino account

AUSTRAC identified a JTO whose account received over \$14 million in cash deposits of \$10,000 or more from 32 individuals over the reporting period. However, only 15 of these depositors were registered JTRs – over \$1.5 million dollars in cash was deposited into this JTO's account over the relevant period by persons who were not the JTO or a JTR. One \$100,000 cash deposit was made by a second JTO.

This demonstrates that the casinos' practice of only allowing JTRs or the relevant JTO to transact on JTO accounts is inconsistently applied. Further, this JTO has 80 separate JTRs listed over the time period, presenting potential challenges in managing and understanding the scale of transactions on the JTO account.

Crown comments

- Crown notes AUSTRAC's comment that *'it would be assumed that for the purposes of the junket that much of the money stored in the JTO's account would be beneficially owned by players.'* In relation to this issue, Crown notes that:
 - junket operators often have credit provided by casino operators (or they finance the junket themselves);
 - junket players repay the junket operator based on their gaming activity and any commercial arrangement that they agreed with the junket operator.
- While the financial relationship is between the junket operator and the casino, Crown retains detailed records in connection with the gaming activity of junkets, comprising all individual junket player gaming activity. Crown believes that this information presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.
- Further, only the JTO and JTR are authorised to perform transactions on a JTO account. Where a JTR carries out a reportable transaction on the JTO account, the identity details of the JTR are added to the relevant report for transparency.

²² Ibid.

²³ These figures amount to 74 SMRs because some reports involve JTO/JTRs disbursing funds using more than one method e.g. a JTO disbursing funds via cash and domestic transfer.

Treating JTOs as individuals rather than corporate entities

Consultations with casinos indicate that casinos often consider JTOs to be individuals and transact with them on that basis. However, it is clear some JTOs operate as part of large commercial operations that are often international businesses. Differences in treatment between a JTO as an individual or a business would likely lead to the different application of due diligence which would increase the vulnerability associated with understanding of beneficial ownership and control.

The diversification of junket tour operations into a range of different business lines increases opportunities for comingling, and presents difficulties for banks in understanding the origin of funds. One partner agency assessed as a vulnerability, the financial significance of large corporate junket operations to casinos and the likelihood they may exert additional influence over casinos' operations.

Foreign nationals

Information provided by casinos indicates that 95 per cent of players on junkets over the relevant period were foreign nationals, which is consistent with the expected demographic breakdown of junket tour operations. However, at a general level, a customer base composed predominantly of foreign nationals can increase a sector's vulnerability in several ways. For example, it can:

- increase the sector's attractiveness and accessibility to TSOC groups because it increases the global reach of the sector
- obscure the source and destination of funds, because entities and governments have more limited visibility of financial activity in other jurisdictions, and
- make information relating to customers' criminal and financial history and associations difficult to access, because it is held by foreign governments.

Partner agencies indicated that these vulnerability factors have been exploited or observed in the junket tour operations sector.

Consultations with casinos highlighted that as part of their customer due diligence processes, some casinos were of the view that the granting of a short term tourist visa to enter Australia and participate in a junket tour includes an assessment of a person's probity. Partner agencies confirmed that the granting of these short term visas does not include consideration of the criteria relevant to the customer due diligence obligations.

Foreign politically-exposed persons (PEPs)

Consistent with the nature of the activity, high net worth foreign nationals are the primary target market for junkets, which exposes junkets to patronage by foreign PEPs. Use of a service by PEPs can increase a reporting entity's vulnerability to dealing in the proceeds of corruption or exposing the business to foreign influence or interference. As a reflection of the risks posed by foreign PEPs, under the AML/CTF framework, reporting entities are required to conduct enhanced customer due diligence (ECDD) whenever they provide a designated service to a foreign PEP, including seeking senior management approval to establish and continue a business relationship.

AUSTRAC has identified circumstances where a foreign PEP not only participated in junket activities, but also operated as JTOs and JTRs.

AUSTRAC also notes a target market of foreign nationals also increases junket tour operations' exposure to internationally sanctioned entities.

Crown comments

- While Crown notes that foreign PEPs can and do participate in junket activities, Crown believes that not all foreign PEPs pose the same level of risk. For instance, many Chinese business people are members of political organisations, but do not have the same level of influence as an elected official, and do not have access to government funds.

Criminal associations

As described in the Criminal Threat Environment section, some junkets have been infiltrated by criminals including South-East Asian crime group members and transnational money laundering operations. Data-matching with partner agencies identified 16 per cent of JTOs and JTRs that operated over the reporting period were associated with entities known to be partner agency targets, even if not actual targets themselves.

Adverse matches on open source databases

AUSTRAC undertook data matching between the names of the JTOs and JTRs that operated over the twelve month period²⁴ and a publicly available database that many reporting entities use when conducting due diligence on their customers. This publicly available database uses three broad categories as reflected below. Results revealed:²⁵

- **Sixty-three** matches under the category that broadly includes:
 - persons accused, investigated, arrested, charged, indicted, detained, questioned, or on trial for crimes, but not **yet** convicted,
 - individuals appointed to a PEP position (as opposed to elected),
 - individuals appearing on regulatory, law enforcement, or global sanctions watch lists such as Office of Foreign Assets Control (OFAC), disqualified directors or Interpol, and
 - immediate relatives or close associates of primary PEPs.
- **Forty-six** matches under the second category indicating the subject had been convicted of, pleaded guilty to or been sentenced for crimes including financial crime, organised crime and narcotics-related crime.
- **Four** matches under the third category that includes:
 - persons currently holding or having held a political position,
 - persons who have been elected to a government or PEP position,
 - individuals in a country where cabinet ministers, state secretaries and the like are appointed and not elected (e.g. kingdom or military state), and
 - leaders of a political party.

The JTO that was the subject of the greatest number of SMRs over the period matched under two of the above three subcategories, and appears to have been sentenced to a period of imprisonment in a foreign country for illegal gambling activities.

High-risk customer example

AUSTRAC identified a JTR who is a close business associate of a former junket player recently arrested and who has been the subject of extensive adverse media attention in relation to international crime, support of a foreign government as well as links to domestic government officials.

AUSTRAC received an SMR describing a large cash deposit made by this JTR into an account held for a law firm. The SMR indicated the cash deposited by the JTR was converted by the law firm into a bank cheque to a construction company – possibly indicating the purchase of Australian property. An SMR lodged by a casino the day after the deposit was made into the law firm’s account indicated the cash may have originated from a JTO’s casino account.

²⁴ There are over 500 JTOs/JTRs engaging in junket programs each year.

²⁵ The total number of individuals matched with open source databases was 76, however several individuals returned matches for more than one category.

Crown comments

- Crown notes that there may be material differences between media reporting of allegations and a formal criminal conviction. This issue, coupled with the incomplete information that casino operators often have in relation to an individual, adds to the difficulty faced by operators in assessing the probity of an individual for the purposes of participating in junket programs. As these persons were able to get a visa to travel to Australia we can only assume Border Force experience similar difficulties.
- On this issue, Crown reiterates the importance of the continuing discussion about information sharing between regulators, law enforcement agencies and casino industry participants, to improve the knowledge base upon which casino operators can make decisions about who should and should not have access to designated services.
- Crown suggests that AUSTRAC consider the appropriateness of the word 'yet' in the phrase 'but not yet convicted' (given that an individual might be investigated or questioned but never charged or convicted).

Products and Services

AUSTRAC assesses the products and services associated with junket tour operations to present a high ML/TF vulnerability.

Gambling activity is recognised globally as being intrinsically vulnerable to the placement and layering of proceeds of crime. There are several reasons for this:

- money deposited and then withdrawn with minimal gaming activity will appear to have a legitimate origin, even though very little money was actually risked. Further, any losses sustained can give the incorrect appearance that the customer is engaging in genuine gaming activity,
- value washed through gambling services is highly liquid, and can be easily transferred between fiat currency and gaming chips, or transferred to another player, another gambling establishment, or a domestic or foreign bank,
- recreational gambling winnings are not taxable in Australia, and
- it is possible to win very large amounts of money from a relatively small outlay, so it is difficult for banks that hold the accounts of gamblers to form a suspicion based on transactions being inconsistent with their claimed income source.

Given the much higher average transaction value and the higher personal wealth of most players (making illegitimately obtained wealth harder to identify), AUSTRAC considers the gambling services associated with junkets to be relatively high risk.

Front money provided by casinos

A key harm minimisation measure in Australian casinos is the prohibition of the use of credit (in particular the use of credit cards) for gambling purposes. This prohibition is generally restricted to local residents. Some State and territories have, however, provided exemptions to this obligation by allowing high net worth gamblers who are domiciled in a foreign jurisdiction access to casino credit or cheque cashing facilities under specified terms and conditions.

Casinos consulted for this risk assessment indicated the vast majority of front money used for junkets is provided to the JTO by the casino as a loan or via a cheque cashing facility in accordance with the terms and conditions relevant to that jurisdiction. The money is gambled by junket players, and at the end of the junket, the JTO directs the disbursement of any winnings, or pays the casino for any losses.

The nature of this funding model for junket tour operations reinforces the approach of offsetting previously described and significantly diminishes the amount of money JTOs need to have onshore to balance front money provided offshore by players. Without access to credit or cheque-cashing facilities offered by casinos, AUSTRAC considers it would be more difficult for JTOs to source sufficient front money without involving the financial services sector.

A further vulnerability caused by casinos' provision of front money is that it diminishes the opportunity for the casino to understand which players contributed what amount of front money. Hypothetically, if casinos were to require front

money to be directly credited to the casino by individual players, they would likely be better able to understand source of funds, and compare front money amounts with betting activity and settlement instructions.

Crown comments

- Crown queries the statement that the provision of front money results in a vulnerability that is 'caused' by casino operators: Conversely, Crown considers that the provision of credit from the casino to the junket operator is in itself a risk mitigation measure, because it reduces the opportunity for a junket operator to pool funds that may have been illegally obtained as 'front money'.
- Crown maintains detailed records of junket program play, including junket gaming play together with individual junket player gaming play. This information comprises all individual junket player gaming activity and includes individual wins and losses, which Crown considers presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.

Use of cash

From a money laundering perspective, the underlying characteristics of cash ensure that it is inherently high risk because it is anonymous, readily exchangeable, and untraceable.

Cash exposure in casinos is typically higher than in other sectors regulated under the AML/CTF framework because state regulations impose harm minimisation standards prohibiting the use of some non-cash means (such as credit cards) to fund gambling activity.

The incidence of cash transactions associated with the junket tour operations sector is high, with over 85 per cent of the JTOs that operated over the period studied being the subject of TTRs submitted by casinos. While many of these transactions are likely to be legitimate, and simply indicative of the convenience of using cash to transact or move value between casinos while on holiday, they make illegitimate cash transactions less conspicuous and harder to identify. AUSTRAC assesses the high incidence of large cash transactions in the junket tour operations sector increases its vulnerability to money laundering, in particular to a known money laundering methodology of comingling illicit and legitimate funds.

TTRs relating to junket activity submitted by casinos during the period 1 April 2018 – 31 March 2019:

- 4,638 TTRs involving a total cash value of \$246.3 million and an average cash value of \$53,107
 - 1,160 incoming TTRs with a total cash value of \$81.1 million in relation to 78 JTOs
 - 3,477 outgoing TTRs with a total cash value of \$165.2 million in relation to 116 JTOs²⁶

All in-scope casinos submitted at least one TTR, and one casino accounted for over half of the TTRs submitted.

Incoming versus outgoing TTRs

The intelligence and suspicious matter reporting studied by AUSTRAC for this risk assessment focussed predominantly on suspicious cash *deposits*. Casinos indicated they held less concern about cash withdrawals than deposits, because the source of funds for withdrawals was clearer to them, and because players may request large cash withdrawals as a way of moving funds between casinos.

This approach is reflected in SMRs, in that casinos lodged 129 SMRs that described \$37.5 million in cash deposits, but only 87 SMRs describing \$28.3 million in cash withdrawals. SMRs indicate a key concern held by casinos in relation to cash deposits was the way large cash deposits were *presented*, rather than the large cash deposits themselves. In particular, casinos are less likely to find cash deposits suspicious if the cash appears to have been issued by a casino (with casino straps), than if the cash were presented in loose notes and/or varying denominations.

However, threshold transaction report data demonstrates that, both in number and value, large cash activity in the junkets sector is actually heavily skewed towards withdrawals, not deposits. As described in the Criminal Threat Environment section, the ultimate destination of these large cash withdrawals is an intelligence gap. One bank consulted for this risk assessment indicated large cash withdrawals would likely end up being deposited into bank

²⁶ Total incoming and outgoing TTRs sum to 4,637 because the direction of one TTR was unspecified.

accounts, increasing banks' exposure to risks associated with junket activity.

To illustrate the relatively high exposure of junket tour operations to large cash transactions, AUSTRAC has compared threshold transaction reporting percentages for these higher value transactions from casinos that *do not* relate to junket activity, and TTRs from the four major domestic banks for the purposes of illustrating the cash intensive nature of junket activity. Whilst acknowledging the typically higher use of cash in the gambling sector, major banks facilitate significantly more cash transactions, as do casinos outside of their junket activities, the below figures highlight that junkets have a substantially higher exposure to singularly large cash transactions, than casinos or the major domestic banks.²⁷

Percentage of TTRs over \$50,000



²⁷ TTR figures from the major domestic banks include all TTRs, not just TTRs relating to transactions by individuals.

Percentage of TTRs over \$100,000**Crown comments**

- Crown queries whether the infographics above may create confusion as to whether the piles of notes represent the percentage of TTRs or the percentage of the absolute value (which is not stated).

Ability to store and move funds or value

AUSTRAC assesses junket tour operations to be highly exposed to the risks posed by the ability to store and move funds.

Gaming accounts

Casinos reported 419 junket-related SMRs over the reporting period that related to the use of gaming accounts. Casino gaming accounts operate much like an account held with a financial institution, offering a safe place to store large amounts of money and the ability to deposit and withdraw funds using various means, including cash, chips, personal and bank cheque, intra-casino transfers and domestic electronic transfer.²⁸ Combined with the high degree of anonymity associated with transactions on junket accounts described above, together with risks associated with the depositing of funds by third parties with no association to the conduct of the junket, AUSTRAC considers junket accounts at casinos to be highly vulnerable to the storage and movement of potentially illicit funds.

*Delivery channel***Level of customer contact**

AUSTRAC assesses that the level of customer contact involved in the provision of junket tour operations creates a medium level of vulnerability. Junket tour operations generally require the physical presence of all players and at least one JTO or JTR in an Australian casino, which all have sophisticated security and monitoring systems. Casinos therefore have significant scope and means to observe players' and JTOs'/JTRs' behaviour for suspicious activity.

However, the account through which junket transactions are made is registered under the name of the JTO, who is the casino's primary customer in relation to transactions on their accounts. Yet, the JTO is frequently not present in person, particularly in circumstances in which the JTO is an international operation, thereby leaving all engagements to be facilitated by their authorised JTRs. In many ways, JTO accounts operate as an intermediary between the casino and the participants. This increases the distance between the casino and the underlying customer, in turn increasing the obscurity of the source and purpose of transactions on the account.

²⁸ Ability to transfer funds internationally is considered in the foreign jurisdiction section below.

Further, casinos allow gaming accounts, including JTO accounts, to receive funds via international and domestic electronic transfers, which allows for third parties, with whom the casino has no face-to-face contact, to transact.

Complexity of service delivery arrangements

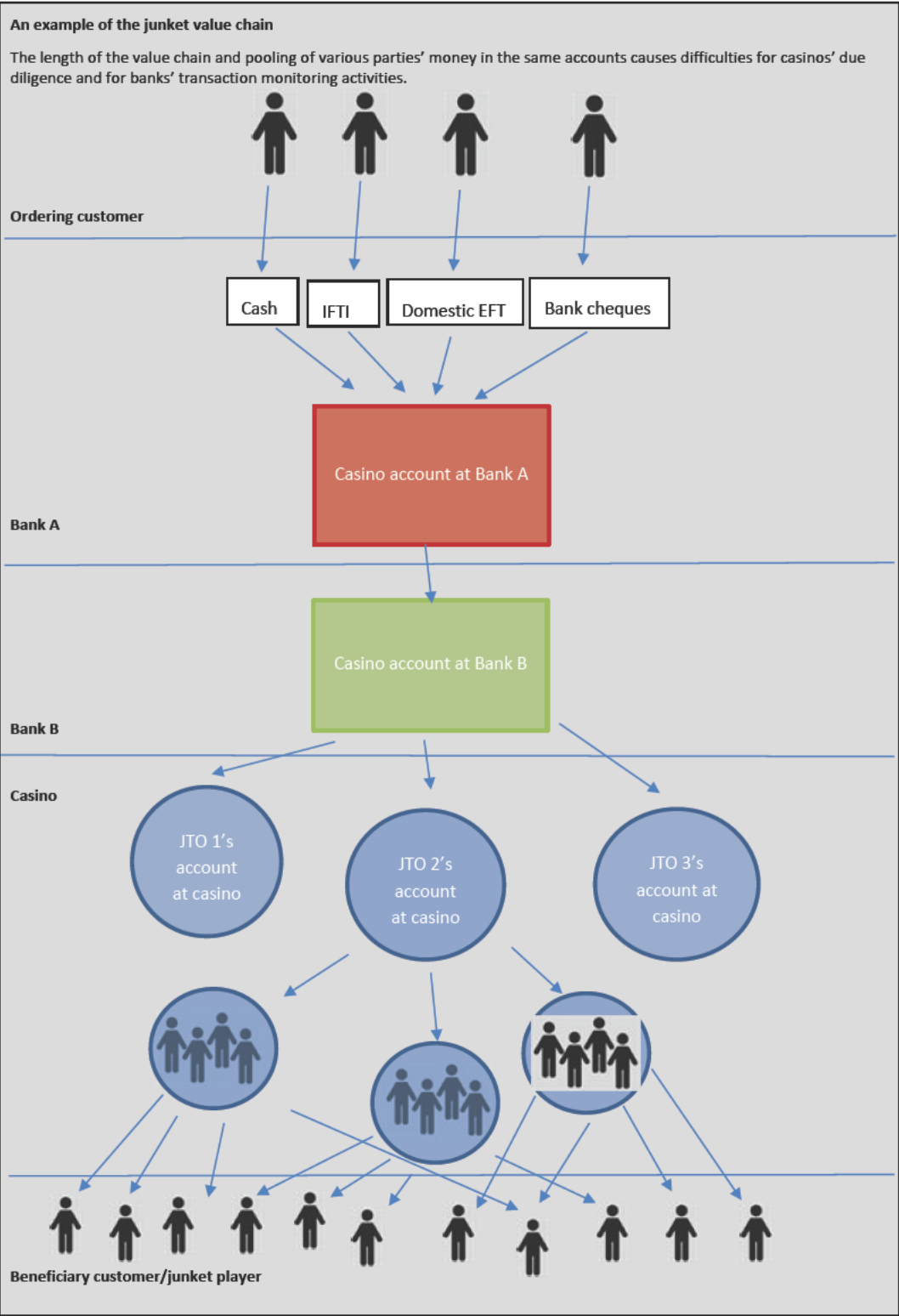
AUSTRAC assesses the complexity of the service delivery arrangements associated with the provision of junket tour operations to create a high level of vulnerability.

As described throughout this assessment, the traditional casino gaming model involving the interposed position of the JTO between the casino and the player, and the further interposed involvement of JTRs, complicates casinos' service delivery in a manner that increases vulnerability. In particular, it increases the distance between the reporting entity and the underlying customer, making it difficult to assign beneficial ownership to transacted funds, or to assess the rationality of particular transactions. Moreover, the extent to which casinos are able or willing to influence the procedures or risk appetite of JTOs is likely to vary across casinos and JTOs. JTOs are often not in the country when a junket is progressing, reducing their ability to manage the procedures of the onshore JTRs. Partner agency intelligence indicates that exploitation of junket operations may be conducted by JTRs without the knowledge and/or support of the overarching JTO.

Casino accounts with banks

Casinos also hold accounts with banks (sometimes several accounts across multiple banks), which receive incoming transfers or cash deposits relating to both junket customers and non-junket customers. It is noted that in some States and Territories, the casino requires the approval of the regulator to open and operate a bank account.

Banks consulted for this risk assessment indicated the junket business model made it more difficult to assess the purpose and legitimacy of transactions on the casino accounts they held. They also noted the inability to isolate junket-related transactions from other casino transactions presented obvious challenges in terms of transaction monitoring and analysis.



Foreign jurisdiction

AUSTRAC assesses junket tour operations to be subject to a high level of vulnerability in relation to foreign jurisdiction exposure. The ability to move funds between Australia and other jurisdictions increases Australia's vulnerability to transnational money launderers, terrorism financiers, foreign interference entities, transnational tax evaders and the purchase or sale of illicit goods internationally.

Movement of funds or value internationally

Difficulty in obtaining a reliable IFTI dataset

This assessment has found that much of the movement of value associated with junket activity is unlikely to have been reported as IFTIs to AUSTRAC due in part to the nature of some of the offsetting processes described above, or because there is no obligation to report an IFTI. Further, casinos' IFTI data is unable to provide a quantitative representation of the foreign jurisdiction exposure associated with the junket tour operations sector for various reasons, including but not limited to:

- use of loans or cheque cashing facilities as front money, meaning
 - front money to be gambled may not have actually crossed the border, and
 - repayments to the casino for losses incurred during the junket paid from offshore do not attract an IFTI obligation for the casino, and
- much of the IFTI activity that relates to junkets appears to be facilitated through JTOs' and JTRs' personal bank accounts, rather than through casino accounts.

However, given that 95 per cent of junket players over the reporting period were foreign nationals gambling money in Australia, AUSTRAC assesses there is a high exposure to the risk posed by international funds flows. These risks are likely to be exacerbated in situations where:

- the JTO has operations in several countries, increasing the risk of offsetting between accounts held at casinos in different jurisdictions, and
- where the casino itself is part of a group that operates casinos internationally.

IFTIs reported by banks

In order to provide a qualitative representation of the sector's exposure to foreign jurisdictions, AUSTRAC extracted the IFTIs reported by banks in relation to transactions on the casino bank accounts in which junket monies are received into and disbursed out of. These accounts are not used exclusively for junkets, so not all reports will relate to junket activity.

Incoming IFTIs 1 April 2018 to 31 March 2019 – top five source countries (by \$ amount)

| Source country | Total amount (AUD) | No. of IFTIs | Average amount per IFTI (AUD) |
|----------------|----------------------|--------------|-------------------------------|
| Hong Kong | \$201,349,353 | 326 | \$617,636 |
| Macau | \$172,782,695 | 90 | \$1,919,808 |
| Indonesia | \$130,172,769 | 525 | \$247,948 |
| Singapore | \$129,364,007 | 331 | \$390,828 |
| Taiwan | \$30,225,925 | 59 | \$512,304 |
| Total | \$663,894,749 | 1331 | \$498,794 |

Outgoing IFTIs 1 April 2018 to 31 March 2019 – top five destination countries (by \$ amount)

| Destination country | Total amount (AUD) | No. of IFTIs | Average amount per IFTI (AUD) |
|---------------------|---------------------|--------------|-------------------------------|
| Macau | \$34,496,300 | 3 | \$11,498,767 |
| Singapore | \$26,415,331 | 57 | \$463,427 |
| Hong Kong | \$12,541,891 | 28 | \$447,925 |
| United Kingdom | \$5,351,210 | 12 | \$445,934 |
| Philippines | \$3,280,527 | 1 | \$3,280,527 |
| Total | \$82,085,258 | 101 | \$812,725 |

Transactions with high-risk jurisdictions

AUSTRAC assesses the jurisdictions with which the junket tour operations sector transacts pose a high level of ML/TF vulnerability.

AUSTRAC and several of its partner agencies assess it likely that a significant proportion of junket funds are ultimately sourced from jurisdictions in which gambling restrictions apply. Various other jurisdictions – which may act as conduits for such funds flows - may themselves, be deemed as higher risk for money laundering, corruption or other serious crimes.

Features of junket operations that make them higher risk

Not all junket tour operations have the same risk profile. Each casino may implement different controls to mitigate and manage the ML/TF risks of their junket operations, and they may also implement different procedures with respect to different JTOs that operate in the same casino.

Generally speaking, AUSTRAC considers that the more of the following features that apply to a specific junket tour operation, the higher its risk in terms of its vulnerability to money laundering and related financial crime:

- JTOs/players are from high-risk jurisdictions
- Casinos accept large cash deposits to make up front money or repay debts
- Casinos allow large cash withdrawals
- Casinos allow movement of funds between casino accounts
- JTOs are PEPs or have criminal associations
- Casinos extending credit/cheque cashing facilities to JTOs for front money
- Casinos allowing non-junket related transactions on JTO accounts, including:
 - exchange of cash/"negotiable" chips
 - allowing any deposits or withdrawals during a junket
 - allowing any non-winnings funds stored in junket accounts to be used for purposes other than gaming
 - allowing transactions to or from third parties.

Crown comments

- Crown notes that a person's status as a PEP does not mean that the person is or may be involved in criminal activities. Not all foreign PEPs pose the same level of risk (a person, while affiliated politically with a particular group, may not have the same level of influence as an elected official, and may not have access to government funds).
- Further, Crown notes that significant media attention has focussed on a small number of JTOs and junket players.

Implementation of risk mitigation strategies

AUSTRAC assesses the level of implementation of risk mitigation strategies in the junket tour operations sector poses a high level of vulnerability. Risk mitigation strategies include both measures that are mandatory under AML/CTF legislation and other measures that go towards mitigating ML/TF risks.

AUSTRAC consulted all of the casinos that offered junkets over the relevant period. Casinos outlined a range of practices used to mitigate the risk of criminal exploitation of junkets, including a combination of the following:

- Implementing an AML/CTF program and framework which includes policies and processes concerning employee due diligence, transaction monitoring, systems to report suspicious matters, threshold transactions and IFTIs, and AML training for staff members.
- Conducting due diligence on JTOs, generally including an application process, identity verification procedures, sanctions and PEPs screening, obtaining international police clearance certificates, credit checks and open source database screening. Due diligence may also be informed by activities conducted by third parties such as law enforcement and regulatory agencies (for example, the approval or refusal of visas).

- Notifying state gaming regulators of JTOs/JTRs and junket participant names. In Queensland, JTOs/JTRs are required to undergo an approval process administered by the gaming regulator.
- Requiring that JTOs enter the country at least once per year, to ensure they are still deemed suitable for the grant of a visa.
- Authorising that only JTOs/JTRs can transact on the relevant junket account. As described above, SMRs demonstrate this expectation can be compromised when unknown third parties hand cash to the JTO/JTR, who deposits it on their behalf, and when unknown third parties deposit money electronically.
- Attempting to establish a link between a JTO/JTR/player and the beneficiary of any requests for outgoing funds transfers.
- Recording all gambling activities
- Using CCTV surveillance footage to identify the context behind suspicious transactions.
- Screening higher-risk customers daily, to ensure any adverse changes are noted.
- Conducting ECDD on higher risk customers including JTOs/JTRs.

AUSTRAC considers that these measures (or a combination of these measures) contribute to mitigating and managing the ML/TF risk associated with the conduct of junket activity, particularly in terms of the transaction and suspicious matter reporting casinos undertake. Overall, however, AUSTRAC encourages casinos to develop industry-leading practices in the application of their ML/TF risk mitigation policies, systems and processes, with emphasis on the robustness of these efforts in order to better protect their businesses from criminal exploitation.

AUSTRAC will continue to engage with the casinos sector, to understand the complexities of their operations, assess compliance with their obligations under the AML/CTF Act, enhance the collective understanding of ML/TF risks and vulnerabilities of the sector, and provide casinos with information to support best-practice approaches to identifying and mitigating ML/TF risk.

Crown comments

- Crown queries whether some further clarity may be appropriate in this section. Is AUSTRAC suggesting that risk mitigation strategies exist, but the 'level of implementation' of those strategies is low, thereby contributing to a high level of vulnerability?
- As AUSTRAC is aware as a result of the presentations and information provided by Crown during the course of the Junket Risk Assessment project, Crown has a range of detailed processes and measures in place that are specifically directed towards mitigating ML/TF risks associated with the conduct of junket activity, including detailed initial and ongoing due diligence and probity checks in relation to all junket operators and ongoing daily due diligence screenings through third party external providers in relation to all active junket operators, representatives and players, as well as ongoing review of all junket activity through Crown's Transaction Monitoring Program.

CONSEQUENCES

| | | | | | | | | |
|-------|--|--|----------|--|---|-------|--|--|
| | | | | | ● | | | |
| Minor | | | Moderate | | | Major | | |

The consequences of ML/TF activity in the junket operations sector are assessed as **moderate**. Consequence refers to the potential impact or harm that ML/TF and other financial crimes may cause. Financial crime in the junket tour operations sector has consequences for a range of stakeholders.

Individuals

AUSTRAC considers the consequences of the criminal exploitation of junket tour operations for individuals to be **moderate**. The individual victims of the money laundering offences associated with junket tour operations, such as persons suffering from drug addiction, can suffer extreme harm as a result of criminality associated with junkets. Unlike other sectors AUSTRAC regulates that are subject to offences against individuals like fraud and scams, the junket sector is unlikely to perpetrate predicate offences itself – it is more likely to be used to launder the resultant proceeds.

Junket tour operations sector

AUSTRAC considers the consequences of systemic criminal exploitation of junket tour operations for the sector to be **major**.

Gambling services are recognised globally as being vulnerable to criminals and criminal exploitation, and the casinos which are providing the services are subject to a high level of public and media scrutiny. Casinos operate in a highly competitive global market and competition to attract junkets is intense. Sustained actual or perceived criminal exploitation of junkets may cause reputational damage which without remedy is highly likely to extend to include competitive disadvantages effecting the casino licence or loss of revenues through decreased patronage. By extension junket tour operations could face exclusion from a particular market undermining legitimate business operations.

Casinos are subject to significant oversight at the State and Commonwealth levels in terms of ensuring the integrity of casino operations and any failure to effectively manage and mitigate against criminal exploitation may expose a business to regulatory action.

Australian financial system and community

AUSTRAC assesses the consequences of criminal exploitation of junket tour operations on Australia's financial systems and community to be **moderate**.

Some junkets are used by SOCGs to move and otherwise launder money, supporting the continued profitability of underlying offences that affect the Australian community.

Where junkets are used to facilitate income tax evasion, they erode Australia's revenue base.

Where JTOs and JTRs may contravene visa conditions, they undermine the integrity of Australia's migration system.

Were criminality through junkets to be widespread, there would also be an impact on Australia's international AML/CTF reputation, which may in turn affect Australia's attractiveness as a place to invest and otherwise do business.

Finally, if widespread criminality in the junkets sector were to result in significantly decreased patronage of Australian junkets, this would have consequences for international and domestic tourism, the taxation revenue of states and territories, and the share price of ASX-listed companies.

National security and international consequences

AUSTRAC assesses the potential consequences of foreign interference activities facilitated through junket tour operations to be **moderate**. Not only does foreign interference have the capacity to influence decision makers to act in a manner inconsistent with, or even contrary to, Australia's national interest, but it is also likely to undermine confidence in government and Australia's political process.

Feedback

AUSTRAC is committed to continual improvement and values your feedback on its products. We would appreciate notification of any outcomes associated with this report by contacting AUSTRAC via the [contact form](https://www.austrac.gov.au/contact-us/form) at <https://www.austrac.gov.au/contact-us/form>.

APPENDIX A: Risk assessment methodology

The methodology used for this risk assessment follows Financial Action Task Force guidance, which states that ML/TF risk at the national level should be assessed as a function of criminal threat, vulnerability and consequence.

This risk assessment considered 19 risk factors across the above three categories and each risk factor was assessed as low, medium or high, as per the table below. These assessments were based on quantitative and qualitative intelligence inputs, including analysis of SMR and other reporting data, intelligence assessments from partner agencies, and feedback from industry. The average scores of the criteria provides the total risk score for each category, and the average of the three risk scores for each category provides the overall risk rating for the sector.

| CRIMINAL THREAT ENVIRONMENT | | | |
|---|---|---|--|
| LOW | MEDIUM | HIGH | Crown comments |
| Minimal variety of money laundering methodologies. There is a low level of involvement by SOCGs and other high-risk entities. | Money laundering methodologies are moderately varied. There is a medium level of involvement by SOCGs and other high-risk entities. | Money laundering methodologies are highly varied. There is a high level of involvement by SOCGs and other high-risk entities. | As explained on our covering letter, AUSTRAC's conclusions about the level of involvement of SOCGs and high risk entities does not accord with Crown's experience and understanding. Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible. |
| Low amount of money laundering intelligence, investigations and cases involving the sector, and low associated values. | Moderate amount of money laundering intelligence, investigations and cases involving the sector, and moderate associated values. | High amount of money laundering intelligence, investigations and cases involving the sector, and high associated values. | As above |
| Methodologies for national security offences are relatively invariable, or are easy to detect. None or a very small number of actors, financiers, associates and facilitators utilising the sector. | Methodologies for national security offences are somewhat varied, or can sometimes be difficult to detect. There is a small number of actors, financiers, associates and facilitators utilising the sector. | Methodologies for national security offences are highly varied, or are often difficult to detect. There are several actors, financiers, associates and facilitators utilising the sector. | |

| | | | |
|--|---|--|--|
| Very few instances of national security offences in the sector, with negligible or very low associated values. | Some instances of national security offences in the sector, with low associated values. | Multiple instances of national security offences in the sector, with moderate or high associated values. | |
| Minimal variety of predicate offences that are easily detected. There is a low level of involvement by SOCGs and other high-risk actors. | Predicate offences are moderately varied and may sometimes be difficult to detect. There is a medium level of involvement by SOCG and other high-risk actors. | Predicate offences are highly varied and are often difficult to detect. There is a high level of involvement by SOCG and other high-risk actors. | |
| Low number of predicate offences in the sector, and low associated values. | Moderate number of predicate offences in the sector, and moderate associated values. | High number of predicate offences in the sector, and high associated values. | |

| VULNERABILITIES | | | |
|--|--|---|--|
| LOW | MEDIUM | HIGH | Crown comments |
| Few higher risk customers | A moderate number of higher risk customers | A high number of higher risk customers | As explained on our covering letter, Crown would welcome any further specificity AUSTRAC can provide about the levels of high risk customer activity that AUSTRAC has observed (as it does not accord with Crown's experience and understanding). Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible |
| Sector has a small customer base. | Sector has a medium customer base. | Sector has a large customer base. | |
| Provision of product/service rarely involves cash, or involves cash in small amounts | Provision of product/service sometimes involves cash, or involves cash in moderate amounts | Provision of product/service often involves cash, or involves cash in large amounts | |
| Funds and/or value are not easily stored or transferred | Funds and/or value can be stored or transferred with a small amount of difficulty | Funds and/or value are easily stored or transferred | |

| | | | |
|---|--|---|--|
| Product/service is provided predominantly through direct contact, with minimal remote services | Mix of direct and remote services | Predominantly remote services, with minimal direct contact | As explained on our covering letter, Crown is interested to understand what is meant by the term 'remote services'. From Crown's point of view, all gambling services in the casino sector are provided face to face. |
| Sector tends to have simple and direct delivery arrangements | Sector tends to utilise some complex delivery arrangements | Sector tends to utilise many complex delivery arrangements | Similar to the above, Crown is interested to understand what is meant by 'complex delivery arrangements' (and would welcome further detail about AUSTRAC's observations in this area). |
| Funds and/or value are generally not transferred internationally | Moderate amount of funds and/or value can be transferred internationally | Significant amounts of funds and/or value are easily transferred internationally | |
| Transactions rarely or never involve high-risk jurisdictions | Transactions sometimes involve high-risk jurisdictions | Transactions often involve high-risk jurisdictions | |
| At a sector level, significant systems and controls have been implemented to mitigate vulnerabilities | At a sector level, moderate systems and controls have been implemented to mitigate vulnerabilities | At a sector level, limited systems and controls have been implemented to mitigate vulnerabilities | This conclusion does not appear to be consistent with the more detailed discussion of this subject. AUSTRAC has noted a range of risk mitigation measures that are in place on pages 34 and 35 of the draft risk assessment, but has indicated here that it considers that 'limited systems and controls' have been implemented. |

| CONSEQUENCES | | | |
|---|--|---|----------------|
| MINOR | MODERATE | MAJOR | Crown comments |
| Criminal activity enabled through the sector results in minimal personal loss | Criminal activity enabled through the sector results in moderate personal loss | Criminal activity enabled through the sector results in significant personal loss | |

| | | | |
|--|--|---|---|
| Criminal activity enabled through the sector does not significantly erode the sector's financial performance or reputation | Criminal activity enabled through the sector moderately erodes the sector's financial performance or reputation | Criminal activity enabled through the sector significantly erodes the sector's financial performance or reputation | As above. |
| Criminal activity enabled through the sector does not significantly affect the broader Australian financial system and community | Criminal activity enabled through the sector moderately affects the broader Australian financial system and community | Criminal activity enabled through the sector significantly affects the broader Australian financial system and community | |
| Criminal activity enabled through the sector has minimal potential to impact on national security and/or international security | Criminal activity enabled through the sector has the potential to moderately impact on national security and/or international security | Criminal activity enabled through the sector has the potential to significantly impact on national security and/or international security | Crown notes that it may be AUSTRAC's intention to shade the middle box yellow, rather than red. |

APPENDIX B: Glossary of terms

| | |
|--------------------------------|--|
| AML/CTF | Anti-money laundering and counter-terrorism financing. |
| AML/CTF program | A document that sets out how a reporting entity meets its AML/CTF compliance obligations. |
| Beneficial owner | An individual who owns 25 per cent or more of, or otherwise controls the business of, an entity. |
| Casino account | An account held by an individual (for example a JTO) with a casino. Funds can be deposited and withdrawn from these accounts can be funded in many ways including by domestic electronic funds transfer, international funds transfer, cash deposit, and exchange of chips. |
| Cheque cashing facility | An arrangement whereby the casino accepts a cheque from the JTO as a substitute for front money. The cheque will only be cashed after settlement if the junket program loses, so the JTO does not need to actually provide the front money amount to the casino. |
| Cuckoo smurfing | A money laundering process in which non-complicit beneficiary customers of international remittances have proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore. |
| ECDD | Enhanced customer due diligence. This is the process of undertaking additional customer identification and verification measures in certain circumstances deemed to be high risk. |
| FATF | The Financial Action Task Force is an inter-governmental body focused on fighting money laundering, terrorism financing and other related threats to the integrity of the international financial system, by ensuring the effective implementation of legal, regulatory and operational measures. |
| Front money | The amount of money available to the junket players in a program to bet. This is likely to be extended via credit or cheque cashing facility by the casino, but is sometimes raised by the JTO and deposited into their casino account. The front money amount for a specific junket program can be increased during the program. |
| IFTI | An instruction to transfer funds or property to either: <ul style="list-style-type: none"> • Australia from another country • Another country from Australia |
| Integration | The final stage of the money laundering cycle, in which illicit funds or assets are invested in further criminal activity, 'legitimate' business or used to purchase assets or goods. At this stage, the funds are in the mainstream financial system and appear to be legitimate. |
| Junket program | A discreet junket "tour" – a group of players with a set arrival and departure date and pre-determined front money amount, at the conclusion of which settlement occurs between the casino and the JTO. Junket programs differ from "rolling junkets" which are ongoing 24/7 and have players arriving and leaving without pre-determined dates. |
| JTO | Junket tour operator. This is the person with whom the casino enters into an arrangement to provide junket services to the JTO's customers. |
| JTR | Junket tour representative. An agent of a junket tour operator, who has authority to transact on the JTO's casino account. |

| | |
|--------------------------------|--|
| Layering | The second stage of the money laundering cycle, which involves moving, dispersing or disguising illegal funds or assets to conceal their true origin. |
| ML/TF | Money laundering/terrorism financing |
| MLO | Money laundering organisation |
| Offsetting | A practice which enables the international transfer of value without actually transferring money. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more entities operating in different countries. |
| PEP | Politically exposed person |
| Placement | The first stage of the money laundering cycle, in which illicit funds first enter the formal financial system. |
| Predicate offence | For the purpose of this risk assessment, predicate offence is any offence which generates proceeds of crime. |
| SMR | A report that must be submitted by a reporting entity under the AML/CTF Act if they have reasonable grounds to suspect that a transaction may be related to money laundering, terrorism financing, tax evasion, proceeds of crime or any other serious crimes under Australian law. An SMR must also be submitted if the reporting entity has reasonable grounds to suspect the customer or an agent of the customer is not who they say they are. |
| SOCG | Serious and organised crime group |
| Structuring | Structuring is where a person deliberately: <ul style="list-style-type: none"> • splits cash transactions to avoid a single large transaction being reported in threshold transaction reports • travels with cash amounts in a way that avoids declaring cross border movements of the cash. Structuring can be a money laundering technique and is against the law under the AML/CTF Act. |
| TMP | Part A of a reporting entity's AML/CTF program must include a risk-based transaction monitoring program (TMP) that comprises of appropriate systems and controls to monitor the transactions of customers and identify suspicious transactions. |
| TSOC | Transnational serious and organised crime |
| TTR | A threshold transaction report, submitted to AUSTRAC about a designated service provided to a customer by a reporting entity that involves a transfer of physical or digital currency of A\$10,000 or more or the foreign currency equivalent. |
| Unregistered remittance | The provision of money remittance services in a manner that is captured by the AML/CTF Act, but without being registered with AUSTRAC. Unregistered remittance is a criminal offence. |



AGENDA ITEM 5:
Media Coverage



Coonan to keep Melco lobby role

EXCLUSIVE

JARED LYNCH

Helen Coonan has no intention of stepping down as chair of the public affairs and lobby group that has been hired to represent Macau gambling tycoon Lawrence Ho in his bid to buy a 20 per cent stake in Crown Resorts, despite her appointment as chair of the ASX-listed Crown.

Ms Coonan replaced John Alexander as Crown Resorts chair last month, as an inquiry was getting under way in Sydney that is examining whether the planned buyout of the Crown stake by Mr

Ho's Melco group raises probity issues.

The former federal communications minister told The Australian at the weekend that she would be reviewing all of her commitments and would adjust some roles and step back from

others following her Crown appointment. But The Australian can reveal that her chairmanship of prominent lobbyist firm, GRACosway, will not be among her roles to be culled.

"Ms Coonan is a non-executive chair of GRACosway and has no role in the day-to-day operation of the business. Appropriate disclosures of interest are made in accordance with her obligations as a director of Crown," a Crown spokeswoman said.

Mr Ho, the son of Stanley Ho — one of the founders of Macau's casino industry — recruited GRACosway in August last year.

The appointment came three
Continued on Page 21



Coonan



The Australian, Australia
05 Feb 2020, by Jared Lynch



Business News, page 17 - 285.00 cm²
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ID 1231355611

BRIEF CRWNILGA INDEX 1.1

PAGE 2 of 2

Coonan hangs on to Melco role

Continued from Page 17

weeks after the NSW Independent Liquor and Gaming Authority announced an inquiry into Melco's intention to buy a 19.9 per cent stake in Crown from James Packer's private investment vehicle Consolidated Press Holdings for about \$1.76bn.

Ms Coonan was a director of Crown as well as GRA's co-chair at the time. She became sole chair of GRA in November last year after her former co-chair John Dawkins was banned from holding a directorship for two years over his involvement in collapsed training college Vocation.

GRA has been assisting Melco in its preparations ahead of the investigation, which was established to examine the alleged "criminal infiltration" of Crown Resorts' casino operations, both in Australia and abroad.

The authority said it was required by law to ensure the "management and operation of a casino remain free from criminal influence or exploitation, that gaming in a casino is conducted honestly and controlling the potential of a casino to cause harm to the public interest and to individuals and families".

The Australian is not suggesting that Ms Coonan has engaged

in any wrongdoing. She told The Australian she would adjust some roles and step back from others to focus on the inquiry and ensure Crown's \$2.4bn Barangaroo project in Sydney finishes on time and on budget.

At Crown's annual meeting last year, shareholders criticised her many directorships, which include chairing the Minerals Council of Australia, the federal government's Australian Financial Complaints Authority, and Place Management NSW, previously known as the Sydney Harbour Foreshore Authority.

"Some roles I have require four meetings a year and are easily accommodated. Others may require some adjustments or stepping back," she said.

"I will review all roles but the important point is that Crown will receive the attention from me that it needs."

Ms Coonan said at the time of her elevation to chair that the move aligned with "contemporary governance practices".

"The Crown board has been working for some time to consider and to implement a governance structure that is more in line with the traditional model, with a

non-executive chair — a position that I am very honoured and privileged to have been asked to hold — and a separate CEO.

"This new structure is in line with feedback we have received from a number of proxy advisers and shareholders and better aligns with contemporary governance practices."

Mr Packer, Lawrence Ho and Mr Alexander are all due to give evidence at the NSW inquiry.

The first hearing is scheduled for February 24 and will focus on the "vulnerabilities of casinos to money laundering".

Melco's deal to acquire almost 20 per cent of Mr Packer's Crown shares was to be done in two tranches, with the first parcel of 67.7 million shares, worth about \$880m, completed after the deal was announced in May.

The sale requires approval from regulators in Victoria and Western Australia as well as NSW, and if it is given the green light, it will leave the Australian billionaire with a 26 per cent interest in Crown.

'The important point is Crown will receive the attention it needs'

HELEN COONAN
CROWN RESORTS CHAIR



The Australian, Australia

06 Feb 2020, by Deborah Cornwall

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BRIEF CRWNILGA INDEX 1.1

PAGE 1 of 1

Melco in challenge to casino inquiry

EXCLUSIVE

DEBORAH CORNWALL

Melco Resorts, the casino empire owned by Macau gaming tycoon Lawrence Ho, has launched an 11th-hour legal challenge to the NSW gaming regulator, claiming the regulator is attempting to overstep its powers in its upcoming NSW casino inquiry.

The highly unusual legal action — set down for an urgent hearing in the NSW Supreme Court on Thursday — comes less than three weeks before the Independent Liquor and Gaming Authority begins the first hearing of its no-holds-barred inquiry.

The inquiry was initially triggered by James Packer's decision to sell 19.9 per cent of his Crown shares, potentially worth \$1.75bn, to Melco Resorts.

At stake is Crown Resorts' fitness to hold its high-rollers casino licence at Sydney's Barangaroo, due to open its doors next year.

But in the court notice of motion filed by Melco Resorts, the casino company claims the inquiry's legal team has misinterpreted its powers by insisting it can compel Melco to produce documents that breach the legal professional privilege between lawyers and their clients.

Melco argues that while the company has been co-operating with the inquiry, it should be entitled to refuse to produce certain documents, or parts of documents, on the ground of legal professional privilege.

Melco also disputes that section 17(1) of the Royal Commis-

sions Act, which would give the inquiry the power to breach legal privilege, even comes "into effect for the purposes of the inquiry".

The legal challenge by Melco flags the deep unease among senior operatives at both Melco Resorts and Australian billionaire Mr Packer's Crown Resorts casino operations.

At the opening of the inquiry last month, counsel assisting Adam Bell SC alluded to some of the behind-the-scenes wrangling with Melco's lawyers over the issue of its powers since at least September.

But Mr Bell told the inquiry that despite Melco's "issues", the inquiry would proceed on the basis that it had the power to compel witnesses to produce documents on demand and there would be no grounds, including legal privilege, on which they could refuse the order of the commissioner.

"A witness summonsed to appear before the inquiry or to pro-

duce documents to the inquiry is not excused from answering a question or producing documents on the ground of legal professional or other privilege or self-incrimination or a duty of secrecy or other restriction or disclosure or any other ground," Mr Bell said.

The unprecedented gaming inquisition will be run as five separate hearings investigating the alleged "criminal infiltration" of Crown Resorts' casino operations in Australia and abroad.

Both Mr Packer and Mr Ho have been ordered to appear as star witnesses at the inquiry, along with a rollcall of Mr Packer's most trusted insiders.



Bitter row over Crown inquiry's powers spills over to the Supreme Court

DEBORAH CORNWALL

The "clumsy" wording of NSW's royal commission laws had led the state's gaming authority to wrongly claim it had all the "draconian powers" of a royal commission in its upcoming inquiry into Crown Resorts' gaming operations, a NSW court has been told.

Melco Resorts, the casino empire owned by Macau gaming tycoon Lawrence Ho, has launched an extraordinary 11th-hour legal challenge to the NSW gaming regulator, accusing it of overstepping its powers.

The gaming inquiry was initially triggered by James Packer's decision to sell 19.9 per cent of his Crown shares, potentially worth \$1.75bn, to Melco Resorts.

At stake is Crown Resorts' fitness to hold its high-rollers casino licence at Sydney's Barangaroo, which is due to open its doors in 2021.

Launching the inquiry in January, commissioner Paddy Bergin SC said it would be conducting a forensic inquiry into the alleged "criminal infiltration" of Crown's casino operations using the full powers of a royal commission.

Barrister Stephen Finch SC,

acting for Melco Resorts, told the NSW Supreme Court on Thursday that the NSW Independent Liquor and Gaming Authority's Crown Resorts inquiry — which is due to begin hearings on February

24 — "is not and never was a royal commission".

Mr Finch said under section 17 (4) and 17 (5) of the NSW Royal Commission Act, the state's gaming authority inquiries were "ex-

PLICITLY EXCLUDED" from forcing witnesses to give evidence or hand over documents that were in breach of the professional lawyer-client privilege.

He said after four months of "extremely polite" negotiations, the ILGA's refusal to concede it did not have the power to impose "this dreadful incursion ... into civil rights" had left Melco Resorts no option but to head to court.

Mr Finch told Supreme Court judge Christine Adamson if the NSW parliament had wanted to give gaming inquiries the power to breach legal professional privilege, it could have done so.

"You say, in effect, the (NSW Attorney-General) is asking this

court ... to do its dirty work (regarding the abrogation of privilege) ... when it didn't have the fortitude to have the debate in parliament?" Justice Adamson said.

Mr Finch replied: "The (NSW Royal Commission Act) makes it clear that these hurdles (under section 17) have to be specifically addressed ... even under the royal commission rules."

Stephen Free SC, on behalf of the ILGA, told the court Melco had "misread" the legislation.

Justice Adamson reserved her decision.



Lawrence Ho



Australian Financial Review, Australia

07 Feb 2020, by Hannah Wootton

General News, page 3 - 289.00 cm²

National - circulation 38,015 (MTWTF--)

ID 1232249058

BRIEF CRWNILGA INDEX 1.2

PAGE 1 of 1

Probe into Crown in 'breach of authority'

Hannah Wootton

International gambling giant Melco has accused the gaming regulator of overstepping its powers by ordering witnesses in the Crown casino inquiry to hand over evidence that breaches legal professional privilege, the NSW Supreme Court has heard.

In a last-minute hearing yesterday, Melco Resorts said the inquiry could not make such orders as it did not have the powers of a royal commission. The challenge from the casino operator to the Independent Liquor and Gaming Authority's (ILGA) power comes less than 20 days before inquiry hearings start.

James Packer's attempted sale of a 19.99 per cent stake in Crown Resorts at a knockdown price of \$1.76 billion to billionaire Lawrence Ho's Melco will come under the inquiry's scrutiny as it may give Mr Ho's father an indirect stake in the casino.

Stanley Ho is banned from any involvement in Australian – and several foreign – gambling operations because of his alleged connections with organised crime, the existence of which he denies and have never been proven.

The inquiry, which will hear evidence from both Mr Packer and the junior Mr Ho, has already ordered Melco to produce documents that the company claims are privileged.

But Steven Finch, SC, appearing for Melco, questioned whether the rules that may allow the inquiry to ignore legal privilege – section 17(1) of the Royal Commissions Act – even apply to the inquiry.

While the Casino Control Act enables the ILGA to hold inquiries, he said it "does not mention the Royal Commissions Act or privilege". The barrister said there were



Melco CEO Lawrence Ho, left, with Jamie Packer. PHOTO: BLOOMBERG

several "hurdles" to clear to enliven the provisions of the Royal Commissions Act, including receiving letters patent from the governor, which had not occurred.

He also defended his clients' right to refuse such orders under the privilege, which he said was "essentially about witnesses and their protection when giving evidence".

"We are in the territory of the removal of people's rights," Mr Finch told the court.

"If an incursion is going to be made into civil rights in terms of the abrogation of civil rights ... then it underlines the importance of recognising that the inquiry that is currently underway is not and never was a royal commission."

Any decisions that compromised witnesses' rights required "clear words" to do so, the barrister said.

"Is there anything that we have seen so far that makes it clear through clear words that section 17(1) should apply to this inquiry? The answer is no, no it should not."

But Stephen Free, SC, appearing

for the ILGA, said Melco's understanding of how the Royal Commissions Act and Casino Control Act interacted with each other was wrong and the inquiry was properly empowered to order legal privilege be breached.

"It's the wrong starting point to go through the Royal Commission Act in isolation ... The Casino Control Act establishes an entirely distinct regime by which inquiries are established," he said. "They are established by the inquiry itself, and that inquiry has the power to decide how that person [the Commissioner] is appointed ... and to decide if they will engage the special powers of part two of the Royal Commissions Act."

Melco already unsuccessfully objected to the inquiry's intention to require witnesses produce evidence despite "legal, professional or other privileges" in a preliminary hearing in January.

Justice Christine Adamson reserved her judgment but acknowledged there was "some urgency" to reach a decision.



The Australian, Australia

07 Feb 2020, by Damon Kitney

Edition Changes - All-round Metro, page 1 - 161.00 cm²

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BRIEF CRWNILGA INDEX 1.3

PAGE 1 of 1

Virus kills off Melco deal with Crown

Hong Kong casino magnate Lawrence Ho's Melco Group has abandoned its plan to double its stake in the James Packer-backed Crown Resorts, blaming the impact of the coronavirus epidemic.

Melco said it is reviewing all non-core investments in 2020 because of the severe drop in tourism in Asia.

BUSINESS P17

Melco shelves \$880m Crown deal on virus fears

DAMON KITNEY

Hong Kong casino magnate Lawrence Ho's Melco Group has abandoned its plan to double its stake in the James Packer-backed Crown Resorts, blaming the impact of the coronavirus epidemic.

In an announcement late on Thursday night, Melco said that it was reviewing all non-core investments in 2020 because of the severe drop in tourism in Asia and the recent decision by the Macau government to close all casinos in Macau. This has put on hold its

plan to spend another \$880m to lift its stake in Crown to 19.9 per cent.

"This decision reflects Melco's commitment towards its employees, customers, business partners and other stakeholders and observance of the highest degree of responsibility until such time as the global health emergency and

the related travel restrictions that affect a significant part of its customer base are lifted," Melco said.

"Melco considers its core operations to be those businesses where it is the managing and majority shareholder.

"This includes operations in Macau, The Philippines, and Cyprus and its efforts to obtain a licence to operate a Melco-owned (integrated resort) in Japan".

Melco said that it intended to continue its operations in these jurisdictions.

It would also carry out key investments currently earmarked for those countries, including the construction of Studio City phase 2 in Macau and City of Dreams Mediterranean in Cyprus.

"Management attention will remain focused on these critical areas of Melco's business until such time as operations and busi-

ness throughout Asia have returned to normal," the casino operator said.

Melco said it would not pursue its plans to increase its stake in Crown Resorts to 19.9 per cent.

That transaction is subject to an inquiry by the NSW gaming regulator, the Independent Liquor and Gaming Authority, which is due to begin later this month.

In June last year, Mr Packer's private company CPH received \$880m in cash from Mr Ho's Melco Group, the first tranche of the Hong Kong billionaire's

Continued to Page 26



Herald Sun (Melbourne), Melbourne

08 Feb 2020, by Damon Kitney

Business News, page 56 - 351.00 cm²

Capital City Daily - circulation 306,571 (MTWTFS-)

ID 1232391325

BRIEF CRWNILGA INDEX 1.3

PAGE 1 of 2

Melco's chips off the table

Ho axes plan to double Crown stake

DAMON KITNEY
DEALS

CASINO group Melco has abandoned plans to double its stake in the James Packer-backed Crown Resorts, blaming the impact of the coronavirus outbreak.

Melco, backed by Hong Kong gambling magnate Lawrence Ho, has declared it is reviewing "all non-core investments" it was due to make this year.

It cited "a severe drop in tourism in Asia" and the decision by the government of Macau — the Chinese region that has become a gambling hub — to close all casinos.

As a result, Melco has put on hold its plan to spend another \$880 million lifting its stake in Crown from 10 per cent to 19.99 per cent.

Crown investors reacted calmly to the revelation: shares in the Melbourne-based group

dipped in early trade before bouncing and eventually closed steady at \$11.61.

Melco was to buy shares from Mr Packer's private family company, Consolidated Press Holdings.

In a statement, Melco said the decision to pull back from non-core investments reflected its commitment to "employees, customers, business partners and other stakeholders". The company said it also reflected its "observance of the highest degree of responsibility until such time as the global health emergency and the related travel restrictions that affect a significant part of its customer base are lifted".

"Melco considers its core operations to be those businesses where it is the manag-

ing and majority shareholder," it said.

"This includes operations in Macau, the Philippines and Cyprus, and its efforts to obtain a licence to operate a Melco-owned (integrated resort) in Japan."

Melco said it intended to proceed with key investments earmarked for Macau, Manila, Cyprus and Japan.

"Management attention will remain focused on these critical areas of Melco's busi-

ness until such time as operations and business throughout Asia have returned to normal," the casino operator said.

Crown yesterday confirmed Melco was no longer buying more shares. The Hong Kong-based company had also scrapped plans to seek a seat on the Crown board.

"Melco does not currently intend to increase its existing shareholding in Crown from its current position," it said.

Its plans to take a bigger stake in Crown is the subject of an inquiry by the New South Wales gambling regulator, the Independent Liquor and Gaming Authority, which is due to begin this month.

Last June, Consolidated Press received \$880 million in cash from Melco for a 10 per cent stake.

Crown faces inquiries by Victorian gaming regulators and the Commonwealth Australian Criminal Intelligence Commission following reports last year making allegations — which are contested by the casino group — about links to organised crime.

Melco's bid to increase its stake in Crown was also cloud-



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Herald Sun (Melbourne), Melbourne
08 Feb 2020, by Damon Kitney

Business News, page 56 - 351.00 cm²
Capital City Daily - circulation 306,571 (MTWTFS-)

ID 1232391325 BRIEF CRWNILGA INDEX 1.3

PAGE 2 of 2

ed after the Tokyo prosecutor's
office executed search war-
rants at Melco offices in the
city as part of an investigation
into casino operators.

THE AUSTRALIAN



Lawrence Ho



Weekend Australian, Australia

08 Feb 2020, by Jared Lynch Damon Kitney

Business News, page 25 - 607.00 cm²

National - circulation 219,242 (S)

ID 1232396205

BRIEF CRWNILGA INDEX 1.5

PAGE 1 of 3

Regulators to keep pressure on Crown, Ho

JARED LYNCH
DAMON KITNEY

The NSW gaming regulator is pressing ahead with its inquiry into Crown Resorts despite Macau billionaire Lawrence Ho walking away from his planned \$880m buyout of the casino group and launching a legal challenge to the probe.

Two weeks before the NSW Independent Liquor and Gaming Authority was set to begin its inquiry into Mr Ho's bid to buy a 20 per cent stake in Crown from fellow billionaire James Packer, he abandoned his plan, blaming the

coronavirus epidemic which has caused the Macau casino industry to grind to a halt.

The move leaves Mr Ho's Melco with a 9.9 per cent stake in Crown Resorts and opens up the share register of the Australian gaming group, nine months after it was in talks with US gaming group Wynn Resorts about a potential takeover bid.

The Weekend Australian understands that last year Crown also engaged in detailed talks with Galaxy Entertainment, which has a stated desire to explore international development opportunities. However, all of Galaxy's assets are in the Chinese gaming Mecca

of Macau, which has been hit hard by the coronavirus.

The deadly virus, which has killed more than 600 people and infected thousands more, has shut down China and the entire gaming operations of Mr Ho's Melco Resorts in Macau, costing billions of dollars in lost income.

In a statement issued on Thursday night to the Nasdaq exchange, where Melco has its primary listing, Mr Ho said he was withdrawing his plan to spend another \$880m to double his stake in Crown to 19.9 per cent to focus on his core markets in Macau, The Philippines and Cyprus as well as Melco's efforts to win a Japanese gaming licence. "Due to the im-

pact of the coronavirus epidemic, including the severe drop in tourism in Asia to Integrated Resort (IR) facilities in the region, and the recent decision by the Macau SAR government to close all casinos in Macau, Melco has taken the decision to reassess all non-core investments to be made in 2020," Mr Ho said.

His decision came a day after he issued an 11th hour challenge to the NSW gaming regulator in an attempt to derail the inquiry, claiming the regulator was

Continued on Page 29

Regulators to keep up pressure despite legal challenge

Continued from Page 25

overstepping its powers.

But a spokeswoman for the NSW gaming regulator said the inquiry would still proceed.

"The inquiry will be proceeding and the NSW Independent Liquor and Gaming Authority is not in a position to make any further comment at this stage," the spokeswoman said.

Melco Resorts claims the inquiry's legal team misinterpreted its powers by insisting it could compel Melco to produce documents that breached the legal professional privilege between lawyers and their clients.

Mr Packer, Lawrence Ho and Mr Alexander are all due to give evidence at the inquiry, which will begin on February 24. It was established to examine the alleged "criminal infiltration" of Crown Resorts' casino operations, both in Australia and abroad.

At stake is the suitability of Crown told hold a licence for the \$2.4bn Crown Sydney development in Barangaroo.

The authority said it was required by law to ensure the "management and operation of

a casino remain free from criminal influence or exploitation, that gaming in a casino is conducted honestly and controlling the potential of a casino to cause harm to the public interest and to individuals and families".

Mr Ho had planned to buy a 19.9 per cent stake in Crown from Mr Packer in two tranches, totalling \$1.76bn. The

first parcel of 67.7 million shares, worth about \$880m, was completed in May last year.

Shares in Crown ended steady on Friday at \$11.61.

Analysts are now expecting Mr Ho to sell that parcel of shares as part of his re-evaluation of non-core investments.

"We originally viewed the share acquisition as a first step in Melco fully acquiring Crown in the future and were generally positive on the transaction. However, the transaction has been bogged down with regulatory scrutiny of Crown's VIP business practices and probity of Melco," said Bernstein analyst Vitaly Umansky.

"Melco has stated it does not intend to increase its stake in Crown further and will no longer seek board representation. We believe Melco will likely look to divest its holdings over time as the market allows."

However, Mr Umansky said Mr Ho's decision did not necessarily grant him a free pass at the NSW inquiry.

"We have some questions about whether the probity review issue in Australia may come back to haunt the company. It is too early to tell at this stage.

"Suffice it to say, with what is happening in Asia now with the coronavirus and with Melco seemingly fully engaged on Japan, any further acquisition of



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Weekend Australian, Australia
08 Feb 2020, by Jared Lynch Damon Kitney

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BRIEF CRWNILGA INDEX 1.5

PAGE 2 of 3

Crown would have likely been a bigger bite than Melco could reasonably handle."

Mr Ho's withdrawal from the Crown deal came as the Australian Shareholders Association expressed concern about the independence of Crown chair Helen Coonan.



GETTY IMAGES

Macau's casino industry has ground to a halt



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ID 1232396205 BRIEF CRWNILGA INDEX 1.5

PAGE 3 of 3



GETTY IMAGES

An ambulance outside a casino in Macau, China, where the industry has been hit hard by the coronavirus

**Weekend Australian, Australia**

08 Feb 2020, by Damon Kitney

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BRIEF CRWNILGA INDEX 1.6

PAGE 1 of 1

Melco's move to ditch plans to up its Crown stake won't worry Packer

DAMON KITNEY



James Packer may have missed out on a cool \$880m in cash, but as the billionaire sits at home in Aspen this afternoon, he's unlikely to be smarming too much.

Yes he will be feeling for his good friend and "brother" Lawrence Ho, who is under siege battling the coronavirus epidemic, a Japanese bribery investigation and what Ho's Melco Group clearly perceives is a heavy-handed NSW gaming regulator.

But Packer would be relieved he no longer has any assets in the Chinese gaming mecca of Macau, where some estimates suggest the operators will lose \$2.5bn over the 15-day shutdown of the casino industry there following the coronavirus outbreak.

All the Macau operators, including Melco, are set to post losses for the month of February, but there are concerns the shutdown could extend for many more weeks or months, which could have far-reaching implications for all the players in the market.

So it was hardly surprising when Melco announced late on Thursday it would not pursue its plans to increase its stake in Packer's Crown Resorts to 19.9 per cent, a transaction that is subject to an inquiry by the NSW gaming regulator, the Independent Liquor and Gaming Authority, due to begin later this month. It has also scrapped plans to seek a seat on the board.

Melco's pulling out of the deal is understood not to have happened off the cuff and had been

under consideration since last weekend. Of course, many will see the coronavirus as a smokescreen to give Melco the opportunity to abandon its Australian expansion ambitions, given it is apparent

Ho's group has already got more than it bargained for in the probity review process.

On Thursday, Melco launched a bold legal bid to prevent the NSW inquiry from forcing witnesses to hand over privileged evidence. The question now is how the ILGA inquiry proceeds and how much will Melco co-operate. Will Ho still be asked to appear?

Will the Hong Kong-based group still be happy to go through the probity process to secure a star of approval that could assist its international ambitions in the future, especially in Japan?

Five rounds of hearings have been scheduled, and are likely to last about two weeks each, starting in a fortnight's time.

Several of those rounds will consider broader issues for the casino industry and the murky operations of junket operators, whose links to organised crime — and Crown's involvement with them — were highlighted in a sen-

sational series of media reports last year. Only one of the inquiry rounds is considering Packer's sale of his stake in Crown to Melco and the latter's links to Ho's father Stanley, which appears somewhat redundant now given Melco's move and the likelihood that it will withdraw its application for approval to move beyond its 9.9 per cent stake in the Australian casino group.

It remains to be seen if ILGA still may seek to reverse the sale of the first tranche to Melco by Packer if it finds Ho or Crown is not suitable to hold a licence for the \$2.4bn Crown Sydney development. But such an outcome appears unlikely given Hong Kong leisure conglomerate Chow Tai Fook and developer Far East Consortium hold just under 10 per cent of Crown's rival, The Star.

The Sydney-based group also has shareholder caps in place to prevent any investor buying more than 10 per cent of the company without going through the probity process. Of course, there is also

nothing to stop Melco selling out of Crown completely if it needs cash, especially if the coronavirus epidemic starts to weigh heavily

upon its balance sheet. Which could be good news for Packer, who now retains a 36 per cent share in Crown following Thursday night's move by Melco.

And even if Ho remains on the Crown share register, other international players keen on looking at a potential takeover of Crown would probably now be more interested given his interest is stuck at less than 10 per cent. They would also know there is plenty of time to move given the length of time to secure probity approvals and the fact Crown is locked in a holding pattern for the time being with the promise of its Barangaroo project to come on line next year.

Crown held merger talks with US casino group Wynn Resorts last year, when Wynn was prepared to value Crown at \$14.75 a share. Its shares are now trading at \$11.62.

Crown will also suffer from the coronavirus epidemic and its high-rollers business is already reeling from the various inquiries under way into the company's operations, including by Victorian gaming regulators and the Commonwealth Australian Criminal Intelligence Commission.

But it is a business Packer knows can produce \$400m of dividends each year, even without its high-rollers business firing.

On a flying visit to Australia in January, Packer told me his life was in a "holding" pattern until the Crown Sydney project opens fully next year and while the various inquiries take their course.

But despite the uncertainty of the coming months, Ho's move on Thursday night won't do anything to detract from his improving mental state after the horrors of recent years.

Damon Kitney's biography of James Packer, The Price of Fortune, is now available in paperback



MELCO AND CROWN

Inquiry to go on as deal folds

Patrick Hatch

Hong Kong casino group Melco Resorts' decision to tear up a deal with James Packer to increase its stake in Crown Resorts will not stop a powerful public inquiry that is preparing to rake through the inner workings of the two companies.

Late on Thursday night, Melco said it had terminated a deal to buy another 10 per cent stake in Crown from Mr Packer, which would have increased its stake in the casino operator to 20 per cent, because it needed to focus on its core Asian business that is being ravaged by the coronavirus crisis.

When Melco agreed to buy Mr Packer's Crown stake for \$1.76 billion in May last year, it said it wanted a seat on Crown's board and would "welcome the opportunity" to increase its ownership further.

The second tranche of the deal was put on hold when the NSW Independent Liquor and Gaming Authority launched an unprecedented inquiry into probity issues at Crown and Melco, including whether the share sale breached Crown's Barangaroo casino licence.

The licence bans Melco boss Lawrence Ho's father, Stanley Ho, and his associates from being involved in the Barangaroo casino, which is due to open early next year, because of his alleged links to organised crime.

The inquiry will also look into the *Herald* and *The Age's* revelations that Crown went into business with "junket" tour operators linked to Asian organised crime.

A spokesman for the NSW gaming authority yesterday confirmed "the inquiry will be proceeding" but was not in a position to comment further.

On Thursday, Melco took the regulator to the Supreme Court to challenge the inquiry's authority to order witnesses to handover information that breaches legal professional privilege, and are waiting on a judgement.

The deal's collapse will leave Mr Packer with a 36 per cent stake in Crown and Melco with 10 per cent. However, Melco could be forced to sell down those remaining shares if the inquiry finds it is not allowed to own them.

Independent NSW MP Justin Field said Melco's retreat could be seen as a "vote of no confidence in Crown, but also a recognition of the risks closer regulatory scrutiny presents for the casino business".

"The inquiry made clear it will look closely at Melco's business structure and relationships and Melco may be hoping to avoid some of that by backing out of this transaction," he said.

Melco offices in Japan, where it is trying to obtain a lucrative casino licence, were raided by police last month as part of a political corruption probe.

The first day of the inquiry, held last month, heard Mr Packer and Mr Ho would be called to give evidence in public hearings. The inquiry will resume on February 24 to examine issues including money laundering at casinos, the use of "junkets" to lure Asian high rollers to Australian casinos and their vulnerabilities to organised crime.



Sydney Morning Herald, Sydney
08 Feb 2020, by Patrick Hatch

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PAGE 2 of 2



Troubled waters: Melco boss Lawrence Ho, left, with Crown Resorts' James Packer in 2015. Photo: Bloomberg



Crown probe powers stymied

The inquisitors of NSW's Crown Resorts casino inquiry have been left scrambling on the eve of the investigation's first hearing after a Supreme Court judgment found it did not have the powers of a royal commission.

The judgment, handed down by NSW Supreme Court judge Christine Adamson on Tuesday, is a major setback for what was failed share deal between Mr Packer and Mr Ho.

The inquiry had proposed to investigate whether Melco Resorts' ties to Mr Ho's 98-year-old father, Stanley Ho, could be in breach of Crown Resorts' licence for the \$2.4bn high-roller casino that Mr Packer has been building at Sydney's new harbourfront precinct, Barangaroo.

CPH and Crown Resorts both face scrutiny on why Crown failed to inform the Crown Resorts board of the proposed share sale to Melco, despite the fact that Stanley Ho was on the list of entities banned from having any in-

volvement with the Barangaroo casino licence.

Melco last week announced it was abandoning its planned purchase of the second tranche of CPH Crown shares because of the devastating impact of the coronavirus on its gambling operations in Macau.

That has raised questions as to whether Melco's fitness as an associate of a casino licence holder is any longer relevant to the inquiry, given it no longer plans to expand on its 9.9 per cent stake in Crown.

seen as a no-holds-barred inquiry into Crown's casino operations, including alleged "criminal infiltration" by money launderers. The blow for the NSW government follows a legal challenge by Macau gaming tycoon Lawrence Ho's Melco Resorts

FULL REPORT P6
COMMENT P6

The judge ... pointed out the NSW parliament appeared to have left it to the courts to do their 'dirty work'



James Packer and gaming tycoon Lawrence Ho

Court unplugs Crown casino probe powers

DEBORAH CORNWALL

The inquisitors of NSW's Crown Resorts casino inquiry have been left scrambling on the eve of the investigation's first hearing, after a landmark Supreme Court judgment found it did not have the powers of a royal commission.

The judgment, which was handed down by NSW Supreme

Court judge Christine Adamson on Tuesday morning, is a major setback for what was heralded to be a no-holds-barred inquiry into Crown's casino operations, including its alleged "criminal infiltration" by money launderers.

The humiliating blow for the NSW government follows an



The Australian, Australia

12 Feb 2020, by Deborah Cornwall

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BRIEF CRWNILGA INDEX 1.3

PAGE 2 of 2

11th-hour legal challenge by Melco Resorts, the casino empire owned by Macau gaming tycoon Lawrence Ho, which argued that the inquiry "isn't and never was a royal commission".

Melco told the court the inquiry by the NSW Independent Liquor and Gaming Authority had wildly overstepped its powers by insisting Melco hand over nine documents that would breach their professional lawyer-client privilege.

Justice Adamson agreed, ruling there was a lack of clear language in NSW's Casino Control Act and it could not be interpreted to give the inquiry the power to breach such a fundamental common law right.

The judge went a step further, pointing out that the NSW parliament appeared to have left it to the courts to do their "dirty work" in identifying the actual powers of NSW gaming inquiries.

She found the court "should not be left to guess" about what powers the inquiry's commissioner had.

It was not the role of the court, she said, to help "parliament to avoid confronting the inevitably controversial question wheth-

er, in inquiries held by (ILGA) ... it is desirable to abrogate fundamental privileges and rights of witnesses and persons required to produce documents".

"If parliament intended that ... it was obliged to make its intention clear," she said.

Launching the inquiry in January, commissioner Paddy Bergin SC said the inquiry would conduct a forensic inquiry into the alleged "criminal infiltration" of Crown's casino operations, using the full powers of a royal commission.

The NSW Attorney-General, Mark Speakman, is now "considering the prospects of an appeal" against the decision.

The ILGA is also assessing the impact of the Supreme Court's decision on the running of the inquiry, which is due to start on February 24.

Melco Resorts refused to comment on Tuesday, along with

Crown Resorts and billionaire James Packer's private company, Consolidated Press Holdings, which holds the majority share in Crown Resorts.

Mr Packer is expected to appear as a star witness at the wide-ranging inquiry, which will look into everything from alleged criminal links to Crown Resorts' casino operations in Australia and abroad, as well as the now



The Australian, Australia
12 Feb 2020, by Yoni Bashan

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BRIEF CRWNILGA INDEX 1.4

PAGE 1 of 1

Watchdog cops a mauling as judge pulls no punches

YONI BASHAN
NSW POLITICAL
CORRESPONDENT



Thanks to a blistering judgment delivered in the NSW Supreme Court on Tuesday, we now know that even the gambling regulator likes to try on a hustle from time to time.

Within judge Christine Adamson's legal wrangling was a burn so searing that it exposed not just the overreach of the Independent Liquor and Gaming Authority, but slovenly politicians who left its powers so ambiguous to begin with.

In the end, it was a case of watchdog versus not-quite-an-underdog — Melco Resorts and Entertainment, a foreign-owned corporation and a veritable whale on the global gambling circuit, with operations in Macau, Hong Kong, Cyprus and The Philippines. Its foes, one might say, are arguably much larger and toothier than the freshly neutered ILGA.

Four months out from a much-vaunted casino inquiry, the company began receiving the first of nine summonses from the regulator to hand over legally privileged documents. Believing it had the powers of a royal commission, the ILGA demanded this paperwork using an obscure set of sub-clauses that were squirreled away in a piece of its own fossilised legislation.

And the watchdog would have got away with it, too, if Melco hadn't called its bluff.

These powers never existed, but ILGA tried to make a go of it anyway.

The company's success in court is, yes, something of a short-term win, a bubble-burster for the ILGA on the one hand and, on the other, a mortar round launched at the politicians whose clumsily worded Casino Control Act paved the way for this showdown.

For Crown Resorts, which is on track to open the casino at the centre of all this by 2021, this is neither a win nor a loss. Crown knows that the cardinal rule of the casino game is to maintain smooth relations with the regulator and accept its necessary evils of regulatory chidings and pesky statutory reviews.

If Crown has been open with the inquiry — and there is no question it hasn't — then Melco's win will be largely irrelevant. It will continue to co-operate, and the company knows that the government may very well decide tomorrow — figuratively — to ramp up the authority's legislation in response to the gaps exposed in the law (the more likely course of action would be to do so later in February during the next sitting of parliament).

So this is no time for crowing. Melco's win, while technically a victory, really confers no tangible benefit on any party except perhaps Melco, a high-roller that's already playing much bigger hands elsewhere.

The question now, though, is whether the NSW government will heed Justice Adamson's hosing down, and hastily amend its legislation to give the ILGA the royal commission powers it so smugly thought it possessed.

Or perhaps it will abide by the wisdom of Kenny Rogers, in his song devoted to the vice at the heart of this legal fight.

I don't need to mention which one.



Age, Melbourne

12 Feb 2020, by Patrick Hatch

General News, page 13 - 151.00 cm²

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ID 1233243600

BRIEF CRWNILGA INDEX 1.5

PAGE 1 of 1

Casino king wins files fight

Patrick Hatch

Hong Kong casino giant Melco Resorts has won a battle to keep legally privileged documents secret from a public inquiry that is probing its purchase of a 20 per cent stake in Crown Resorts from James Packer.

The NSW Independent Liquor and Gaming Authority's unprecedented inquiry will, in the coming months, dig through Melco's inner workings to decide whether it is a suitable company to be involved in Crown's new casino, which is due to open at Sydney's Barangaroo early next year.

The inquiry, led by former NSW Supreme Court judge Patricia Bergin, will also consider whether Mr Packer's sale of a \$1.76 billion stake in Crown to Melco in May 2019 breached Crown's Sydney casino licence.

The licence bans involvement in Crown by Melco boss Lawrence Ho's father, Stanley, and a number of associates because of alleged links to organised crime.

The inquiry was to have the same powers of a royal commission, including the ability to compel parties to give evidence and produce documents.

However, as revealed by *The Age* on January 30, Melco took the regulator to the NSW Supreme Court last week to challenge its right to demand nine documents covered by legal privilege.

Yesterday, Justice Christine Adamson ruled in Melco's favour, meaning the gaming authority will not be able to access the documents.

The case hinged on how a section of the Royal Commissions Act

applied in the Casino Control Act.

Melco last week tore up its deal with Mr Packer for the transfer of the second 10 per cent tranche of Crown shares, worth \$880 million, saying it needed to focus on its core Asian businesses that are being affected by the coronavirus crisis.

PHOTO: AP/WIDE WORLD



Melco wins legal privilege fight in probe

James Thomson

Asian casino giant Melco Resorts will not have to produce certain documents to the NSW Independent Liquor and Gaming Authority's (ILGA) inquiry into its purchase of a stake in Crown Resorts, after the NSW Supreme Court found the probe does not have the power of a royal commission.

Melco, which last week said it would not proceed with buying a second tranche of shares in Crown from billionaire James Packer, took the ILGA to court after the authority rejected Melco's contention it did not have to produce certain documents it said were protected by legal professional privilege.

The ILGA probe is examining whether it is appropriate that Melco, which is run by billionaire Lawrence Ho, becomes a close associate of Crown.

Mr Ho's father, Stanley, who indirectly owns a stake in Melco, is effectively blackballed from NSW because of his alleged links to organised crime. Stanley has always denied those links and Lawrence has long argued he is completely independent of his father.

Supreme Court judge Justice Christine Adamson found the NSW Royal Commission Act "has not come into effect for the purposes of the inquiry" and Melco's "privileges, including legal

professional privilege, are not abrogated for the purposes of an inquiry".

Justice Adamson found the NSW Parliament had not made it clear enough that the inquiry, constituted under the Casino Control Act, was entitled to engage the special powers of parts of the Royal Commission Act that would have entitled the probe to order legal privilege be breached.

"It is not for this court, by a process of construction which relies on implied

correlative powers and authorities, to enable Parliament to avoid confronting the inevitably controversial question whether, in inquiries held by the authority under the Casino Control Act, it is desirable to abrogate fundamental privileges and rights of witnesses and persons required to produce documents," she said.

The decision could mean further changes to the direction of the inquiry, which is headed by Patricia Bergin SC.

Melco's decision to abandon its \$900 million purchase of a second tranche of Crown shares and abandon its push for seats on Crown's board will mean that some of its executives, who it put forward as potential Crown directors, will no longer need to be cleared by the probe.

An ILGA spokesman said it was "considering today's court judgment and how it may impact the running of the inquiry. Any decision on whether to appeal against the judgment would be a matter for the NSW Attorney-General."

While the court's decision is a win for Melco, Mr Ho's attention is firmly focused on the company's biggest market, the gambling hotspot of Macau, where it runs two giant casino resorts.

But Macau's entire casino industry - a total of 41 properties - has been shut by government officials because of the coronavirus outbreak for 15 days until February 20.

Melco said last week the shutdown and resultant hit to its earnings means that all non-core investment had been suspended.

It will retain its existing 9.9 per cent stake in Crown, but any further share purchases are on hold.



Lawrence Ho has been hit hard by the Macau casino shutdown.

PHOTO: BLOOMBERG



Sydney Morning Herald, Sydney

12 Feb 2020, by Patrick Hatch

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BRIEF CRWNILGA INDEX 1.7

PAGE 1 of 1

CROWN INQUIRY

Melco papers to remain private after legal win

Patrick Hatch

Hong Kong casino giant Melco Resorts has won a battle to keep legally privileged documents secret from a public inquiry that is probing its purchase of a 20 per cent stake in Crown Resorts from James Packer.

The NSW Independent Liquor and Gaming Authority's unprecedented inquiry will in the coming months dig through the inner-workings of Melco to decide whether it is a suitable company to be involved in Crown's new casino, which is due to open at Sydney's Barangaroo early next year.

The ILGA inquiry led by former NSW Supreme Court judge Patricia Bergin will also consider whether Mr Packer's sale of a \$1.76 billion stake in Crown to Melco breached Crown's Sydney casino licence.

The licence bans involvement in Crown by Melco boss Lawrence Ho's father, Stanley, and a number of associates because of alleged links to organised crime.

The inquiry was to have the same powers of a royal commission, including the ability to compel parties to give evidence and produce documents.

However, as revealed by the *Herald's* CBD column, Melco took the regulator to the NSW Supreme Court last week to challenge its right to demand nine documents covered by legal privilege.

Yesterday, Justice Christine Adamson ruled in Melco's favour, meaning ILGA will not be able to have access to the documents.

The case hinged on how a section of the Royal Commission Act, relating to witnesses not being able to use legal privilege to excuse themselves from giving evidence or producing documents, applied in the Casino Control Act.

Melco's legal team, led by Steven Finch, SC, argued the casino legislation failed to clearly express that its intention was to abrogate what was a fundamental common law right.

Justice Adamson ruled that the court "ought not be left to guess" about what powers were intended to be given to a commissioner appointed to run an ILGA inquiry.

"If Parliament intended that ... it was obliged to make its intention clear," she said. But instead, the wording of the casino legislation meant there was "substantial risk that the full implications" of the law would go unnoticed as it passed through Parliament.

Justice Adamson said it was not for the court to "enable Parliament to avoid confronting the inevitably controversial question whether, in inquiries held by [ILGA] ... it is desirable to abrogate fundamental privileges and rights of witnesses and persons required to produce documents".

An ILGA spokesman said the authority was "considering today's court judgment and how it may impact the running of the inquiry".

Attorney General Mark Speakman is considering the prospects of an appeal, a NSW government

spokesman said.

Melco last week tore up its deal with Mr Packer for the transfer of the second 10 per cent tranche of Crown shares, worth \$880 million, saying it needed to focus on its core Asian businesses which are being negatively affected by the coronavirus outbreak.

Melco said it did not intend to increase its stake in Crown above the 10 per cent it had already bought from Mr Packer and would no longer seek seats on Crown's board.

'If Parliament intended [to revoke legal privilege] ... it was obliged to make its intention clear.'

Justice Christine Adamson



The Australian, Australia

12 Feb 2020, by Deborah Cornwall

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BRIEF CRWNILGA INDEX 1.8

PAGE 1 of 2

Crown probe powers stymied

The inquisitors of NSW's Crown Resorts casino inquiry have been left scrambling on the eve of the investigation's first hearing after a Supreme Court judgment found it did not have the powers of a royal commission.

The judgment, handed down by NSW Supreme Court judge Christine Adamson on Tuesday, is a major setback for what was

seen as a no-holds-barred inquiry into Crown's casino operations, including alleged "criminal infiltration" by money launderers. The blow for the NSW government follows a legal challenge by Macau gaming tycoon Lawrence Ho's Melco Resorts

FULL REPORT P6
COMMENT P6



James Packer and gaming tycoon Lawrence Ho



The Australian, Australia
17 Feb 2020, by Christine Lacy

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BRIEF CRWNILGA INDEX 1.1

PAGE 1 of 1

New chief takes on Crown probe

EXCLUSIVE

CHRISTINE LACY

A stalled federal investigation into the relationship between James Packer's Crown Resorts and Peter Dutton's Department of Home Affairs is back on the boil after the Morrison government quietly appointed a new head of its integrity commission.

The new chief of the Australian Commission for Law Enforcement Integrity, Jaala Hinchcliffe, was last week briefed by members of her executive on the Crown investigation, which had first

been announced last October. The investigation, known internally as Operation Angove, concerns allegations of corruption between the \$8bn listed casino company's VIP high-roller program and Home Affairs.

The renewed regulatory focus on the Packer-controlled casino group comes as it prepares to reveal its results for the first half on Wednesday.

Crown will face public hearings next week in a separate inquiry in NSW into whether it is fit to hold the licence to run the casino it is building at Barangaroo in Sydney.

The NSW Independent Liquor & Gaming Authority inquiry, run

by former judge Patricia Bergin, will investigate issues including whether Mr Packer's decision to sell a large stake in Crown to Hong Kong billionaire Lawrence Ho's Melco empire breached the Barangaroo licence.

Mr Ho's father, Stanley, is banned from involvement in Barangaroo over allegations he has links to triad organised crime. Stanley Ho has always denied the allegations.

Witnesses to the NSW inquiry are expected to include Mr Packer, former Crown executive chairman John Alexander and Crown directors Mike Johnston and Guy Jalland, who helped to broker the

Melco deal. The Hong Kong company earlier this month said it would drop plans to buy 20 per cent of Crown from Mr Packer for \$1.76bn in favour of just the 10 per cent stake already transferred.

Melco blamed the coronavirus epidemic for the decision.

Last October, former Australian Commission for Law Enforcement Integrity boss Michael Griffin announced public corruption hearings as part of its investigation would be held in Melbourne over four days from October 29, but a week later the commission announced the hearings had been delayed.

The commission has been silent since, until Attorney-General Christian Porter revealed on February 7 that Ms Hinchcliffe would replace Mr Griffin. Ms Hinchcliffe, who has the job for five years, was the former deputy commonwealth ombudsman.

The commission is responsible for detecting, investigating and preventing criminality and corruption in federal law enforcement agencies.

The Australian has learned that since her appointment, Ms Hinchcliffe has been comprehensively briefed on the Crown matter by her senior staff towards reigniting what has been the stalled high-profile investigation.

The Morrison government referred allegations that Crown Resorts had partnered with four companies backed by organised crime syndicates implicated in drug running, money laundering and human trafficking in order to attract high-roller Chinese gamblers.

Executives from Crown and Home Affairs officials are expected at the hearings.

The inquiry into their working relationship will be led by NSW barrister David McClure SC, who has previously worked on some of the Australian Federal Police's and Australian Taxation Office's high-profile cases.



Crown revenue tumbles 34pc

JARED LYNCH

Crown Resorts is pressing ahead with targeting cashed-up Chinese gamblers at its \$2.2bn Sydney casino currently under construction at Barangaroo despite high-rollers tightening their belts ahead of an inquiry into the James Packer-backed group and concerns over the deadly coronavirus epidemic in the region.

Crown's high-roller revenue tumbled 34.2 per cent to \$13.1bn in the six months to December 30 as the company battled a series of negative headlines around the NSW Independent Liquor and Gaming Authority's inquiry, which resumes next week and will examine whether the gambling giant can keep its Sydney licence.

The high-roller exodus has continued into the second half of the financial year after the federal government banned travel from China to limit the spread of the coronavirus, slowing the flow of

Crown's cashed-up north Asian customers.

Crown chief executive Ken Barton said it was difficult to say when the high-roller market, which accounts for about 13 per cent of the company's revenue, would rebound.

But he said it wouldn't affect how the company configured its Crown Sydney resort, which has been designed to cater for the local and international VIP mar-

ket and is set to open in 12 months, in time for Chinese New Year.

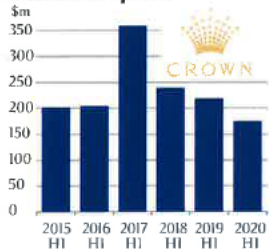
"I don't think we would make a long-term decision about the configuration of the property based on a six-month time frame," Mr Barton said. "It's hazardous to look at what we've seen in the last six months ... and say does that signal a mental shift in VIP.

"It (the market) has shown an ability to adapt. It's shown an ability to grow when regulatory settings are left in neutral, and Australia historically has been able to get a reasonable market share of the overall VIP market."

Fears over the virus, which has killed more than 1700 people and infected tens of thousands more, have also spilled over to Crown's main gaming floor, which delivered flat revenue at \$872.9m in the six months to December.

Overall, normalised net profit, which removes variance in win
Continued on Page 22

Crown Resorts' interim net profit



Source: The company



The Australian, Australia
20 Feb 2020, by Jared Lynch



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Crown revenue tumbles after high-roller exodus

Continued from Page 17

rates, sank 11 per cent to \$172.7m.

Still, investors looked through the short-term hit to earnings with Crown shares ending down 4c at \$11.76.

Mr Barton said people were avoiding crowded areas, fearing they would catch the virus, prompting him to install hand sanitizers around gaming floors as well as scaling back shifts for employees.

"There is no proficuous time for something like that. But obviously from our perspective (the coronavirus) coming in when it did right at the pointy end of Chinese New Year ... has been unfortunate from a business perspective."

He said before the coronavirus outbreak, the VIP market in Macau had shown some signs of recovery, with turnover rising 11 per cent in January. But for the past 16 days, Macau's entire casino operations have shut down to limit the spread of the coronavirus, costing billions of dollars in lost income.

The virus triggered Melco — backed by Macau billionaire Lawrence Ho — to walk away from acquiring a further 10 per cent slice in Crown on top of his 9.9 per

cent stake. Mr Ho cited a desire to focus on Melco's core markets rather than proceed with the deal, which involved Melco acquiring \$880m of Crown shares from Mr Packer. The NSW inquiry was also set to examine the buyout for probity issues.

Mr Barton declined to comment on whether Crown has had any discussions with Melco about its intentions for its remaining 9.9 per cent stake, which it bought from Mr Packer for \$880m last May.

Mr Barton did say that Crown remained reliant on junkets to drive high-roller revenue, despite allegations of money laundering, which the NSW inquiry will examine at its first hearing, sched-

uled for Monday.

He said the company had stepped up its due diligence on junket operators and continued to improve its business.

"As a reflection of what's happening more broadly in the VIP market around the region, junkets have become a more significant part of the business. They

have become a big part of the Macau business and in our own operation we ... were predominantly a premium direct business now we are predominantly a premium junket business because they have done a very effective job in becoming an intermediary between the casinos and players."

Crown chair Helen Coonan, a former federal communications minister, welcomed the opportunity to participate in the NSW inquiry.

"Another important point is some of the allegations the inquiry's looking at are really pretty old," Ms Coonan said.

"We have been at pains to point out and to do a lot of due diligence around continuous self improvement because we are all about looking at 'that was then whatever that was' and ... we are focused on the future with significantly improved scrutiny and due diligence around all our business operations.

"Sometimes I think these inquiries can be beneficial because in effect you can come out the end of it and be the better for it.

"We certainly are very encouraged by the notion that the whole regulatory setting can be examined in this inquiry."

Ratings agency Moody's said a strong balance sheet and good cash generation should underpin Crown's resilience through "a period of significant volatility and development activity".

"We anticipate weaker earnings for the year ending June 30, 2020, due to lower inbound Chinese tourism and weak global VIP activity from the new coronavirus outbreak. We believe this is a one-

off event and should subside with VIP growth recovering," Moody's said.

"We view Crown's Australian casinos as largely long-term investments that are well positioned to capitalise on the likely favourable economic and demographic trends within the Asia-Pacific region.

"In addition, the completion of Crown Sydney over the next two years is likely to benefit the group's scale and operational diversity in Australia."

Crown will pay an interim dividend of 30c a share on April 3.

'Some of the allegations are really pretty old'

HELEN COONAN
CROWN CHAIR



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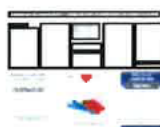
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DAVID GERAGHTY

Crown chair Helen Coonan with CEO Ken Barton



Crown braces for bigger virus hit as VIPs desert business

James Thomson

Casino giant Crown Resorts is bracing for a hit to its full-year earnings from the coronavirus, as the outbreak compounds a big drop in its VIP business caused in part by the barrage of negative media reports surrounding the group.

Turnover from Crown's VIP program play plunged 34.2 per cent in the December half, and almost 40 per cent in Crown's biggest casino in Melbourne.

New chief executive Ken Barton said a 23 per cent fall in VIP turnover in Macau underscored the struggles casino operators throughout the region were having attracting wealthy punters.

But he conceded Crown also had been hurt by a series of media reports alleging links between organised crime and the so-called junket operators that bring VIP punters from Asia to Crown's properties in Melbourne and Perth.

The coronavirus outbreak has compounded the pain for Crown, particularly given it arrived at the start of the Lunar New Year period.

While declining to provide specific guidance, Mr Barton said Crown's VIP business had been hit by the suspension of flights from China to Australia. There had also been a decline in activity among local gamblers concerned about the potential spread of the disease.

Crown has reduced the opening hours of its table games in order to trim wage costs, and wound back food and beverage staff. But Mr Barton said there were limits on how Crown could dull the impact of the coronavirus hit.

"You can't replace lost revenue," he said bluntly.

The flow of news around the virus would likely determine when customers returned to Crown's casinos. "We will do what we can, but I think the reality is that what people are reading about the risk of contamination, people will be cautious of coming back to crowded places."

Crown's normalised net profit fell 11

per cent to \$172.7 million in the six months ended December 31, below market consensus of \$196 million. Normalised numbers remove the impact of luck on the results; a particularly lucky streak during the period actually saw statutory profit rise 25.1 per cent to \$219.3 million.

While Crown Melbourne's total earnings before interest, tax, depreciation and amortisation fell 14.7 per cent to \$268.7 million on a normalised basis, there was an improved performance from Crown Perth, where a strong performance from gaming machines, and the popularity of stage show *The Book of Mormon*, helped boost EBITDA by 3.4 per cent to \$121.7 million.

Mr Barton said Crown was on track with construction of its new casino at Sydney's Barangaroo precinct. A soft opening is likely in December 2020, before a formal launch in early 2021, timed for Lunar New Year.

He said despite the recent weakness in the VIP market, Crown had no concerns about the outlook for the property, which will only cater to VIP punters.

The release of the December-half numbers comes after a dramatic few weeks for Crown.

After replacing executive chairman John Alexander with Mr Barton and Helen Coonan as chairman in late January, Crown was rocked on February 6 by news that Hong Kong casino operator Melco Resorts was abandoning its plan to double its stake in Crown to 19.99 per cent through a share deal with major shareholder James Packer.

On Monday, Crown and Melco will be back in the spotlight as the first round of public hearings in an inquiry being held by the NSW Independent Liquor and Gaming Authority kicks off.

The probe is examining whether it is appropriate that Melco becomes a close associate of Crown. It will also look into the alleged links between organised crime and the junket operators.

Mr Barton said he was encouraged

that the ILGA probe would examine the regulatory settings in the casino sector.

Crown Resorts

| Half year | 2020 | 2019 |
|------------------|--------|--------|
| Revenue (\$m) | 1523.3 | 1462.7 |
| Pretax (\$m) | 306.3 | 242.8 |
| Net profit (\$m) | 213.2 | 167.2 |
| Interim div. | 30c | 30c |

Payable* April 3



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BRIEF CRWNILGA INDEX 1.1

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Star ready for fight against Packer's Crown

JARED LYNCH

Star Entertainment is bracing itself for strong competition from its soon-to-be neighbour in Sydney, Crown Resorts, and is confident there will be one loser in what chief executive Matt Bekier says will be a Qantas/Virgin-style war.

Crown is on track to open its \$2.2bn casino currently under construction at Barangaroo, saying it will target the high-end local table and international high-roller market.

But Mr Bekier said while the international VIP market would find Sydney a more attractive gaming destination, at the expense of Crown's 26-year-old casino in Melbourne, the domestic market would heat up significantly — and he's prepared for the fight.

"Crown's table limit is \$30, so we barely have tables open like that on a Saturday night.

"So they will definitely go after all of the table game customers in Sydney," Mr Bekier told *The Australian*.

"For the international VIP business it is true Sydney will become a more attractive destination with two casinos, but for the domestic business it's absolutely not true because Australia is the highest per capita spend on gaming already.

"In a way it's no different to Qantas and Virgin."

Mr Bekier was speaking as Star delivered an 8.5 per cent increase in underlying net profit to \$206m in the six months to December 31. Mr Bekier said an "unusually low" win rate of 0.73 per cent hit the company's statutory net profit, which crumbled 48.5 per cent to \$77m.

He said trading conditions remained challenging so far in the second half of the year, citing cautious consumer sentiment from the bushfires and the deadly coro-

navirus.

But Star was able to achieve a 2 per cent increase in VIP turnover, something Crown had failed to achieve, with its high-roller revenue plunging 34.2 per cent to \$13.1bn, which the James Packer-backed group attributed to negative headlines around the NSW Independent Liquor and Gaming Authority's inquiry, which resumes next week.

Mr Bekier while the inquiry had not directly hit Star, the negative publicity had infected its international high-roller business.

"Forty to 50 per cent of the VIPs that come to Australia play in Melbourne as well as Sydney.

"So if they are not going to Melbourne, they are not coming up to Sydney as well, so that has been a little bit harder for us."

Mr Bekier said the slight rise in VIP turnover was a credible result in challenging conditions but Star had been moving away from chasing whales in recent years to combat volatility in the high-roller market.

He said Star's future was targeting the premium mass market, which he said looked more like a high-end tourism customer.

"So that paradigm shift is there away from chasing whales to having a much more sustainable tourism-type business."

Star's shares closed 4.6 per cent higher at \$4.33 on Thursday.

JPMorgan analyst Donald Carducci said the company had done well managing what was in its control. He said the main uncertainty was the impact of the coronavirus.

"I don't think it will recover as elastically as most think. This could really impact both the Barangaroo business case and earnings for the foreseeable future, which is why we're neutral on both casinos."

Star will pay an interim dividend of 10.5c a share on April 1, unchanged from last year.





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Star Entertainment chief executive Malt Bekier says international VIPs will find Sydney a more attractive destination with two big casinos

SAM RUTTYN



The Saturday Age, Melbourne

22 Feb 2020, by Nick McKenzie

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Crown partner high on watch list

EXCLUSIVE

Nick McKenzie

In 2017, Cheng Ting Kong was riding high. He co-owned a multimillion-dollar business bringing high-roller gamblers from China into casinos around the country and he was busy building a \$75 million dollar stake in Australia's horse racing industry.

But behind the scenes, Australia's national criminal intelligence agency was watching closely. So seriously were they taking the Hong Kong-based Cheng that, according to multiple sources who spoke to *The Age*, *The Sydney Morning Herald* and *60 Minutes*, his name was on the list that includes "elite actors", the "transnational, serious and organised crime targets that pose the greatest threat to Australia's interests".

The Australian Priority Organisation Target List, or APOT, includes, according to comments by the Australian Criminal Intelligence Agency chief Mike Phelan in 2018, the "top tier of groups involved in serious and organised criminal activity causing harm to the Australian community". It includes alleged money launderers and drug traffickers.

Mr Cheng has never been charged with or convicted of an offence, but he continues to be a

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Crown partner high on watch list

From Page 1

target of money laundering investigations by Australian police.

So how was Cheng able to quietly build a business empire across Australia's most regulated industries – casinos and horse racing – despite the suspicions held by authorities? And what due diligence were Crown, The Star and Australia's casino regulators doing over his years operating in Australia?

SUNCITY

Despite his 2017 APOT listing, Crown Resorts worked so closely with Mr Cheng's Suncity junket that it became the casino's main recruitment partner for Chinese high rollers. Until late last year, Suncity ran an exclusive gaming suite within Crown's Melbourne casino. Suncity has also managed a VIP club at Sydney's The Star, which, like Crown, paid Suncity millions to recruit high rollers.

Records sighted by *The Age*, *The Sydney Morning Herald* and *60 Minutes* reveal Suncity-linked accounts in Macau have transferred at least half a billion dollars in and out of Australia, much of it passing through Crown's Melbourne and Perth casinos.

Horse racing and financial records suggest Mr Cheng also spent up to \$75 million in Australia: he bought the Eliza Park stud's operations in Victoria and Queensland in 2013 for \$17.8 million, and dozens of racehorses across the nation. At the time he bought the stud, Cheng told a horse racing magazine that the "investment in Australia will be significant both in terms of stallions and other bloodstock". The launch of Mr Cheng's stud business was held in Crown casino in 2013 and was attended by 300 of Australia's top breeders, horse owners and trainers

who celebrated with champagne.

Last year, Mr Cheng was also involved in the purchase of the upmarket Sun Kitchen restaurant on Albert Park lake, one of Melbourne's most exclusive locations. The restaurant serves Wagyu with black truffle, lobster, and an abalone claypot that costs \$398.

A SENSITIVE TIME

Despite his growing portfolio of Australian business interests, Mr Cheng's story has remained hidden from public view until now.

But industry sources said he had already emerged as a key figure in the ongoing state and federal inquiries into how Australia's casino industry, and Crown in particular, partnered with suspected regional organised crime entities.

The anti-money-laundering body Austrac, the Australian Federal Police and the ACIC have all probed Mr Cheng's financial activities – ongoing assessments which led to his elevation to the APOT list after November 2016.

Mr Cheng is one of two businessmen who run the Suncity business empire out of Hong Kong and Macau. The second is the dashing and high-profile Alvin Chau, who *The Age* reported has been banned from entering Australia due to his organised crime links. Mr Chau and Mr Cheng exercise control over various private and listed Suncity businesses via companies in the offshore tax haven, the British Virgin Islands.

In 2018, Asia's leading gaming regulators, the Hong Kong Jockey Club, circulated a report to other sports betting and gaming regulators describing Suncity as having deep organised crime links and stating the club would ban Suncity figures. It said Mr Cheng

was "suspected to have a Triad background and maintain links to organised crime... and may be of interest to Australian law enforcement authorities in relation to suspected large scale money laundering activities".

The former intelligence director of anti-money laundering agency Austrac, Todd Harland, said Crown's decision to partner with Suncity suggested the "Hong Kong Jockey Club is more risk averse than Crown casino (or) maybe they've just made a better decision".

The revelations are acutely sensitive for Crown as it builds the Barangaroo high-roller casino in Sydney, with various inquiries now probing its links to businesses with suspected organised crime ties. The links were first exposed by *The Age*, the *Herald* and *60 Minutes* in July 2019.

If Suncity's dealings with Crown in Melbourne were replicated at Barangaroo, then Mr Cheng's linked business would be paid significant commissions by Crown to bring high rollers to Sydney.

Despite the risk it was facilitating an organised crime enterprise, no one from Crown sought to cut ties with Suncity, which continues to work as a high-roller agent. However, Suncity has drastically scaled back its Australian operations, pulling staff out of Crown, after facing intense media and law enforcement scrutiny.

Suncity's media representative said the firm had struck a deal with Crown in 2014 to direct its high-roller gaming clients from China to Crown's VIP gambling rooms.

At around the same time, Suncity set up an Australian company directed by Sydney accountant Stanley Brogan. In 2018, Mr Brogan was also



appointed as the director of Sun Kitchen, the company running Suncity's new restaurant. It is not suggested that Brogan was personally involved in any wrongdoing or criminal activity, only that he is involved with Suncity.

It is not Mr Brogan's first dealing with a controversial Asian business venture. In 2015, the former PWC accountant emerged as the director of the company whose purchase of the \$40 million Villa Del Mare mansion in Point Piper, Sydney, was blocked by then treasurer Joe Hockey.

In a statement, Crown said it took the allegations seriously and had referred them to relevant agencies.

JUNKETS AND ORGANISED CRIME

It's notoriously well known that high roller agents - known as junkets - have historic ties to organised crime. A Google search by Crown would have uncovered multiple media reports detailing Suncity's links to organised crime and the Triads. The Hong Kong Jockey Club report said Mr Cheng posed "tangible criminal as well as reputational risks to the Club and indeed racing integrity in Hong Kong".

"If Crown had said that they didn't know that a junket organiser (such as Suncity) was involved in organised crime, I think they're pulling your leg," former Northern Territory gaming regulator Alan Pedley said.

Crown's own anti-money laundering staff have repeatedly raised red flags about Suncity, sending multiple reports to anti-money laundering agency Austrac about suspicious money movements. Crown is likely to rely on these reports in defence of its partnership with Suncity.

Serving and former officials who worked for or with Austrac have queried why the money laundering agency had failed to do more to investigate Crown's dealings with

Suncity, while acknowledging other agencies also had jurisdiction. Austrac said last year it "conducts rigorous compliance assessments of casinos" but declined to comment on specific cases.

Overseas corporate records analysed by *The Age*, the *Herald* and *60 Minutes* also raise serious doubts about a claim by the Crown Resorts board in 2019, that "the parent of the Suncity junket is a large company listed on the Hong Kong Stock Exchange, which operates globally".

The Suncity junket is a private operation run out of Macau and controlled by Mr Chau via the Sun City Gaming Promotion Company Limited. It is not, as stated by the Crown board, connected to the Suncity companies on the Hong Kong Stock Exchange.

Watch Nick McKenzie's story on Nine's *60 Minutes* at 8.30pm tomorrow.

*Crown said it took
the allegations
seriously.*

*'Hong Kong Jockey Club is more risk averse
than Crown casino (or) maybe they've just
made a better decision.'*

Todd Harland, former intelligence director



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HOW WE UNMASKED THE CROWN STORY

2019

JULY 27

Former Crown China employee **Jenny Jiang** revealed what Crown had long denied — that it was illegally selling gambling



JENNY JIANG

trips to mainland Chinese customers, endangering local staff by offering luxury gifts, free gambling cash known as “lucky money” and free use of private jets. Financial adviser **Roy Moo**, a licensed Crown junket representative, in 2013 used Crown to transfer \$969,000 in drug money to Hong Kong. He was just one of those who helped international crime syndicate The Company exploit Crown to launder funds.

Crown Resorts paid brothel owner and alleged human trafficker **Simon Pan** to lure high rollers to its Australian casinos. Asian sex workers had been flown into Australia on private jets organised by Crown “junket” operators.

JULY 28

Crown junket partner and Toorak resident **Tom “Mr Chinatown” Zhou** was an international criminal fugitive, the subject of an Interpol red notice for financial crime.



TOM ZHOU

Ming Chai, the cousin of Chinese president Xi Jinping, was a Crown VVIP, implicated in crime and an associate of Zhou.

A number of serving police and border force officials including **Andrew Ure** and **Greg Leather** were moonlighting doing security work for Crown junket operators.

JULY 31

Huang Xiangmo, the political donor ASIO expelled from Australia over his foreign influence activities, was an \$800-million-a-year Crown high roller and such a big punter that Crown used him as a case study of the benefits of uber-wealthy Chinese gamblers moving

to live in Australia.

Australia’s peak criminal intelligence agency, the **Australian Criminal Intelligence Commission**, announced a sweeping investigation into organised crime in Australian casinos.

AUGUST 1

Alvin Chau, the chief executive and co-owner of Crown Resorts’ major junket partner Suncity, had been blocked by Home Affairs from entering Australia over alleged links to organised crime. Victorian gaming minister **Marlene Kairouz** announced an investigation into the “serious allegations that must be investigated” relating to Crown.

AUGUST 2

Crown’s high-roller agent partner, **Song Zezhai**, had been named in a Chinese court as running a large illegal gambling syndicate in eastern China that engaged in extortion.

AUGUST 5

Drug traffickers used two private companies, **Southbank Investments Pty Ltd** and **Riverbank Investments Pty Ltd**, both set up by Crown Resorts with Crown executives as directors, to bank suspected proceeds of crime including drug trafficking and money laundering.

AUGUST 8

NSW Independent Liquor and Gaming Authority announces a public inquiry with royal commission powers into the casino giant and “its close associates”.

AUGUST 16

Joseph Wong, a businessman blacklisted by the UN and Australia because he funded a war criminal, was a Crown Resorts high roller who gambled millions in its VIP rooms even though he was subject to international sanctions.



The Saturday Age, Melbourne

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2020

JANUARY 21

An inquiry by the **NSW Independent Liquor and Gaming Authority** began with an outline of multiple probity and legal issues. James Packer was slated to give evidence.



JAMES PACKER

JANUARY 24

Crown Resorts' most senior board member **John Alexander** stepped down as executive chairman as part of a sweeping governance overhaul.

FEBRUARY 6

Hong Kong gambling giant **Melco Resorts**, run by **Lawrence Ho**, bailed on its plan to build up a large stake in James Packer's casino group Crown Resorts.

FEBRUARY 7

Tom Zhou had been arrested in January and extradited to China for suspected money laundering and corruption.

FEBRUARY 10

Freedom-of-information documents revealed Crown casino's "special arrangement" with the **Australian government** gave Chinese high rollers access to fast-tracked visas and allowed Crown itself to vouch for people's character.

FEBRUARY 12

Tom Zhou in 2017 had been involved in a plan to buy the Vanuatu casino resort using a company that involved Zhou's child as a director, along with the former chief lawyer for Sydney's The Star casino, **Michael Anderson**. There is no evidence that Mr Anderson has been involved in or knew about any wrongdoing.

FEBRUARY 19

Crown announced a 34 per cent dive in VIP turnover in the six months to December 31, which drove a sharper than expected fall in underlying profits. It blamed "weak high-roller market conditions and negative publicity".

FEBRUARY 22

Cheng Ting Kong, co-owner of Crown and The Star's junket partner Suncity, was on the Australian Priority Organisation Target list in around 2017, putting him among a select group of suspected regional crime bosses that the Australian Criminal Intelligence Commission has assessed "represent the top tier of groups involved in serious and organised criminal activity".



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CHENG TING KONG



Crown's Melco deal draws ASIC scrutiny

Exclusive | Crown Resorts is facing scrutiny from the corporate regulator over the \$1.8 billion deal by Lawrence Ho's Melco International group last May to buy a 20 per cent stake from James Packer's Consolidated Press Holdings. The Australian Securities and Investments Commission has made preliminary moves to seek documents, as Crown faces the first week of witness hearings in the NSW government inquiry headed by Patricia Bergin, SC, beginning today.

► News p8

ASIC zooms in on Crown deal

Exclusive

Neil Chenoweth

Crown Resorts is facing scrutiny from the corporate regulator over the \$1.8 billion deal by Lawrence Ho's Melco International group last May to buy a 20 per cent stake from James Packer's Consolidated Press Holdings.

The Australian Securities and Investments Commission has made preliminary moves to seek documents, as Crown faces the first week of witness hearings in the NSW government inquiry headed by Patricia Bergin, SC, beginning today.

The ASIC move to take what is believed to be a watching brief on the inquiry is part of vigorous action behind the scenes as Crown and Melco prepare for the first of three government investigations that will scrutinise the Melco deal and media reports that Crown junkies were linked to crime figures.

On February 6, Melco announced that it had cancelled the \$880 million second tranche of the deal with Mr Packer's Cons Press, nine months before the stalled sale contract would have lapsed.

Last Friday, on an earnings call, Melco president Evan Winkler raised the prospect that the Macau based casino operator could sell its remaining 9.99 per cent of Crown to raise liquidity.

The NSW government meanwhile will appeal against a ruling that Melco won in the Supreme Court on February 11 barring the Bergin inquiry from demanding documents covered by legal privilege.

Lawrence Ho controls 55 per cent of Melco International through a series of companies in the British Virgin Islands and elsewhere, which are operated by local legal firms.

Mr Ho will be able to claim legal privilege on the company documents, limiting the inquiry's attempts to identify associations with Mr Ho's father, Stanley Ho.

Crown will also be able to claim legal privilege over advice that the board received about the Melco investment.

ASIC requested documents relating to the Melco deal after counsel assisting the Bergin inquiry, Adam Bell, SC, said in his opening submission on January 21 that Crown may have breached the conditions of its Barangaroo licence agreement with the transaction.

Among the documents sought by ASIC was a copy of the unredacted 2014 VIP Gaming Management Agreement, in which Crown agreed to prevent Stanley Ho or a Stanley Ho associate from taking a direct or indirect shareholding in Crown.

ASIC and Crown declined to comment.

The agreement was released in 2014 but at Crown's insistence, the government redacted the list of 59 companies and individuals who were defined as Stanley Ho associates in the agreement.

These included a British Virgin Islands company, Great Respect, which now holds a 20.4 per cent stake in Melco International.

The Melco-Cons Press sale raised potential governance issues for Crown directors, with Michael Johnson, a dir-

ector of both Crown and Cons Press, signing the sale contract with Melco on May 30 last year.

A second Cons Press director, Guy Jalland, who is also on the Crown board, has been reported as one of the brokers of the share sale.

Crown is required to notify the NSW Independent Liquor and Gaming Authority as soon as it is aware of a change in shareholding involving a Stanley Ho associate.

The responsibilities of directors of two companies facing conflicting interests is a grey area of corporate governance. Many directors have a stand-

ing notification of a conflict of interest in relation to commercial issues.

Mr Bell said on January 21 that Crown had told the inquiry that it was not aware of the proposed deal "until after it had been executed, and in any event it was not within the power of Crown Resorts to prevent the execution of that agreement".

When the deal was announced, it was not publicly known that Melco International's largest shareholder, Great Respect, was listed in the secret appendix to the Barangaroo licence agreement as a Stanley Ho associate and thus could not hold shares indirectly in Crown. Crown did not inform shareholders of this, and the company

opposed a request by NSW state independent Justin Field for the appendix to be released, claiming that the information was commercially sensitive and commercial in confidence.

Crown has told the inquiry that after



it sold out of a joint venture with Melco in Macau, it reached "in-principle agreement" with officials in Liquor and Gaming NSW to drop the restriction in the Barangaroo casino licence on Stanley Ho associates.

Mr Field eventually tabled the list of Stanley Ho associates in the NSW Parliament on August 8, and the ILGA announced an inquiry hours later. More than \$1.1 billion was wiped off from Crown's market value by the decision and by earlier reports by *The Age*,

The Sydney Morning Herald and *60 Minutes* of money-laundering by junket operators.

Witnesses in the first week will provide an industry-wide view of gaming law and money laundering issues, and gaming consultant Paul Bromberg will be the first witness today, testifying by video-link from Bangkok.

Mr Bromberg is investigations manager for Spectrum Gaming Group.

Professor Anthony Cabot, a former gaming attorney who is now a law professor at the University of Nevada, is due to appear tomorrow, also by video-link, as well as Professor I. Nelson Rose, of Whittier Law School in California.



Melco boss Lawrence Ho, left, and James Packer are expected to be called to the NSW government inquiry.



James Thomson

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VIP probe for Crown's VIP business

Crown Resorts' new dynamic duo are determined to put on a brave face ahead of the first public hearings of the NSW Independent Liquor and Gaming Authority's inquiry into the state's casino sector, which starts today.

Chairman Helen Coonan, who replaced executive chairman John Alexander just a few weeks ago, says the casino giant has been "very encouraged by the notion that the whole regulatory settings can be examined during this inquiry".

New chief executive Ken Barton was similarly pleased that inquiry head Patricia Bergin, SC, won't just be digging into Crown affairs in NSW, where it plans to open its new Sydney casino in the Barangaroo precinct in December.

"I think we will work co-operatively with them on looking at the regulation as it currently stands and looking at does it actually need to be more contemporary to deal with a change of circumstances," Barton said last week after releasing Crown's December-half profit numbers.

But Crown's attempt at a small target strategy is probably wishful thinking.

While the probe will take a broad look at the regulatory settings of the casino industry, it's important to remember it was called to look specifically at two things: the purchase of a stake in Crown by Lawrence Ho's Melco Resorts, and allegations of the links between organised crime and the junket operators that bring VIP gamblers to Crown's casinos in Melbourne and Perth.

Along with news that ASIC is now also examining the Melco deal, the public has also been given a fresh reminder of these links via a new joint investigation by *The Age/The Sydney Morning Herald* and *60 Minutes* over the weekend.

The investigation probed Crown's relationship with a Hong Kong-listed junket operator called Suncity, which has been

accused of links with Asian crime gangs. Up until late last year, Suncity's VIPs had a special gaming room in Crown's Melbourne casino. Suncity has denied all allegations of probity problems.

(The newspapers and television program are properties of Nine Entertainment Co, the publisher of *The Australian Financial Review*.)

Junkets will be centre stage at the ILGA inquiry today. Last month, counsel assisting the inquiry, Adam Bell, said the first round of hearings would examine "the vulnerabilities of casinos to money laundering and with anti-money laundering strategies. We will also explain what junkets are, the roles they perform with respect to casinos and identify their vulnerabilities to organised crime".

The only witness listed for today's hearings is Paul Bromberg, who will appear via video link from Bangkok. Bromberg is the senior vice-president of investigations at Asian gaming consultancy Spectrum Asia. Presumably he'll be providing the big picture as to why regulators are so wary about the use of junkets.

While it must be pointed out that Crown has strenuously defended its record on probity matters and its systems and processes, the casino group's relationships with junket operators are potentially tricky territory.

Barton admitted last week's profit numbers, which showed an 11 per cent fall in normalised profit for the December half (normalised numbers strip out the impact of luck), were affected by the negative publicity surrounding Crown due to the probe.

While the entire Asian market for massive VIP gamblers – or whales as they're colloquially known in the industry – was down more than 20 per cent during the period according to data for the region's

casino capital of Macau, turnover from Crown's VIP program play plunged 34.2 per cent in the December half, and almost 40 per

cent in Crown's biggest casino in Melbourne.

By comparison, VIP turnover at The Star Entertainment Group rose 17 per cent during the period, although as Citi analyst Bryan Raymond points out, The Star was flattered by the fact the whales had an unusually lucky streak, meaning they kept playing for longer than they would have if the cards and dice had gone against them.

Crown didn't provide guidance for full-year earnings – it never does – but said trading had been soft due to the coronavirus and the ongoing weakness in the VIP business.

Depending on how the next few months unfold, its even possible Crown might need to issue a profit downgrade. As Morgan Stanley points out, for Crown to hit consensus expectations for earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2020 full year, the casino group will need to achieve 4 per cent growth in the June half.

With the coronavirus scare still not over, and the ILGA review set to roll out over the coming months across five separate rounds of hearings, it's hard to see the trends of the December half suddenly turning around and Crown hitting that growth target.

Of course, none of this will come as a surprise to Crown investors, who are resigned to an extremely difficult June half.

Their eyes are firmly focused on December, when Crown is due to open the doors on its Crown Sydney hotel and casino at Barangaroo, ahead of a big-bang launch event in January 2021, timed for Chinese New Year.

The bull thesis around Crown is that when this property is fully ramped up, Crown's prospects are transformed. It will have a new source of earnings and cash flow, three world class casinos in Sydney, Melbourne and Perth and an extremely strong balance sheet with next to no debt.

It will be a cash machine and a prime takeover target for an international player with deep pockets – and patient investors will get their reward.

But there are two shadows over this rosy



vision. The first is the outcome of the ILGA inquiry, and the second is the state of the VIP market, given Crown Sydney is a VIP-only property.

The very worst case scenario for Crown is that the inquiry finds something so extraordinary that it forces the NSW government to take away its licence.

But this seems extremely unlikely. First, Crown is a heavily scrutinised business operating in a heavily regulated industry, so finding something of that magnitude that regulators don't already know about would seem highly unlikely. And second, as several observers have pointed out, with more than 40 storeys of the Barangaroo casino out of the ground, and the tax revenue from the casino already baked into future NSW budgets, the state government is likely to remain highly pragmatic about a project of this magnitude.

What's more likely are recommendations that require Crown to submit junket operators it works with to more rigorous screening and approval processes. Crown employees working in particularly sensitive areas – dealing with junket operators or anti-money laundering, for example – might also face a new probity regime.

Measures like this will make doing business with VIP's harder, and slower.

This matters for Crown Sydney given Citi's Raymond estimates about 27 per cent of the new casino's revenue will come from foreign VIPs. But that business is tough and getting tougher; EBITDA from this market across Crown and The Star has fallen by about 40 per cent since its recent peak in 2018.

The two operators have argued this is actually a positive given the foreign VIP market operates at lower margins than their domestic businesses, mainly because of all the rebates and freebies given to the gamblers, and the commissions that must be paid to the junket operators.

And there's no doubt the VIP business is inherently volatile; not only can it be knocked around by factors such as trade tensions, corruption crackdowns in China and now the coronavirus, but the pool of big gamblers is so small – around 1500 people – that one or two more or less visits during a half can make turnover figures bounce around.

Still, Crown will be hoping the VIP trade does rise again as Crown Sydney opens its doors. Having a big pool of domestic VIPs is important, but getting those whales down from north Asia will also be crucial.

Another interesting question for Crown is where the table games segment is headed. Crown Sydney will be exclusively table games – that is, no slot machines – which means Barton will have watched the drop in

table game play at Crown and the flat activity at Star in the December half closely.

One thing in Crown's favour is that the table games' share of the casino market is about 20 per cent lower in Sydney than in the more mature Melbourne market. That should mean room for Crown Sydney to grow into.

Depending on how the next few months unfold, its even possible Crown might need to issue a profit downgrade.



The ILGA inquiry looms as crucial for Crown's Sydney casino. PHOTO: BLOOMBERG



Age, Melbourne

24 Feb 2020, by Nick McKenzie

General News, page 1 - 861.00 cm²

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ID 1238320420

BRIEF CRWNILGA INDEX 1.3

PAGE 1 of 3

Crown transfer to drug trafficker

EXCLUSIVE

Nick McKenzie

A Crown Resorts vice-president authorised a junior casino staff member to wire \$500,000 to a Melbourne drug trafficker, while Crown withheld details of the transaction from authorities for a year.

The revelation marks the first time since the Crown scandal erupted last year that a senior casino executive has been exposed facilitating the activities of serious organised crime.

Crown's vice-president of international operations, Veng Anh, authorised the transfer of money to drug trafficker and nightclub operator Nan Hu in January 2017. Mr Anh likely knew Mr Hu through his

Continued Page 8



Crown's \$500,000 transfer to trafficker

From Page 1

Melbourne nightclub, Heaven, which was popular with Crown high rollers. There is no suggestion Mr Anh knew Mr Hu was a drug trafficker.

However, the ultimate beneficiary of the \$500,000 was the Ma heroin syndicate, an Australian-Chinese organised crime group operating out of Melbourne.

Banking and casino records also reveal that Crown Resorts failed to alert anti-money laundering agency Austrac about the transaction.

The casino is legally obliged to tell authorities about suspicious transactions or any movement of funds over \$10,000 within three days, but Crown only alerted Austrac a year after the transaction and only after West Australian gaming authorities began making inquiries about it.

The Age, Sydney Morning Herald and *60 Minutes* have spent months tracking the transaction after being tipped off by a casino insider.

The former director of intelligence at Austrac, Todd Harland, said the \$500,000 transfer

displayed clear indicators of money laundering. However, that might not have been immediately clear to Mr Anh when he authorised the transaction.

SOFTENING APPROACH

The money transfer goes to the heart of the allegations facing the casino giant: that it had a reckless and aggressive approach to cultivating super-wealthy Chinese high rollers which encouraged money launderers and serious organised criminals.

Leaked emails from inside Crown



Age, Melbourne

24 Feb 2020, by Nick McKenzie

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BRIEF CRWNILGA INDEX 1.3

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show Mr Anh was also part of a trusted team of senior managers who were sent to China to recruit high rollers, an activity that contributed to the October 2016 arrest and imprisonment of Crown's China staff.

The revelations about the \$500,000 transaction also raise questions for Austrac, the anti-money laundering agency which helps uphold money laundering laws but which has failed to take any meaningful action against Crown.

Law enforcement officials from multiple agencies along with former Austrac staff said the small agency had not done enough to act on the multiple indicators that Crown was enabling money launderers, with Austrac instead directing its litigation resources to high-profile actions against banks. But sources also said the agency had alerted partner policing agencies about suspicious activity at Crown and, at least until recently, this had led to little tangible action. Austrac previously declined to comment on its dealings with Crown, but has insisted it closely scrutinises all casinos.

Crown's initial reaction to allegations last year that it had failed in its corporate and social responsibility to counter money laundering was to argue (including with full page media advertisements) that the media expose that sparked a raft of inquiries was inaccurate.

One of those inquiries, an investigation by the NSW Independent Liquor and Gaming Authority and former judge Patricia Bergin to probe Crown's fitness to run its proposed high roller casino in Barangaroo, Sydney, opened last month. Since then, Crown executive chairman John Alexander has stood down and Crown appears to have softened its public response. The Australian Criminal Intelligence Commission is also probing money laundering at Crown and other casinos.

In response to allegations relating

to the Nan Hu money transfer, Crown said: "Crown takes these allegations very seriously and has notified these issues to the relevant federal and state regulators and the ILGA (Bergin) inquiry set up to examine such matters and will assist any investigations."

DEAL MADE IN HEAVEN

The \$500,000 transaction involving Crown vice-president Veng Anh and Nan Hu leads to a world of big gamblers, nightclubs and crime bosses.

Hu was convicted in 2015 for trafficking cocaine, possessing ice and money laundering. Mr Anh likely knew Hu through Chinese nightclubs in Melbourne's CBD, which Mr Anh attended with Crown high rollers and junket agents though it is not clear if he knew of his criminal past. Among the clubs was the now defunct Heaven club.

Casino records sighted by *The Age*, *Herald* and *60 Minutes* reveal that in January 2017, Anh authorised Crown staff at its Burswood Casino to transfer \$500,000 to Hu from a Crown Resorts-controlled account. Hu was not an approved Crown gambler or agent, and sending him funds breached the casino's own policies which were created to prevent money laundering.

The funds came from an account linked to Crown high-roller agent Tom "Mr Chinatown" Zhou, who was exposed last year as an international criminal fugitive wanted by Interpol. Mr Zhou worked with Mr Anh to lure Chinese high rollers to Crown.

Mr Zhou regularly attended Heaven, often with prostitutes, drugs and Crown high rollers. He told associates he wanted to invest in the club.

A source who worked with Crown's security team said he had seen Mr Anh at Heaven, while other sources with knowledge of Mr Anh's activities said he encouraged high rollers to attend.

It is unclear if Mr Anh knew that

Hu was a convicted drug trafficker and criminal when he directed Crown's Perth staff to send him the \$500,000 in January 2017.

Bank records show Hu collected the \$500,000 from his Commonwealth Bank account as bank cheques. He then gave these cheques to a company controlled by Timothy Ma, a notorious organised crime figure who was jailed for heroin trafficking in the early 2000s and who works with the Italian mafia and bikies trafficking drugs.

Mr Anh declined to answer questions when confronted at his mother's suburban home; Hu has flown to China and could not be contacted.

BELATED DISCLOSURE

The \$500,000 transaction should have been reported by Crown to Austrac within three days but waited almost a year until West Australian money laundering authorities contacted the company about it.

This meant the cash had disappeared into a criminal syndicate before it could be traced and seized.

Former gaming regulator and counter money laundering expert Alan Pedley said the delay suggested Crown prioritised pleasing high rollers over its reporting duties.

"The customers were of such high value that (Crown was) . . . perhaps prepared to overlook their normal money laundering controls," he said.

By accessing Crown internal records and other financial transaction data, *The Age*, *Herald* and *60 Minutes* have uncovered a pattern of serious organised criminals using the casino as a hub for their money laundering and criminal operations.

The Ma syndicate and Hu appear to have used Crown's high rollers and agents to fund their Melbourne operations.

Casino records show the Ma syndicate has multiple financial ties to Crown, and the syndicate's members had gambled millions of



Age, Melbourne
24 Feb 2020, by Nick Mckenzie

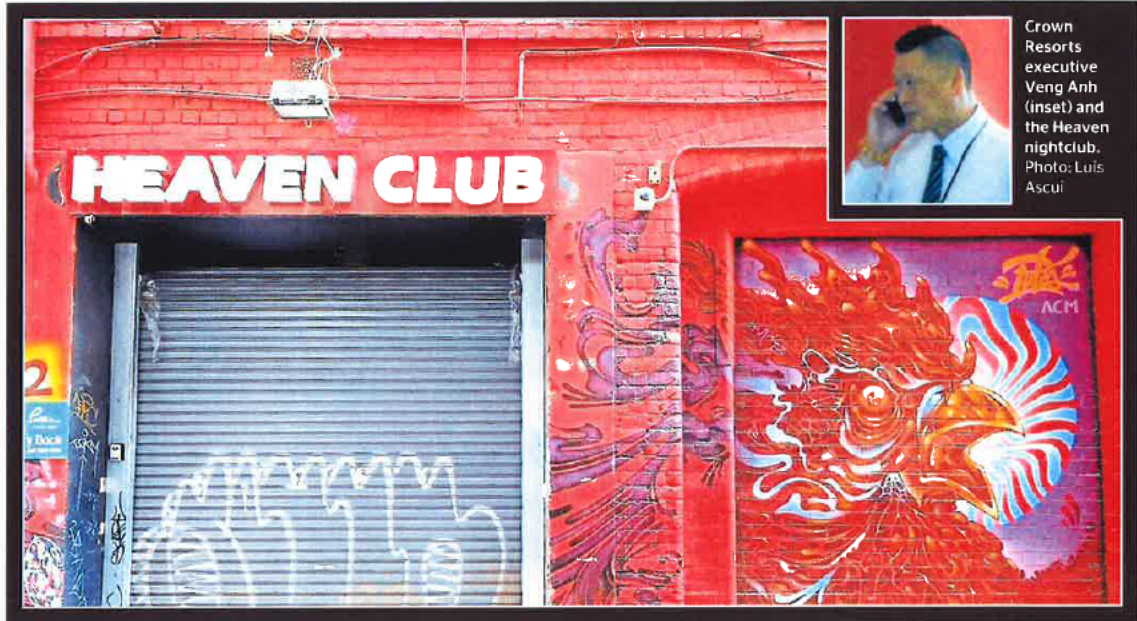
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ID 1238320420 BRIEF CRWNILGA INDEX 1.3

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dollars at, and received large money
transfers from, Crown's casinos.





Casino executive authorised transfer to drug trafficker



EXCLUSIVE

Nick McKenzie

A Crown Resorts vice-president authorised a junior casino staff member to wire \$500,000 to a drug trafficker, while Crown withheld details of the transaction from authorities for a year.

The revelation marks the first time since the Crown scandal erupted last year that a senior casino executive has been exposed facilitating the activities of serious organised crime.

Banking and casino records also reveal that Crown Resorts failed to alert anti-money laundering agency Austrac about the transaction. The casino is legally obliged to tell authorities about suspicious transactions or any movement of funds over \$10,000 within three days.

FULL STORY PAGE 8

HERALD INVESTIGATION

Casino executive authorises transfer to drug trafficker



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Crown's vice-president of international operations, Veng Anh, authorised the transfer of money to drug trafficker and nightclub operator Nan Hu in January 2017.

Mr Anh likely knew Mr Hu through his Melbourne nightclub, Heaven, which was popular with Crown high rollers. There is no suggestion Mr Anh knew Mr Hu was a drug trafficker.

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The *Herald* and *60 Minutes* have spent months tracking the transaction after being tipped off about it by a casino insider.

The former director of intelligence at Austrac, Todd Harland,



Sydney Morning Herald, Sydney
24 Feb 2020, by Nick McKenzie

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ID 1238325245

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said the \$500,000 transfer displayed clear indicators of money laundering – taking dirty money and making it look clean. However, that might not have been immediately clear to Mr Anh when he authorised the transaction.

“Taking cash and putting it through a casino and hopefully turning that into some level of winnings or at least the ability to make it look like it was winnings ... that’s money laundering 101.”

The money transfer goes to the heart of the allegations facing the casino giant: that it had a reckless and aggressive approach to cultivating super-wealthy Chinese high rollers which encouraged money launderers and serious organised criminals.

Leaked emails from inside Crown show Mr Anh was also part of a trusted team of senior managers who were sent to China to recruit high rollers, an activity that contributed to the October 2016 arrest and imprisonment of Crown’s China staff.

The revelations about the \$500,000 transaction also raise questions for Austrac, which helps uphold money laundering laws but which has failed to take any meaningful action against Crown.

Law enforcement officials from multiple agencies along with former Austrac staff said the small agency had not done enough to act on the multiple indicators that Crown was enabling laundering.

Crown’s initial reaction to allegations last year that it had failed in its corporate and social responsibility to counter money laundering was to argue that media reports were inaccurate.

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The Australian Criminal Intelligence Commission is also probing money laundering at Crown and other casinos.

In response to allegations relating to the Nan Hu money transfer, Crown said it “takes these allegations very seriously and has notified these issues to the relevant federal and state regulators”.

The \$500,000 transaction leads to a world of big gamblers, night-clubs and crime bosses.

Hu is a criminal who was convicted in 2015 for trafficking cocaine, possessing ice and money laundering offences. Mr Anh likely knew Hu through Chinese night-clubs in Melbourne’s CBD, which Mr Anh attended with Crown high rollers and junket agents though it is not clear if he knew of his criminal past.

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directed Crown's Perth staff to send him the \$500,000 in January 2017. But the transaction should have raised red flags, and there was no legitimate reason for the funds to be sent to Hu.

Bank records show Hu collected the \$500,000 sent from Crown from his Commonwealth Bank account in the form of bank cheques. He then gave these cheques to a company controlled by Timothy Ma, a notorious organised crime figure who was jailed for heroin trafficking in the early 2000s and who works with the Italian mafia and bikies trafficking drugs.

Mr Anh declined to answer questions when confronted at his mother's house, and Hu has flown to China and could not be contacted.

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Casino records show that the Ma syndicate has multiple financial ties to Crown, and the syndicate's members had gambled millions of dollars.



Crown vice-president Veng Anh.



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Herald Sun (Melbourne), Melbourne

25 Feb 2020, by Glenda Korporal

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BRIEF CRWNILGA INDEX 1.1

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JUNKET 'LICENCE' NEEDED

A BANGKOK-based casino regulatory expert says Australia should introduce a licensing scheme for junket operators — companies which bring high rollers and VIPs from Asia.

Spectrum Gaming Group senior vice president of investigation Paul Bromberg yesterday told an inquiry it would be preferable for gaming authorities to license junket operators, particularly in the wake of practices in Macau.

The NSW Independent Liquor and Gaming Authority is examining the fitness of Crown Resorts to hold a VIP casino licence in NSW. It is also looking into last year's sale of 9.9 per cent of Crown shares by James Packer's personal company

**GLENDA KORPORAL
GAMING**

to his former business associate in Macau, Lawrence Ho.

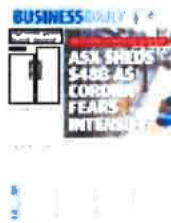
Mr Bromberg said most VIP casino players came from mainland China.

He said tighter regulations in Macau had prompted them to look to other markets to gamble, including Australia.

"There has been a huge wave of black money which has come out of China over the last 10 years which has led to the increase in the VIP gambling market," he said.

In his evidence Mr Bromberg said Chinese organised crime groups were often involved with junket operators in Macau.

THE AUSTRALIAN



Daily Telegraph, Sydney

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BRIEF CRWNILGA INDEX 1.2

PAGE 1 of 1

High roller junket licence 'needed'

GLENDAL KORPORAL GAMING

A BANGKOK-based casino regulatory expert says Australia should introduce a licensing scheme for junket operators — companies which bring high rollers and VIPs from Asia.

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THE AUSTRALIAN

**Age, Melbourne**

25 Feb 2020, by Patrick Hatch

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BRIEF CRWNILGA INDEX 1.3

PAGE 1 of 1

'No comfort' in casino's claims on junket licences

Patrick Hatch

A powerful inquiry into James Packer's Crown Resorts has been told the casino giant's insistence its "junket" tour partners were regulated and licensed in Macau provided no reassurance against revelations of links to drug syndicates, money launderers and Chinese gangsters.

The NSW Independent Liquor and Gaming authority yesterday began public hearings into revelations by *The Age*, *Sydney Morning Herald*, and *60 Minutes* that Crown went into business with junket operators, who bring wealthy Chinese gamblers to its Australian casinos, with links to Asian crime gangs.

Paul Bromberg, a Bangkok-based casino regulation expert with Spectrum Gaming Group, told the inquiry it was "essential" for Macau-based junkets to have some relationship with criminal Triad gangsters.

"It's for the security of cash during transportations, it's bodyguards for their VIP clients ... it's the provision of prostitution to their clients, it's for narcotics and other vice services, and the cross-border transportation of cash from China as well as ... debt collection," he said.

Mr Bromberg said junkets enabled gamblers to move large amounts of money in and out of China, skirting around capital control laws, and extended their clients' gambling credit that could be collected - with the help of criminal enforcers - once they return home.

In July last year Crown ran full-page newspaper advertisements in response to this masthead's reporting on its junkets operation, signed off by all members of its board of directors, including recently appointed chairwoman Helen Coonan.

The advertisements claimed that its Macau-based junkets partners such as Suncity are licensed and "subject to regulatory oversight and probity checks".

Counsel assisting Naomi Sharp asked Mr Bromberg if the board's claims should provide any comfort that they were fit and proper to be involved in Australian casinos.

"I don't believe so," Mr Bromberg said. "It is fair to say that one could be sceptical of licensing in Macau of the junket operators."

Likewise the Crown board's reassurance that Suncity was a "global company listed on the Hong Kong Stock Exchange" was of "very little" comfort, Mr Bromberg said, having investigated several Hong Kong-listed gambling companies and finding the regulators there did not have the resources or power to in-

vestigate their overseas activities.

Mr Bromberg said that up until very recently the junket licensing regime in Macau had "very, very minimal requirements", with operators only having to provide criminal checks for individuals and details of some company shareholders.

And when implemented in 2004 those rules did not apply to existing operators, which received licences without any detailed probity investigation, he said. Licences were also frequently bought and sold.

Rules had tightened since 2015 and junkets now must disclose the names of all shareholders, and were banned from selling their licence.

With greater scrutiny of their business and clients in Macau, Mr Bromberg said junkets were targeting casinos in places where they felt there was less scrutiny, such as Australia, Vietnam and Las Vegas.

Junkets do not need licences in Victoria or NSW.

The inquiry continues today.

'It is fair to say that one could be sceptical.'

Paul Bromberg
Spectrum Gaming Group



Crown shares dive as probe resumes

SHARES in Crown Resorts have sunk to a more than two-year low amid more poor press and the resumption of a public inquiry into NSW's casinos.

The probe initiated by the NSW Independent Liquor and Gaming Authority is investigating the multi-billion-dollar industry's vulnerability to money laundering and organised crime.

Former Supreme Court judge Patricia Bergin has been tasked with reporting on whether Crown and its Barangaroo casino licensee are fit to hold a gaming licence in NSW.

The latest round of hearings kicked off in Sydney with witness Paul Bromberg, from consultancy firm Spectrum Gaming Group, who appeared by video-link from Bangkok to advise on junkets for high rollers.

Mr Bromberg said casinos had left themselves open to alleged money laundering by hosting junkets for mega-rich VIP players, 96 per cent of whom were from mainland China and Hong Kong.

"There's been a huge wave of hot money coming out of China over the past 10 years, leading to a huge increase in the VIP market," he told the inquiry on Monday.

In China's gambling capital Macau, junkets were traditionally run by Triad-backed groups independent of the casinos, which were unaware or "too scared" to stop the gang making backroom deals with players, Mr Bromberg said.

However since China's corruption crackdown in late 2012, high rollers have shifted further abroad to places where despite tighter regulation they can still access crime-linked credits and funnel them through casinos.

And unlike Macau, "in Australia the casino maintains control over most VIP rooms," Mr Bromberg said.

His appearance follows a report in Nine newspapers on Sunday that a Crown Resorts vice-president authorised a junior casino staff member to transfer \$500,000 to a Melbourne drug trafficker in January 2017.

Meanwhile, the Australian Securities and Investments Commission is casting its eye over a now-halted \$1.8 billion deal to sell a 20 per cent stake in the company to Lawrence Ho's Melco International last May.

Mr Ho's father, Stanley Ho, has been allegedly linked to organised crime and is banned from being an associate of Crown's Barangaroo casino - though he has never been convicted and has always rejected such accusations.

Crown Resort board members Michael Johnston and John Alexander, as well as Crown's general counsel and company secretary Mary Manos and Melco's Geoffrey Davis, will be called before the inquiry.

Major Crown Resorts shareholder James Packer and Lawrence Ho are set to

appear at a later date.

Crown shares were 6.21 per cent lower at \$11.03 at the close on Monday, having slipped to \$10.975 in earlier trade.

The shares fell to \$10.80 in October 2017, following accusations by independent federal MP Andrew Wilkie the company had deliberately tampered with poker machines.



Canberra Times, Canberra
25 Feb 2020

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The NSW Independent Liquor and Gaming Authority is investigating Crown Resorts to determine if it is fit to hold a gaming licence in the state. **Picture: AAP**

**Age, Melbourne**

26 Feb 2020, by Patrick Hatch

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BRIEF CRWNILGA INDEX 1.1

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'Stop treating casinos like adult Disneyland'

CROWN RESORTS

Patrick Hatch

An internationally renowned gambling expert has told Australian governments to stop regulating casinos as if they were an "adult Disneyland" given their vulnerability to being infiltrated by organised crime.

The NSW Independent Liquor and Gaming Authority's public inquiry into revelations Crown Resorts went into business with junket tour operators linked to Asian crime syndicates spent its second day of hearings further picking apart gaps in how casinos are regulated in Australia compared to other jurisdictions.

Nelson Rose, an expert in gambling law and Professor Emeritus at the Whittier Law School in California, told the inquiry casinos were more vulnerable to criminal infiltration than "any other business", due to the "enormous" amounts of cash passing over their tables.

He took aim at a review of NSW's casino legislation which the government ordered after it granted James Packer's Crown Resorts a licence for a new casino in Sydney, which is set to open its doors early next year.

The government supported most of the 2016 "modernisation" review's recommendations, including moving to light-touch "risk-based" regulation, rather than firmer "prescriptive" regulation, and using casinos' own probity checks as the primary way to vet its junket partners. It is also reconsidering the need for five-yearly probity reviews.

Professor Rose said the review set out with the objective of making casinos profitable and treated casinos "as if it were any other industry" in spite of the risks they carried. "I'm not an anti-gambling person - what I

am opposed to is people thinking it's just an adult Disneyland," he said.

"Self-regulation does not work for

the casino industry. There's too much cash, and there's too much opportunity for things to go wrong."

Victoria has also moved towards self or "co-regulation". The gaming authority used to regulate junkets, for instance, but it is now left up to Crown Casino to check the probity of its tour business partners.

Professor Rose agreed with evidence by Asian gambling regulation expert Paul Bromberg that the best way to regulate junkets - which bring wealthy Chinese to gamble at casinos - was for regulators to licence and continuously review them.



Experts told the inquiry self-regulation does not work. Photo: Phil Carrick



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Casinos aren't 'adult Disneyland'

DEBORAH CORNWALL

Allowing Australian casinos to take control of high-roller junkets had been a dangerous misstep, treating casinos as if they were "just an adult Disneyland" and making them even more vulnerable to criminal infiltration, the NSW casino inquiry has heard.

Giving evidence to the inquiry by video link from Los Angeles, I. Nelson Rose, one of the world's leading gaming law experts, said extraordinarily wealthy mainland Chinese far outnumbered all other VIP casino players around the world.

"The rich in China, the wealthy class, are very rich," Professor Rose told the inquiry.

"They have enormous amounts of cash in vaults which they would love to get out of the country, and they mostly like to gamble too, so high-stakes casino gambling is one way to get their cash out of the mainland."

The problem with Chinese VIP gamblers, he said, was that they had to rely entirely on the shadowy services of junket operators to help them overcome the People's Republic of China's strict limits on shifting money out of the mainland.

Junket operators organised gambling trips to casinos around

the world, lining up a credit facility for high rollers at their casino of choice.

Professor Rose said criminal penalties for gambling in China were four years' hard labour.

Laundering money through casinos, however, was still a relatively low-risk option for very wealthy Chinese to smuggle their money out of China.

Macau casinos had always

'High-stakes casino gambling is one way to get their cash out of the mainland'

I. NELSON ROSE
GAMING LAW EXPERT

been the first destination of choice for gamblers from the mainland, Professor Rose said.

But after restrictions on travel were lifted after 2004, demand for junket operators who could deliver Chinese "whales" to casinos around the world had "exploded".

Professor Rose said that had seen the rise of "gaming promoters" who were primarily money lenders and a very "different kind of animal" to the traditional junket operators.

"We don't know really who

these people are or who owns the junkets ... because it takes place behind the wall around mainland China," Professor Rose said.

"The problem with the connection with the triads is where it really is scary."

The inquiry's commissioner, Paddy Bergin SC, asked: "Do you think casinos are inherently vulnerable to criminal infiltration?"

Professor Rose replied: "I think there is a greater danger in that regard with casinos than any other business.

"First of all, the casino's only product is cash ... what organised crime is interested in is the skim."

The inquiry heard that the Casino Modernisation Review of NSW's Casino Control Act in 2017 recommended a less prescriptive approach to casino regulation — prompting the control of junket operators to move from the state's gaming regulator to the casino operators.

"I think the biggest problem with this report is that it is treating the casino industry as if it were any other industry and the goal of the legislation is to make the casinos profitable," Professor Rose said.

"I am not anti-casino, I work with casinos ... What I am opposed to (is) people thinking it is just an adult Disneyland."

The inquiry continues.



Crown Resorts casino inquiry put on hold

DEBORAH CORNWALL

A high-stakes inquiry into Crown Resorts casino operations will be temporarily suspended pending an appeal by the NSW Attorney-General over a recent court judgment that found the inquiry did not have the powers of a royal commission.

The commissioner heading the inquiry, former Supreme Court judge Paddy Bergin, told the hearing on Wednesday that the proceedings, which began this week, would be put on pause as of Friday.

The inquiry was left scrambling on the eve of the first of five

hearings after a NSW Supreme Court judgment on February 11 found it did not have the powers of a royal commission.

The decision followed an 11th-hour legal challenge by Melco Resorts, the casino empire owned by Macau gaming tycoon Lawrence Ho, which argued that the inquiry had overstepped its powers by insisting Melco hand over documents in breach of lawyer-client privilege.

Ms Bergin said while the NSW Supreme Court decision found the inquiry did not have powers under section 17 (1) of the state's Royal Commission Act, "the (NSW) Attorney-General contends otherwise".

An appeal filed by Mark Speakman is to be heard by the NSW Supreme Court of Appeal on March 9, with Ms Bergin flagging to the inquiry it was likely the court would deliver its decision as early as March 16, at which point the hearing would resume.

Ms Bergin said while the inquiry had been able to proceed with the first four days of evidence from expert witnesses this week, the next round of witnesses would include employees of Crown Resorts, Melco Resorts and Sydney's The Star casino. "The hearing after tomorrow will involve evidence pertinent to regulation and operation of casinos in this jurisdiction," she said.

The February 11 decision was widely regarded as a major setback for the inquiry, which had been heralded as an inquisition into Crown's casino operations, including its alleged "criminal infiltration" by money launderers and high roller junket operators.

Judge Christine Adamson ruled there was a lack of clear language in NSW's Casino Control Act and it could not be interpreted to give the inquiry the power to breach legal privilege that was a fundamental common law right. The judge said the NSW parliament appeared to have left it to the courts to do their "dirty work" in identifying the actual powers of NSW gaming inquiries.



Crown inquiry hears Melco under scrutiny on three continents

Bo Seo

European regulators have identified vulnerabilities in the anti-money-laundering and terrorism financing measures at Melco Resorts' casino in Cyprus, an inquiry into Crown has heard.

The Council of Europe's anti-money-laundering body, Moneyval, said in December 2019 that it had discovered "weaknesses" in compliance at the City of Dreams Mediterranean casino while the business was planning an "aggressive expansion".

The finding suggests that Lawrence Ho's Melco Resorts is under the scrutiny of regulators in at least three jurisdictions, while Japanese authorities investigate its potential links to bribery claims and a powerful NSW probe considers its purchase of a 10 per cent stake in Crown last year.

Macquarie University honorary research fellow John Langdale told the Crown inquiry yesterday that Cyprus had high rates of illicit financial activity tied to Russia and even the terrorist organisation Hezbollah.

"It's not for the faint-hearted, really," Dr Langdale said.

The criminology expert also said Australia may be a target for Chinese

transnational crime networks seeking a "regional hub", owing to its relative stability as an investment destination

but also to its status as a significant consumer of illicit drugs from Asia.

"We would be in the top five destinations for capital flight," Dr Langdale said.

He noted that premium real estate and high-rolling tables at casinos offered avenues for both legitimate spending and money laundering.

Money laundering crudely involves three steps: placement (introducing dirty money to a legitimate financial system), layering (actions to conceal the source of the original sum) and integration (withdrawal of the "cleaned" cash).

For the third consecutive day, the counsel assisting the inquiry questioned the proposed \$30 minimum for a play of baccarat in the VIP section of Crown's Barangaroo casino.

Jessica Lin, former director of anti-money-laundering operations at US casino giant Las Vegas Sands Corporation, said the minimum was more in line with the threshold for mass-market players.

Ms Lin separately explained that a key money laundering tactic was "minimal gambling", which involved

exchanging dirty money for chips, only playing a few hands, then cashing out.

Casino-issued cheques only reflected that the amount was "endorsed winnings" and, if the payouts were spread out such that each payment was below

a pre-defined threshold (\$US10,000 in Nevada), could evade additional reporting requirements.

Patrons could also simply walk out with the chips, which could be used as informal currency outside a casino or replaced for the chips of another gambling institution, in a practice known as a "chip walk".

The inquiry resumes today with testimony by banking expert Aub Chapman.

It will then adjourn until the resolution of an ongoing appeal into Melco's successful challenge before the NSW Supreme Court to the Crown inquiry's claims that it could claim the powers of a royal commission.



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BRIEF I-CRWNTASH

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Casinos aren't 'adult Disneyland'

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Professor Rose replied: "I think there is a greater danger in that regard with casinos than any other business.

"First of all, the casino's only product is cash ... what organised crime is interested in is the skim."

The inquiry heard that the Casino Modernisation Review of NSW's Casino Control Act in 2017 recommended a less prescriptive approach to casino regulation — prompting the control of junket operators to move from the state's gaming regulator to the casino operators.

"I think the biggest problem with this report is that it is treating the casino industry as if it were any other industry and the goal of the legislation is to make the casinos profitable," Professor Rose said.

"I am not anti-casino, I work with casinos ... What I am opposed to (is) people thinking it is just an adult Disneyland."

The inquiry continues.



Casinos 'easy prey' for drug kingpins

DEBORAH CORNWALL

Gamblers washing dirty money through casinos usually lost at least 20 per cent to the house, whether they were high rollers betting on the VIP baccarat table or drug traffickers feeding the slot machines, the NSW casino inquiry has heard.

Aub Chapman, a leading expert on Australia's anti-money laundering regimes, spent the entire day in the witness box on Thursday explaining the often near-impossible challenges of trying to stop the flow of illicit money being washed through casinos.

Mr Chapman said money laundering in Australia, as in most countries, was a "major problem" across the financial services sector, from mainstream banking to the extensive underground banking networks of developing countries, called hawalas.

Cash-intensive casinos and gaming businesses, he said, were especially attractive to criminals. Even with a strong compliance culture and relentless vetting of their customers, casinos were easy targets for people expert in flying under the radar, he said.

The public inquiry by the NSW Independent Liquor and Gaming Authority — which began this week — was triggered by a series of allegations that Crown Resorts casino operations had been "infiltrated" by junket tour operators with direct links to Asian crime syndicates and money launderers.

Mr Chapman said "cleaning" dirty money through casinos involved three stages: laying down the bets, moving the winnings to different accounts and finally "integrating" the money into other mainstream investments where there were weak protections, such as the property market.

He said "structuring" — or breaking up the size of the bets — was critical to the process because all transactions above \$10,000

trigger an automatic report that was sent to Australia's anti-money laundering and counter-terrorism finance regulator, Austrac.

Mr Chapman said gamblers could muddy the waters on the size of their bets in a range of ways

that could be almost impossible for front-of-house casino staff to pick up on.

One common practice among drug traffickers was to use armies of so-called "smurfs", low-level operators who clean money from their drug deals by betting on the slot machines. Baccarat tended to be the game of choice for VIP high rollers, who would have others help them place multiple bets in a game to avoid the \$10,000 threshold alarm being triggered.

"So if a person bought three lots of \$5000 chips over a few hours, that wouldn't trigger a threshold report, would it?" asked counsel assisting the inquiry, Nicole Sharp SC.

"That would never be picked up unless there was very observant staff at the casino ... that, I would suggest, would be quite difficult in many casinos to control," Mr Chapman replied.

Ms Sharp then asked: "If they lose some money, how can it be money laundering?"

"That's simple ... if you have dirty money, you are going to lose some. It's going to cost you 20 per

cent. It really is about getting your betting money back, less a percentage," Mr Chapman said.

Inquiry commissioner Paddy Bergin formally suspended the inquiry on Thursday after four days of evidence in its first week.

Ms Bergin said the inquiry would be placed on pause pending a Supreme Court appeal over a recent court judgment that found the inquiry did not have the powers of a royal commission.

She has previously indicated that the inquiry was expected to resume in March.



Crown inquiry focuses on inadequate laws

Bo Seo

Loose reporting requirements, lack of interagency communication, and lagging legislation could make Australia more vulnerable to money laundering, an inquiry into Crown has heard.

The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* requires casinos to file a report for cash transactions exceeding \$10,000, and, separately, for any "suspicious matter" on their premises.

The legislation, though, fails to clearly define what "suspicious" means, leaving it to a casino itself to decide whether it has "formed a suspicion" on reasonable grounds.

Inquiry commissioner Patricia Bergin, SC, raised the concern yesterday that casinos could choose not to report such a suspicion, and instead submit instead a "rather neutral report of a transaction over \$10,000", even if they had taken internal steps to increase the scrutiny on a particular client.

"I'm not proposing anything, I'm just trying to work out whether there's a problem," said Ms Bergin, a former NSW Supreme Court justice.

Aub Chapman, an anti-money laundering expert and a former chief manager for operational control at Westpac, said existing laws meant "suspicion is in the eye of the beholder".

Mr Chapman said there was a general expectation of "defensive reporting: if in doubt, report", and that this level of discretion relied on rigorous training for staff at all levels of casino operations.

But he said money launderers had tactics to evade reporting requirements — such as breaking up a transaction — and that there was a risk of casino employees exercising "willful blindness" about suspicious activities, or of simply being not sufficiently qualified.

Money laundering, the process of disguising illegally sourced funds to make them seem legitimate, involves three steps: placement (introducing dirty money to a legitimate financial system), layering (concealing the source of the original sum) and integration (withdrawing of the "cleaned" cash).

The inquiry heard evidence that there

are myriad techniques involved such as changing smaller denominations of cash into larger ones ("refining"), spreading out payouts to avoid reporting requirements ("structuring"), or doing a "chip walk", simply walking out of a casino with gambling chips.

In Australia, enforcement action against money laundering falls under the Australian Transaction Reports and Analysis Centre (AUSTRAC), and other agencies such as the federal police. They are expected to share intelligence, but a 2015 report by the G7's Financial Action Task Force and its Asia-Pacific counterpart found shortcomings in information exchange that had to be "addressed".

"Somewhat limited use of AUSTRAC information by law enforcement as a trigger to commence money laundering and terrorism financing investigations, presents a weakness," the report said.

Mr Chapman said Australia was unusual, but not unique, in combining the functions of a regulator and a financial intelligence unit in the single body, AUSTRAC.

Australia is still waiting the legislation of "tranche two" anti-money laundering laws, which are endorsed by the Financial Action Task Force and compel real estate agents, lawyers and accountants to report suspicious transactions.

Mr Chapman agreed the relatively small number of prosecutions for money laundering didn't reflect the problem's scale, and suggested law enforcement may believe it easier to prosecute the underlying offence, such as a drug deal, than the laundering of its proceeds.

The Crown inquiry, investigating the probity of Crown and its part-owner, Melco Resorts, has adjourned, awaiting the results of an appeal to Melco's successful challenge to limit the powers of the inquiry.

There are myriad techniques involved such as ... doing a 'chip walk'.



The inquiry has taken wide-ranging testimony on the strength of Australia's anti-money laundering regime.



AFR Weekend, Australia

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BRIEF CRWNILGA INDEX 1.1

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UNSETTLING INQUIRY FOR CROWN

Casino industry There's extended discomfort in store for Crown Resorts as experts shine the spotlight on high rollers and junket operators, writes **Neil Chenoweth**.

The S-words began dropping on Monday just two hours into the first public hearings of the casino inquiry in Sydney. The letter stood for Stanley Ho, infamous father of Macau's casino industry, and for Suncity, the junket operator that pulled out of Australian casinos last August after reports of money laundering by criminal clients.

Just days in, the investigation led by Patricia Bergin, SC, former head of the equities division of the NSW Supreme Court, promises to be an inquiry unlike anything the casino industry has faced before. It's already pointing a spotlight on the murky world behind casinos' VIP rooms.

The week didn't go well for either the Ho family or Suncity. By Thursday, after four days of testimony by international gaming and money laundering consultants, the junket business in Macau that now runs much of Australia's gaming turnover appeared not so much flawed as radioactive.

It makes some of the regulation of junkets in Australia seem hopelessly naive at best. Or at least outdated. More on that later.

Melco International group, controlled by Stanley Ho's son Lawrence, is already looking like a casualty of the inquiry from collateral damage, if nothing else. Its prospects of hanging on to its \$880 million shareholding in Crown Resorts don't look bright.

Crown's Sydney casino under construction at Barangaroo on Sydney's Darling Harbour is aimed specifically at VIP players. The vast majority of this high-roller market hails from mainland China, according to

British consultant Paul Bromberg of Spectrum Gaming, who testified via video link from Bangkok. In Macau, up to 97 per cent of high rollers are Chinese.

It's a vast river of money, but casinos face two problems in tapping it. It's illegal for Chinese high rollers to take money out of China, where casino gambling is banned. And gambling debts cannot be enforced in China.

In Las Vegas, junket operations evolved to provide travel arrangements and concierge and personal services for VIP gamblers. In Macau, junket operators do all that, but more importantly they move money out of China, extend credit to their clients and have their own ways of collecting debt.

It's a recipe that helps explain extensive reports about the intimate involvement of

Chinese organised crime groups in the junket business in Macau, Bromberg says.

"I think the first public reporting of that was the 1992 [US] Senate hearing report on organised crime in Asia . . . I believe it called Stanley Ho an associate of Triad groups, and it named a number of senior Triad officers as running junkets in Macau and VIP rooms in Macau," he says.

It was the first of many adverse findings against Ho by regulators. Stanley Ho has no criminal convictions and has always denied any links with Triads.

"I would say that [for] all local junket operators in Macau, it's essential to have some relationship with a Triad group," Bromley says.

The Triads protect VIP rooms from other junkets, provide bodyguards for clients and guard cash transfers.

They also provide prostitutes and narcotics for clients, move funds out of China, and collect debt, he says.

Emeritus professor I. Nelson Rose, who teaches gaming law in Macau and the US, points to a study of 99 unexplained deaths in China of people with gambling debts.

"I'm not against the industry, but I don't want anyone to have the idea that it's like an adult Disneyland," Rose says.

The largest junket operator is Alvin Chau Cheok Wa's Suncity, which provides credit for half the VIP rooms in Macau.

Bromley points to a report in Hong Kong's *Apple Daily* newspaper that described several of Suncity's senior officers including Alvin Chau as leading Triad officials. Suncity denies the claim.

Last August, in the wake of reports in *The Age* and *The Sydney Morning Herald* of suspected money laundering in Australian VIP rooms, Crown Resorts hit back with full-page advertisements saying the reports were unfair and incorrect: "One of the junket operators facing allegations of organised crime links, the Suncity junket, is a large, global company listed on the Hong Kong Stock Exchange."

Bromley says there is "little comfort" to be drawn from this.

In fact, Crown's claim was wrong. The listed company Suncity Group Holdings is separate from the privately owned junket

operator Suncity Group, although both are controlled by Alvin Chau.

The difficulty for Lawrence Ho is that while his father, Stanley, has no management role at Melco, the group's largest shareholder, British Virgin Islands company Great Respect, is listed on the Barangaroo management agreement as a banned associate of Stanley Ho.

Melco's Macau casinos have Suncity VIP rooms. Lawrence Ho developed a casino in Vladivostok, Russia, before selling his stake in December 2017 to a Taiwanese businessman, who a year later was selling to Chau's Suncity Group Holdings.

Meanwhile, Melco is under fire in Cyprus, where European regulators two weeks ago reported that staff at Melco's four interim casinos had inadequate knowledge of money laundering risks, and urged Cyprus to block the opening of a new Melco branch casino next month until it can "responsibly manage" the risk.

Macquarie University honorary research fellow John Langdale told the inquiry that Cyprus had high rates of illicit financial activity tied to Russia, and even the Lebanon-based terrorist organisation, Hezbollah: "It's not for the faint-hearted."

In Japan, Melco is reported to be assisting police in their inquiries into a wider bribery scandal, after the group's Tokyo office was raided on January 20.

Bergin's inquiry is also starting to look at Australian regulators, with counsel assisting, Naomi Sharp, SC, asking some leading questions about regulatory capture.

Rose savaged the 2016 NSW Casino Modernisation Review by consultant Peter Cohen, formerly head of the Victorian Commission for Gambling Regulation, which recommended further relaxing controls, adopting Victoria's risk-based approach and "light touch" regulation, citing the Braithwaite's Pyramid model for oversight.

Braithwaite's model of self-regulation might work for a tea house in Japan, Rose suggested, but "I don't think this works for what I call a morally suspect industry, an industry that, in fact, was illegal . . . There's too much cash."

The inquiry is stalled while it awaits a Supreme Court verdict on whether it can demand legally privileged documents from Melco. The issue could end in the High



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Court, which would put off further inquiry hearings for months. But the threat this inquiry represents for Crown, and to some extent The Star, isn't going away.

I don't want anyone to have the idea that it's like an adult Disneyland.

I. Nelson Rose, gaming law expert



Stanley Ho and the Macau junket business he helped set up has been dogged by allegations of involvement with organised crime.
PHOTO: AP



Casinos are being put under the spotlight in the inquiry led by Patricia Bergin, SC.



Age, Melbourne

13 Mar 2020, by Sarah Danckert Patrick Hatch

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BRIEF CRWNILGA INDEX 1.2

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Melco must release secret files

**Sarah Danckert
Patrick Hatch**

Melco Resorts has lost a legal battle and will be forced to hand over secret company documents to the inquiry into probity and licensing issues at James Packer's Crown Resorts, which had a partnership with the Hong Kong casino group.

The NSW Court of Appeal yesterday allowed an appeal by NSW Attorney-General Mark Speakman after finding that Melco could not resist the production of documents to the inquiry on the grounds of legal professional privilege.

The Court of Appeal found the judge who heard the matter in the Supreme Court of NSW had erred

when she found the inquiry did not have the powers of a royal commission to request documents from witnesses or entities of interest to the inquiry.

"The court held that the primary judge erred in concluding that ... the Royal Commission Act did not confer a 'power or authority' on a Commissioner, with that section extending the general power to compel the production of documents to include the power to compel the production of legally privileged documents."

The Court of Appeal instead found that the act explicitly confirmed that "implicit correlative right or power in a commissioner to exercise compulsory powers unfettered by claims of privilege".

The NSW Independent Liquor and Gaming Authority (ILGA) launched an unprecedented inquiry last year to investigate Mr Packer's sale of a 20 per cent stake in Crown to Melco, as well as revelations by *The Sydney Morning Herald*, *The Age* and *60 Minutes* that Crown went into business with figures linked to organised crime and money launder-

ing.

Crown Resorts is building a \$2.4 billion high-roller casino, hotel and luxury apartment tower at Sydney's Barangaroo, which is due to open early next year.

The inquiry, by former Supreme Court Justice Patricia Bergin, SC, was set to begin public hearings on February 24 and was to have the same powers as a royal commission.

But it was stalled after Melco successfully challenged this in the Supreme Court after it had refused to hand over nine documents requested as evidence because they were covered by legal professional privilege.

The Court of Appeal ruling should allow the stalled inquiry to restart, though Melco will have the right to appeal that ruling to the High Court. Melco was contacted for comment.

The inquiry intends to call Mr Packer and Melco boss Lawrence Ho to give evidence as well as long-standing Packer family lieutenants Guy Jalland and Michael Johnston.

Melco's agreement in May last year to buy 20 per cent in Crown in two tranches of shares attracted the gambling regulator's attention because of a then-secret clause in Crown's Sydney casino licence, which bans any involvement from Melco boss Lawrence Ho's father, Stanley Ho, and a list of associates because of alleged links to organised crime.

The group, which has most of its business in Macau, last month tore up its deal with Mr Packer for the transfer of the second 10 per cent tranche of Crown shares, worth \$880 million. Melco said it needed to focus on its core Asian businesses, which have been negatively affected by the coronavirus outbreak, and announced it did not intend to further increase its stake and would no longer seek seats on Crown's board.

The hearings are expected to restart next week.



Age, Melbourne

13 Mar 2020, by Elizabeth Knight

Business News, page 29 - 295.00 cm²

Capital City Daily - circulation 69,863 (MTWTF--)

ID 1246684621

BRIEF CRWNILGA INDEX 1.3

PAGE 1 of 2

Show us the docs: New twist in Crown inquiry

COMMENT

Elizabeth Knight



Just how desperate is Lawrence Ho to keep legally privileged documents relating to his company Melco's acquisition of Crown Resorts shares a secret? We will know if Melco heads for the High Court - the only legal avenue remaining to keep them away from public glare.

Facing the prospect of a commission of inquiry into, among other things, Melco's acquisition of 9.9 per cent of Crown Resorts (and its proposed acquisition of another 10 per cent) from James Packer, Melco last month staged and won an 11th hour Supreme Court action to prevent the inquiry into demanding nine documents which were legally privileged.

Yesterday, it lost an appeal from the NSW government to the full bench of the Supreme Court.

So now, with the inquiry set to start again next week, it gets really interesting.

There is a lot riding on this inquiry for both Packer and Ho - neither of whom seem to want vast details of their transaction on public display.

And the worst part of it is that the deal the two casino heirs struck in 2019 has in large part

already come unstuck. So, getting under the hood of the original transaction is now redundant.

Melco was to increase its Crown stake to 19.9 per cent but has since pulled the plug on the second tranche and its ambitions to have Crown board representation.

Thus it is stuck with a minority

10 per cent stake - which is made worse by the carnage wrought by the coronavirus which has had a devastating impact on its casinos in Macau.

Making matters worse, the value of Melco's holding in Crown has been falling in response to the findings of the inquiry, the potential for stricter regulation of casinos in Australia and the general fall in equities markets amid mounting fears of a recession.

Crown shares have fallen by more than a third since that deal was inked in May 2019 at \$13 per share.

One of the most perplexing elements to the original deal is that neither Packer nor Melco believed that any regulatory pre-approvals were needed.

This is one aspect the inquiry will be looking at.

At the time the original transaction was announced, the Crown board suggested it had no prior knowledge of the deal, despite the fact that two Packer representatives sit on the Crown board. Adam Bell, counsel assisting the NSW casino inquiry, said in his

Continued Page 31

New twist in Crown inquiry

From Page 29

opening submission in February the deal for Ho's Melco International group to buy a 19.9 per cent stake in Crown from Packer's private company CPH may have breached a condition of the gaming group's licensing agreement for its Barangaroo casino - which underlines the importance of the inquiry for Packer and Crown.

(Having said that, no one seriously expects the regulators to pull Crown's Sydney licence.)

But even before the share deal is investigated (set for later on) the course of the hearings to date and the direction of early witness testimony suggest the regulatory framework could be subject for review.

The use of junket operators - the people that organise everything from travel to arranging finance for the VIP clients - was squarely under the microscope.

The hearing heard from one



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Age, Melbourne

13 Mar 2020, by Elizabeth Knight

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BRIEF CRWNILGA INDEX 1.3

PAGE 2 of 2

expert witness, Paul Bromberg, who described how junket operators were a necessary part of the VIP ecosystem and why "it's essential [for a junket operator] to have some relationship with a Triad group".

In the main Australian jurisdictions, NSW and Queensland, junket operators are not required to be licensed. It is hard to imagine the NSW gaming regulator, the Independent Liquor & Gaming Authority, would go to all the trouble of holding an inquiry which finds nothing and recommends the status quo.

**The Australian, Australia**

18 Mar 2020, by Damon Kitney

Business News, page 19 - 214.00 cm²
National - circulation 94,448 (MTWTF)

ID 1248780940

BRIEF CRWNILGA INDEX 1.1

PAGE 1 of 1

Crown inquiry in doubt due to clamps

DAMON KITNEY

The timeline for New South Wales' high-stakes inquiry into Crown Resorts has been thrown into disarray, with the next round of hearings delayed amid concerns about potential spread of the coronavirus.

It comes as NSW courts roll out an extraordinary direction that only lawyers, defendants and court staff be allowed to enter the court precinct — the first such directive in the country.

The inquiry had been due to resume at 10am on Wednesday, with Crown putting its first representative in the stand in a round of hearings scheduled to sit until March 23.

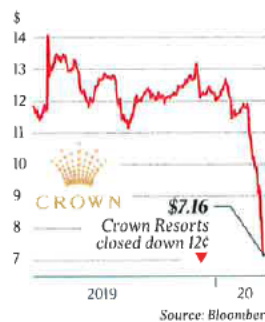
A courtroom victory had last week cleared the way for the NSW government's investigation to proceed after an 11th-hour legal challenge by Crown Resorts.

The inquiry's next steps are now pending announcement.

Meanwhile, the James Packer-backed Crown will extend its social isolation measures to its Perth casino, ensuring all casinos throughout Australia will be operating at half their capacity due to the coronavirus pandemic.

On Monday Crown and rival Star Entertainment Group said they would keep gamblers apart by switching off every second electronic machine and by restricting the number of players at gaming tables at their Melbourne, Sydney and Gold Coast facilities. This now includes Perth.

Crown has also distanced seated table games and banned standing players at these games; restricted the number of players at each stand-up table game to



five; and limited the number of patrons in individual food and beverage, banqueting and conference facilities to 450 people.

Crown also announced on Tuesday that it would provide an additional 14 days of paid leave for any of its employees — whether full-time, part-time or casual — who are affected by coronavirus.

"The additional leave is available to all employees who either contract coronavirus (COVID-19), or who have come into close contact with a confirmed case. In addition, the leave will also be available to employees who are providing care to a member of their family as a consequence of coronavirus — supplementing existing carer's leave policy," Crown said.

On Tuesday SkyCity Entertainment Group, which owns three New Zealand casinos, also introduced new social isolation measures by restricting the number of people at venues by turning off machines, reducing player numbers at tables, ramping-up cleaning services and putting out more hand sanitisers.

Crown Resorts shares fell 1.7 per cent on Tuesday to \$7.16.

3/20/2020

Essential service? Call for Crown casinos and pokie venues to be shut during coronavirus outbreak | World news | The Guardian

The Guardian



Essential service? Call for Crown casinos and pokie venues to be shut during coronavirus outbreak

Victoria's opposition asks why Crown Casino in Melbourne has exemption to restrictions as an essential service . Qantas criticised for standing down 20,000 workers without pay . Follow our latest Australia coronavirus blog for live news and updates

Ben Butler

Thu 19 Mar 2020 18.18 AEDT

Casinos should be shut down during the coronavirus crisis, public health specialists and the Victorian opposition have said, with one expert telling Guardian Australia their continued operation were “an unnecessary risk to public health”.

Crown Melbourne and all other poker machine venues around the country should be closed to slow the coronavirus outbreak, Monash University associate professor Charles Livingstone said.

The Melbourne and Perth casinos operated by James Packer's Crown Resorts have exemptions from each state's health authorities to keep operating.

Both venues have closed every second poker machine, but high-roller rooms and restaurants remain open.

5

3/20/2020

Essential service? Call for Crown casinos and pokie venues to be shut during coronavirus outbreak | World news | The Guardian

Crown on Thursday said it would reduce the number of people allowed at any one time in its restaurants from 450, a number set only on Monday, to 100.

And trade in high-roller rooms is understood to have been dramatically cut by international travel bans.

But Livingstone, a sociologist and gambling researcher who has long been a critic of Crown, said the restrictions still left about 1,400 poker machines operating at the Melbourne casino.

He and 10 other public health experts have written a letter to state health ministers and federal health minister Greg Hunt calling for all poker machine venues to be closed to slow the transmission of Covid-19.

Poker machine buttons and screens were “sweaty, stinky and pretty horrible”, he said.

“The capacity of Crown to wipe down machines between users is virtually impossible,” he said.

“Crown should be shut down now and so should all the pokie joints.”

Victorian Nationals leader and state opposition gambling spokeswoman Steph Ryan said premier Daniel Andrews should explain why Crown “isn’t required to follow the same restrictions as everybody else”.

“Even Nevada, USA, a state which is home to the casino capital of the world, has made the decision to shut down its casinos,” she said.

“Daniel Andrews must tell us why Crown Casino does not need to comply with the advice provided to all other venues which have been instructed to limit patronage to less than 100.”

Crown is already under fire over a laundry list of allegations that are being investigated by a NSW public inquiry that has, itself, had its hearings postponed due to the virus crisis.

The group’s casinos employ 18,500 people, meaning closing them would deliver a savage hit to employment in Perth and Melbourne at a time when people are already being laid off due to the coronavirus pandemic.

Crown is allowed to keep operating under an exemption provided by Victoria’s chief health officer, Brett Sutton, which Guardian Australia understands is in writing.

Andrews’ office is yet to provide Guardian Australia with a copy of the exemption that was requested on Thursday morning.

The premier did not answer directly when asked by reporters on Thursday how the casino qualified as an essential service.

However he said the government was acting according to Sutton’s advice.

“The moment that advice changes, we will change the arrangements for them,” he said.

“It’s a unique space.

“The chief health officer is confident that the arrangements that have been put in place are appropriate.”

Since you’re here...

<https://www.theguardian.com/world/2020/mar/19/crown-casinos-and-pokie-venues-should-be-shut-during-coronavirus-outbreak-say-critics>

2/4

3/20/2020

Essential service? Call for Crown casinos and pokie venues to be shut during coronavirus outbreak | World news | The Guardian

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We need your support so we can keep delivering quality journalism that's open and independent. And that is here for the long term. Every reader contribution, however big or small, is so valuable. **Support the Guardian from as little as \$1 - and it only takes a minute. Thank you.**



Crown casino inquiry put on ice

ELI GREENBLAT

The NSW Independent Liquor & Gaming Authority will put its investigations into Crown Resorts into hibernation, much like the rest of the Australian economy, amid the coronavirus pandemic due to health and safety concerns.

The NSW regulator last August outlined the establishment of the inquiry under into, among other things, the proposed sale of shares in Crown Resorts from James Packer's CPH Crown Holdings to Lawrence Ho's Melco Resorts & Entertainment Limited, a Hong Kong-based casino operator, through a subsidiary.

At stake in the probe is Crown Resorts' fitness to hold its high-rollers casino licence at Sydney's Barangaroo, which is due to open its doors next year.

Under the sale agreement struck last year between long-time business partners Mr Packer and Mr Ho, the Asian businessman's Melco Resorts paid \$880m for an initial 9.9 per cent stake in Crown, with the original plans to lift that to 19.9 per cent for another \$880m.

However, the coronavirus pandemic and global share-market turmoil helped kill off the second tranche of the deal and later Crown's casinos in Mel-

bourne and Perth turned into ghost towns as state governments ratcheted up social distancing laws and forced the shutdown of licensed venues and pubs.

In February Melco walked away from its plans to double its investment in Crown Casino, a transaction which is subject to the inquiry by the NSW gaming regulator, the Independent Liquor & Gaming Authority, which had only recently kicked off its hearings.

But now that inquiry is on ice.

The Independent Liquor & Gaming Authority announced the work of the casino inquiry will be deferred in the current context of the COVID-19 epidemic, until it is considered safe and practicable for all public aspects of the work to resume.

"This decision follows careful consideration of the current COVID-19 situation, commonwealth and state government advice and restrictions," the authority said in a statement. "The inquiry and its public hearings will resume promptly as soon as circumstances allow. Any updates regarding this and future timings will be announced publicly once determined."

"Notification of this has been made to all entities authorised to appear at the inquiry."

While the share sale agreement triggered the probe, the inquiry had also planned to examine the circumstances around the October 2016 arrests of more than a dozen staff in China.

The timeline for NSW's inquiry into Crown had already been thrown into disarray in mid-March, with the round of hearings delayed amid concerns about potential spread of the coronavirus. It came as NSW courts rolled out an extraordinary directive that only lawyers, defendants and court staff be allowed to enter the court precinct — the first such directive in the country.

By the end of March casinos around the country, including Crown, were closing gaming floors and standing down staff. Crown Casino effectively closed its casinos in Melbourne and Perth, threatening the jobs of more than 12,000 staff, while The Star Entertainment Group stood down 90 per cent of its 9000 staff and slashed operating expenses to preserve cash as it waited for the health crisis to pass.

'This decision follows careful consideration of the COVID-19 situation'

THE INDEPENDENT LIQUOR & GAMING AUTHORITY





Ho's Crown exit deals Blackstone into game

James Thomson, Anthony Macdonald and Sarah Thompson

The dramatic end to Lawrence Ho's investment in Crown Resorts has opened the door for US investment giant Blackstone to dust off previously abandoned plans to split Crown's valuable property assets into a separate vehicle worth as much as \$4 billion.

Crown confirmed yesterday that Blackstone had paid \$552 million for the 9.99 per cent stake held by Mr Ho's Melco Resorts.

It is less than 12 months since Mr Ho spent \$880 million to buy that stake from former business partner and close personal friend James Packer in June 2019.

But while Mr Ho had agreed to buy a second 9.99 per cent stake from Mr Packer, and declared he wanted to own even more of Australia's biggest casino company, the coronavirus has ended his ambitions of becoming a major player in Australia's casino sector and left him nursing a huge loss.

Mr Ho's exit also spares him the ordeal of being scrutinised by a NSW gaming inquiry, which was looking into his purchase of Crown shares and the Sydney casino licence held by the company.

It leaves Mr Packer with a 36 per cent stake in Crown and pinning his hope on the success of his Barangaroo casino in Sydney, which is due to be completed in December.

All 41 casinos in Macau were shut in February as COVID-19 swept through China. Melco's two casino resorts reopened in late March, but Macau's border remains effectively closed to tourists, with a 14-day mandatory quarantine period enforced.

Gaming revenue in Macau plunged almost 80 per cent in March and Hong Kong-based Bernstein analyst Vitaly Umansky said he expected a 95 per cent fall in April.

Mr Ho abandoned his plans to
Continued p18

Off the cards

2019

■ **Apr 8** *The Australian Financial Review* Street Talk column reveals Las Vegas casino giant Wynn Resorts in \$1.0b bid for James Packer's 46.8 per cent stake in Crown.

■ **Apr 9** Wynn dumps bid.

■ **May** Lawrence Ho's Melco Resorts and Entertainment reveals intention to take 20 per cent of Crown for \$1.76b which has casinos in Melbourne and Perth with a Sydney casino at Barangaroo under construction.

■ **Jun** Melco buys 9.99 per cent of Crown for \$880m - further stake to be acquired later.

■ **Jul** Investigation by *The Sydney Morning Herald*, *The Age* and *Nine* alleges Crown involved in money laundering, facilitation of Chinese espionage, links to people trafficking and prostitution and corporate governance failures.

■ **Aug** NSW gaming authority announces inquiry into Crown's Sydney licence and the sale of Crown shares to Melco.

2020

■ **Jan/Feb** Casinos in Macau, including Melco's, close because of COVID-19, Australian casinos follow.

■ **Jan** Inquiry into Crown begins - James Packer and Lawrence Ho likely to be called as witnesses.

■ **Feb** Melco says it is not proceeding with acquisition of further 10 per cent of Crown, blaming downturn from virus.

■ **Apr 29** Melco exits Crown, selling its 9.9 per cent stake for \$550m to Blackstone.

Crown Resorts share price, daily (\$)





From page 1

Ho's Crown exit deals Blackstone into game

proceed with the purchase of a second tranche of Crown shares in February, and said later that month Melco's ownership of its existing stake in Crown was under review given the turmoil in Macau.

Mr Umansky, who pointed out Mr Ho's losses were even greater in US dollar terms given the Australian dollar has weakened substantially in the last year, said it was no surprise that Melco had chosen to "move on, get the cash in the door and focus on Macau".

Melco said in a statement to the Hong Kong Stock Exchange that it had sold out "to facilitate its core operations [including operations in Macau, the Philippines and Cyprus] and to strengthen the balance sheet of Melco Resorts during the recent COVID-19 pandemic".

Several local investors speculated that Mr Ho may have also been deterred from investing in Crown due to the intense spotlight placed on the deal through a public inquiry by the NSW government's Independent Liquor and Gaming Authority (ILGA).

But sources in the Melco camp said liquidity, not scrutiny, was Melco's only concern.

A spokesman for the ILGA inquiry

said it "will be giving consideration to [Melco's] announcement and any adjustments that may be necessary regarding the ongoing work of the inquiry", which was deferred earlier this month due to COVID-19.

It is understood Mr Ho made a courtesy call to Mr Packer, who is in the US, before the deal was confirmed by Crown yesterday morning.

While Melco's sale would appear to further dampen Mr Packer's hopes of reducing his stake in Crown to diversify his interests, investors cheered Blackstone's investment given its reputation and its strong existing interest in casino properties.

Crown shares climbed 10.9 per cent to close at \$9.54, a four-week high.

"Having an interested investor that has a view on the value of the property is probably a good thing," one major shareholder said.

"You've got to look past the next six months with COVID-19 and that's obviously what these guys are prepared to do."

Blackstone, which manages \$US538 billion (\$824 billion), declined to comment. The deal was led by the firm's head of real estate acquisitions for Asia, Alan Miyasaki.

But Wilson Asset Management portfolio manager John Ayoub said the US investment giant understood the value of casino properties, which are typic-

ally located in high-traffic hotspots and seen by governments as crucial infrastructure.

While the shutdown of Crown due to COVID-19 health measures had seen its share price fall 27 per cent since the market's recent peak on February 20, Mr Ayoub said prices of privately held property have not fallen nearly as sharply, and Blackstone may have spotted a bargain.

"Blackstone has got form. They've done this several times over the years and they're quite shrewd," he said.

In January, the Blackstone Real Estate Income Trust paid \$US4.6 billion for the underlying property of two casino hotels in Las Vegas, the MGM Grand and the Mandalay Bay.

The trust also holds the underlying property of the Bellagio in Las Vegas, purchased last year for \$US4.25 billion, and The Cosmopolitan, where it also owns the operating rights.

Mr Ayoub said Blackstone may see a similar chance to split off Crown's property portfolio.



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Australian Financial Review, Australia
30 Apr 2020, by James Thomson

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ID 1268447120

BRIEF CRWNILGA INDEX 1.1

PAGE 3 of 3

How Street Talk broke the story





Age, Melbourne

30 Apr 2020, by Patrick Hatch Nick Toscano

Business News, page 24 - 348.00 cm²

Capital City Daily - circulation 69,863 (MTWTF--)

ID 1268449390

BRIEF CRWNILGA INDEX 1.2

PAGE 1 of 2

CASINOS Stake sold for \$328m loss

Melco makes full retreat from Crown

Patrick Hatch, Nick Toscano

Hong Kong gaming tycoon Lawrence Ho has sold his stake in Crown Resorts, ending a disastrous year-long attempt to gain a foothold in Australia's casino industry and raising speculation about future bids for the James Packer-backed company.

Almost a year after Mr Ho's Melco Resorts bought into Crown, Melco this week sold its 9.99 per cent stake to American private equity firm Blackstone at a loss of nearly \$330 million.

Melco last year agreed to buy a 20 per cent stake in Crown from Mr Packer for \$1.76 billion but only half of that changed hands, with the second tranche of shares put on hold after a NSW inquiry began probing whether Melco's involvement violated the conditions of Crown's Sydney casino licence. The inquiry is also exploring revelations that Crown went into business with Asian crime-linked tour companies as part of an aggressive push to attract ultra-rich Chinese high-rollers to its Australian venues.

Melco's decision to sell out at \$8.15 a share compared to the \$13 purchase price in June last year meant Melco took a \$328 million loss.

Melco's decision to exit Crown comes amid a deep cost-cutting drive as the coronavirus crisis inflicts enormous pain across the

casino sector in Melco's main Asian markets, gaming analysts said yesterday. Forcing the temporary closures of gaming rooms across Macau and confining top-end gamblers to their home countries, the pandemic has so far caused an estimated plunge in gambling revenue of more than 80 per cent in the region.

Macquarie analysts noted reports that Mr Ho had circulated a memo citing "devastating" business conditions due to coronavirus

that could stretch into 2021. Mr Ho would not draw a salary for the year, the memo said, and there had been a clear-out of nine executives from the company's senior ranks including across gaming operations, retail and marketing.

News of Melco's withdrawal from Crown Resorts yesterday has renewed speculation about a future takeover play for the company potentially by Blackstone - which some market insiders suggested could seek to split off Crown's property portfolio - or by an international casino giant, given there was no longer the risk of Melco "being a blocker" to any takeover transaction.

Mr Packer has previously indicated his willingness to sell his 36 per cent holding in Crown during since-aborted talks with Las Vegas casino giant Wynn Resorts in April last year.

A spokeswoman for the NSW Independent Liquor and Gaming Au-



Age, Melbourne

30 Apr 2020, by Patrick Hatch Nick Toscano

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ID 1268449390

BRIEF CRWNILGA INDEX 1.2

PAGE 2 of 2

thority inquiry into Crown – which began in January but has been put on hold because of the pandemic – yesterday said it would be considering what adjustments would need to be made to the terms of the investigation.

The inquiry was to examine if Melco was an appropriate company to be involved in Crown's new casino under construction at Barangaroo, and if Crown's licence was breached when Mr Packer agreed to sell some of his shares to Melco. Mr Ho's father, Stanley Ho, and a string of related parties are banned from involvement in the casino because of long-standing allegations of links to organised crime. Lawrence Ho has always insisted his business is not connected to his father.

Melco received a \$20 million dividend from Crown two weeks ago when the company decided to proceed with shareholder payments even as it stood down most of its staff without pay due to the coronavirus forcing it to shut its gaming floors, restaurants and bars.

Crown's shares closed up almost 11 per cent at \$9.54.

CROWN RESORTS

Share price



SOURCE: BLOOMBERG



Hong Kong casino mogul Lawrence Ho and James Packer. Photo: AP



The Australian, Australia
30 Apr 2020, by Jared Lynch

Business News, page 13 - 204.00 cm²
National - circulation 94,448 (MTWTF)

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BRIEF CRWNILGA INDEX 1.10

PAGE 1 of 1

Gaming authority pushes on with probe

JARED LYNCH

Two billionaires may have dodged a bullet but they haven't skipped a bath.

The Australian understands that Hong Kong Tycoon Lawrence Ho and the man he calls his "brother", James Packer, are yet to be officially called to appear before the NSW regulators' high-stakes inquiry into Crown Resorts.

And if they haven't received a call to be grilled before the inquiry by now, it is unlikely that they ever will, following Mr Ho's decision to sell his 9.9 per cent stake in Crown.

Mr Ho had originally planned to acquire a 19.9 per cent stake in Crown from Mr Packer's private investment vehicle Consolidated Press Holdings for about \$1.76bn over two tranches.

The NSW Liquor & Gaming inquiry, among many things, was tasked with examining whether the planned buyout of the Crown stake by Mr Ho's Melco raised probity issues. And at stake was Crown suitability to hold a licence for the \$2.4bn Crown Sydney development in Barangaroo, which is due to open in December.

But Mr Ho, who walked away from buying his second tranche of shares from Mr Packer in February — resulting in \$880m in opportunity cost for the Australian billionaire — has now disappeared completely from Crown's register after selling his 9.9 per cent holding to private equity giant Blackstone.

The deal, priced at \$8.15 per share, wiped more than \$300m off Mr Ho's Crown investment. But it also ended any need for NSW Liquor & Gaming to order him to appear before its inquiry, which the regulator confirmed will still go ahead once the coronavirus pandemic passes.

It is the latest instalment in the drama surrounding the inquiry.

First there was Mr Ho's decision to not proceed with acquiring another 10 per cent stake in Crown

from Mr Packer. He cited the coronavirus, which had shut down Macau's entire casino industry for much of January and half of February, costing billions in lost income for the Asian gaming powerhouse.

Mr Ho said he wanted to focus on his core markets in Macau, The Philippines and Cyprus as well as Melco's efforts to win a Japanese gaming licence, rather than pursue plans to expand his casino empire to Australia.

If that was not enough, he doubled down on his decision, lobbing an 11th hour challenge to the NSW gaming regulator in an attempt to derail the inquiry, claiming the

regulator was overstepping its powers. But the regulator was undeterred, with a spokeswoman saying at the time the inquiry would still proceed.

The legal challenge appeared to succeed, with the Supreme Court siding with Melco. But the victory was short-lived.

The NSW Supreme Court of appeal overturned the landmark judgment that limited the powers of the inquiry into Crown's casino operations after finding the judge "erred" in her decision.

Three appeal judges found that NSW Supreme Court judge Christine Adamson had misread the relevant legislation with her ruling the inquiry did not have the full powers of a royal commission.

And so the show rolled on until coronavirus halted it in March. The gaming regulator has now deferred the inquiry until after the COVID-19 pandemic passes or it is safe to resume hearings. It noted Mr Ho's decision to sell out of Crown and will make the necessary adjustments to the inquiry.

It is the latest instalment in the drama surrounding the inquiry



Ho does his bro a big favour on the way out with share sale

DAMON KITNEY
ANALYSIS

Lawrence Ho has given his billionaire Australian friend, the man he calls "a brother", a farewell present worth over \$200m after quitting the share register of James Packer's Crown Resorts.

Crown shares on Thursday closed almost \$1 higher, seemingly on speculation that the buyer of Ho's stake, global private equity giant Blackstone, may want to buy more of Crown and even make a

takeover bid for the company. The share price surge has boosted Packer's paper wealth by over \$200m after a coronavirus-inspired slump in the Crown share price over the past six weeks, but the billionaire is as intrigued as anyone about the future intentions of Blackstone.

The US group reported a \$US1.1bn net loss for the first quarter compared to a \$US481m profit in the first quarter of 2019 after making what it called "meaningful markdowns" in its hotel and retail assets, which comprise about 15

per cent of its global portfolio. But at its results the Stephen Schwarzman-led group stressed it still had about \$US152bn left in "dry powder" or capital, to invest in new opportunities, meaning the \$550m investment in Crown is a mere drop in the ocean.

Blackstone may view its Crown stake as a mere passive investment, but given the US group's track record that is unlikely.

What most interests Blackstone is Crown's high-end casino properties in Melbourne, Perth and soon-to-be Sydney, under-

scoring that it sees value in property assets that the market is dramatically underpricing.

Amid the coronavirus turmoil, publicly traded assets are trading at far lower multiples than unlisted assets, providing great value for those prepared to take the plunge and invest.

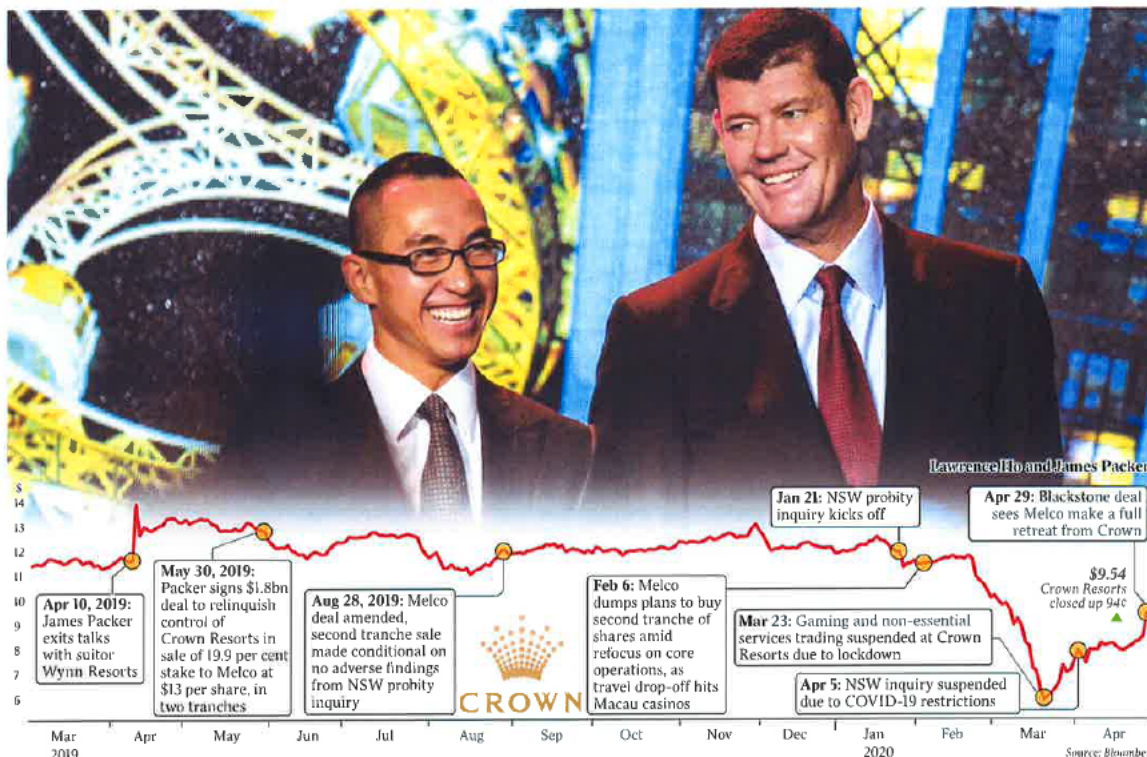
Perhaps Blackstone is keen to revisit the plans by Crown an-

nounced in 2016, which were subsequently shelved, to spin off the hotels into a new trust to create a listed vehicle holding over \$2bn worth of property.

However, such a transaction would be difficult to contemplate for some time given the crushing impact of the coronavirus pandemic on Crown's operations, which are virtually on care and maintenance for an indefinite period.

While Crown's Perth property will certainly re-open before Melbourne, both openings are sure to be staggered over an extended period.

The next key date in the fate of Crown Melbourne comes on May
Continued on Page 20



Ho does his bro a big favour on the way out of casino

Continued from Page 13

It will be the closure direction from the Victorian chief health officer in place for the gambling floor, food and beverage and convention operations expires.

And the question remains when the nation's borders will re-open again for VIP gamblers.

Blackstone may also want to make a takeover bid for Crown, given Packer has indicated over the past year that he is a seller at the right price for his 36 per cent shareholding.

He was prepared to sell to Wynn Resorts last year at a price over \$14 per share before the deal collapsed and then agreed to sell 20 per cent of his stake to Ho for \$13.

Packer would be a highly unlikely seller at prices much below

that mark but if the Crown share price was pushed back towards the \$13 mark by takeover speculation he may think differently.

However his hands would be tied until the NSW government concludes its inquiry into Crown Resorts, which has been indefinitely delayed because of the coronavirus pandemic. What will be left of the inquiry when it resumes remains to be seen, given there is now no reason to be investigating Ho and his network of companies

given he has apparently abandoned his Australian ambitions.

But you would expect the inquiry would be interested to know Blackstone's ambitions for Crown, given it would need to pass probity to increase its interest beyond 9.9 per cent.

The inquiry would also have no reason for not continuing its probe into Crown's alleged links with organised crime figures and junket operators allegedly involved in money laundering.

One outcome could still be a new national body that licenses junkets operating in Australian casinos.

Blackstone is no stranger to the casino industry.

It bought the Cosmopolitan casino and resort in 2014 for \$1.7bn but reportedly was looking for buyers for the asset last year.

Earlier this year, Blackstone's real estate investment trust division also announced a \$US4.6bn joint venture with MGM Growth

Properties on the MGM Grand and Mandalay Bay resorts in Las Vegas.



The Australian, Australia
30 Apr 2020, by Damon Kitney

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Certainly its entry to the Crown share register adds another chapter to the intrigue and controversy that has engulfed the Australian casino group and its major shareholder over recent years.

Packer won't be happy to see Ho go, given the friendship the two have rekindled over the past two years following the horrors of Crown's exit from Macau in 2016, and Ho is said to be keen to keep the lines of communication open between the two billionaires.

But Ho has certainly done his friend a favour on his way out by giving a well-needed boost to the Crown share price.

In the process he has also likely diluted the further damage that could have been caused to Crown by the NSW inquiry ahead of the opening of \$2.4bn Sydney casino project — Packer's long-held dream — later this year.



JONATHAN NG

Lawrence Ho and James Packer



Packer backs Blackstone's entry

DAMON KITNEY

American private equity giant Blackstone has declared its desire to be a helpful and constructive shareholder of Crown Resorts, after being welcomed to the share register of the gaming group by its major shareholder James Packer.

It is understood that Mr Packer made a courtesy call to Blackstone's president and chief operating officer Jonathan Gray on Wednesday in America, after the US group seized a 9.9 per cent stake in Crown from Hong Kong billionaire Lawrence Ho.

Mr Gray, who was promoted to his role two years ago as a successor to chief executive Stephen Schwarzman, in response emphasised Blackstone's position as a value investor in Crown like any institutional shareholder.

While the Australian billionaire has had little to do with Blackstone in his business career, he is believed to view Blackstone's investment as a positive for Crown,

endorsing the underlying value of the company's assets.

While the Crown investment was made by a Blackstone entity known as Midnight Acacia Holdings, it is expected to be housed in one of Blackstone's real estate funds.

Blackstone was one of several parties that held talks with Mr Packer's private company Consolidated Press Holdings in 2015 about partnering in a potential privatisation of Crown, when it

was chaired by former investment banker Robert Rankin and Mr Packer had left the board.

Rival private equity firms TPG and Apollo, as well several Canadian pension funds, also held talks before CPH engaged in the most serious discussions with the Brian Powers-chaired private equity group Hellman & Friedman.

The deal did not proceed and

two years later Hellman & Friedman made a \$2.9bn takeover approach to Fairfax Media, which also failed.

Blackstone is already a casino investor, owning the Cosmopolitan casino and the property assets of MGM Resort's Bellagio casino, both on Las Vegas's famed strip.

Crown shares closed another 3.7 per cent higher at \$9.89 on Thursday, adding to their 11 per cent gain on Wednesday amid speculation Blackstone may seek to engineer a restructure of Crown to release value from the group's substantial property portfolio.

Continued on Page 17





Packer welcomes Blackstone moving into Crown

Continued from Page 13

However Crown remains currently focused on when and how its operations will emerge from the coronavirus crisis lockdown and the inquiry by the NSW Independent Liquor and Gaming Authority into its operations, which could redraw the casino regulatory landscape in Australia.

Bernstein analyst Vitaly Umansky said Blackstone was a long-term, patient investor which normally invested in casinos as a property play rather than seeking to become a gaming operator, despite being licensed in Nevada.

"I think definitely there is a real estate angle in Blackstone's view here, that's where the value lies and I think the cheapness of the Australian dollar played a role," Mr Umansky said.

"So I think they want a seat at the table to be able to strategically push the company in a direction to potentially create a real estate vehicle."

Mr Umansky said it was also possible that Blackstone may seek to buy Crown's property assets outright. "They may try to buy all of it. It may not be a separation, it might just be a sale, maybe not of the company itself but of its real

estate assets." Citi analyst Bryan Ramond said Blackstone's appearance on Crown's shareholder register has increased the likelihood of a property demerger,

based on the private equity group's recent US transactions with MGM and its listed REIT.

"While Blackstone's intentions remain to be seen, the recent US experience and press reports indicating that the real estate team is handling the purchase seem to support our view.

"If a similar structure is proposed to Crown's mooted demerger in 2016, then the operating company will remain listed as is, with Crown potentially holding a minority stake in the property

company," he said. In June 2016,

Crown outlined plans to split itself up by creating a separate listed entity to hold its international operations, including its 27 per cent stake in casino business Melco Crown, which operates in the struggling Macau market.

It also flagged creating a listed property trust that would own Crown's Australian hotels, excluding its Melbourne flagship Crown Towers.

But Crown ditched those plans in December 2016, abandoned its

planned Las Vegas development and trimmed its multi-billion-dollar holding in Melco Crown, which operates casinos in Macau.

Citi valued Crown's property portfolio, which includes its flagship Melbourne gaming precinct and soon to be opened Sydney casino in Barangaroo, at \$5.6bn, based on a 7.35 per cent capitalisation rate and base rent of \$410m.

However Crown would be unlikely to support such a deal with such hefty rental payments until its operations rebound from the coronavirus shutdown and the future of its Crown Sydney project becomes clearer.

Bernstein's Mr Umansky said there was an opportunity for Blackstone to increase its Crown stake, after Lawrence Ho aborted his plans to raise his shareholding in Crown to 20 per cent by acquiring another 10 per cent stake of Mr Packer for \$880m.

"The fact that Packer has made it crystal clear that he wants out means that you have a large block of equity, a willing seller on the table, and the fact that Melco basically said 'we're out' puts another block of shares on the table," he said. "We could see a massive transformation of Crown over the next two years as a result of this."

'We could see a massive transformation of Crown over the next two years'

VITALY UMANSKY
BERNSTEIN ANALYST

BERNSTEIN ANALYST



The Australian, Australia
01 May 2020, by Damon Kitney

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**Crown shares
closed 3.7pc
higher at \$9.89
on Thursday**

AAP



TEMPER THE DRAGON

When rumbles from Down Under start impacting China, no other State feels it more than WA. Paul Murray reports

HIGH in an observation gantry at a Chinese steel plant, an Australian political leader is being shown what happens to the massive amounts of iron ore being shipped from his home State.

Down below, red hot sheets of metal are being spat out from a furnace and shot down the conveyor

belt at an amazing speed.

They sizzle and hiss as they skid past 30m below but the premier can still feel the heat on his cheeks as he gets the grand diplomatic tour of the steelworks. Behind him, his senior bureaucrat, a veteran operator who previously advised prime ministers at the pointy bit of Canberra's power elite, trails along deep in his own thoughts.

As the party reaches the end of the rolling mill, there is a display chart explaining in graphic form the process they just witnessed.

It starts with a Pilbara iron ore mine and ends with the steel plate being turned into a Chinese aircraft carrier, bristling



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with weapons.
“We’d better
hope these
people are
friendly,” sighs
the veteran
bureaucrat,
only half
joking.

It’s 2009 and the world is recovering from a contagion of another kind, the Global Financial Crisis.

The premier is Colin Barnett, on his first official visit to WA’s most important trading partner, whose insatiable demand for our iron ore has cushioned the crushing effects of the crisis.

The bureaucrat is Peter Conran, head of the Department of Premier and Cabinet, as tough and canny as political operators come.

And I was standing next to him when he uttered those words, in the final week of an assignment in China with photographer Kerry Edwards, to bring out a 40-page magazine on our bilateral relationship.

We called the project, *Riding the Dragon*, an attempt to plumb where the joint destinies of the two nations were headed.

At that time, China had not started flexing its muscles in the South China Sea, Australia had not allowed American Marines to operate from the Northern Territory and our aid dollars bought unparalleled influence in the Pacific Islands.

So in 11 years, much has changed.

It has taken another crisis over the Chinese origins of a pandemic to push Australia’s relationship to a dangerous point, but it has never been plain sailing since Gough Whitlam opened it up in 1972.

This is how the preface to the magazine started: “Several months ago, riding the dragon seemed like a good phrase to describe Australia’s profitable, but somewhat difficult, relationship with China.

“It didn’t take long to find out

what an uncomfortable ride it can

be, trying to keep a hold on this modern economic marvel.

“Two days into a three-week trip to try to make sense of the liaison, the paradox of modern China emerged in internal riots that left more than 150 dead.

“Riding the dragon suddenly became not only uncomfortable, but also dangerous.”

Those riots in Xinjiang province’s capital were between Uighur Muslims and Han Chinese and represent an ongoing episode of the nation’s worst fear: internal conflict.

For many Australians, what China sees as quelling home-grown terrorism, they see as the inherently repressive nature of the Communist Party-controlled State.

As recently as last year, the Morrison Government upset Beijing when Foreign Minister Marise Payne called for the release of one million Uighurs from arbitrary detention.

China retaliated by banning visits by several government MPs. Scott Morrison still has not visited China as Prime Minister, with Malcolm Turnbull’s tour in September, 2016, the most recent.

So, much has changed. But much hasn’t.

Within a week of arriving in China in July, 2009, we saw another face of our difficult relationship. Stern Hu, an Australian working as an iron ore trader for Rio Tinto in Shanghai, was arrested with three Chinese colleagues on charges of commercial espionage and accepting bribes.

We were in Shanghai for arranged interviews for the magazine, but got sent by the



newspaper to the mining company's offices to cover the breaking news story and find the jail in which Hu was being held.

We got nowhere, but we learned a lot about the system that we would not otherwise have uncovered in our interviews.

Hu was not the last Chinese-born employee of an Australian business to be jailed in questionable circumstances when their commercial activities crossed an unseen line with Beijing.

Three Australians and more than a dozen Chinese staff from Crown were arrested in police raids across four cities in October, 2016, and charged with gambling promotion offences after an ideological crackdown on the country's notorious high rollers.

I'm reminded of the words of Australian lawyer Seamus Cornelius, who had been in China since 1993, when I interviewed him in his Shanghai office.

Cornelius said Chinese people had plenty of freedom, particularly in business, as long as they didn't get mixed up in politics.

"One thing I've learned in China is that the politics of the place and the people who run the place are constantly focused on what is in China's self-interest,"

Kalgoorlie-born Cornelius said.

"There is nothing wrong with Australia taking the same approach. China understands self-interest and expects it. We shouldn't be ashamed about it."

Morrison has now apparently infuriated Beijing again with calls for an international inquiry into the origins of COVID-19.

That is a completely unremarkable position for an Australian leader to take in the face of the massive disruption the virus has caused our society.

And it seems to be completely in line with not only the sentiments of average Australians, but the concerns of those scientists tasked with fighting the disease.

But it has been met with a mixture of stony indifference by

Chinese authorities at home and

intemperate comments by the country's top diplomat in Australia.

One analysis of this stand-off would be that everyone is playing their regular roles. This can be a bit of a game.

In an interview last Monday with *The Australian Financial Review*, Ambassador Cheng Jingye threatened a Chinese consumer boycott of students and tourists visiting Australia.

"The Chinese public is frustrated, dismayed and disappointed with what Australia is doing now," Cheng said.

"I think in the long term . . . if the mood is going from bad to worse, people would think 'Why should we go to such a country that is not so friendly to China?' The tourists may have second thoughts.

"The parents of the students would also think whether this place which they found is not so friendly, even hostile, whether this is the best place to send their kids here.

"It is up to the people to decide. Maybe the ordinary people will say, 'Why should we drink Australian wine? Eat Australian beef?'"

It was fairly standard fare from Cheng, who has been consistently outspoken on controversial matters since his arrival here in 2016. China sent a bovver boy when it thought it needed one.

In a transcript of the 40-minute interview the Embassy posted online, Cheng denied the virus originated in China and said any inquiry was a matter for scientists, not politicians.

"This is not their business," Cheng said. "In summary, I think whatever the initiative or proposition is . . . it is in essence political manoeuvring. Since it is politically driven, it has got little international support and it will lead to nowhere."

And for an idea of how this plays out in China, the editor of the State-owned *Global Times* newspaper, Hu Xijin, was explicit in a post on the Chinese social media platform, Weibo.

"After the epidemic, we need to have more risk awareness when

doing business with Australia and also when we send our children to study there," Hu wrote.

"Australia is always there, making trouble. It is a bit like chewing gum stuck on the sole of China's shoes. Sometimes you have to find a stone to rub it off."

It is not the first time insults like this have been hurled at Australia, but what we've seen in the past is that it can take a long time for them to be forgotten. On both sides.

So into the middle of this mess last week, in waltzes iron-ore mogul Andrew "Twiggy" Forrest.

Forrest has billions of reasons for liking the Chinese. All of them in hundred dollar notes.

There is no reason for Forrest to try to hide his obvious self-interest in China's official relationship with Australia, but he at least needs to show that he is aware of it.

Anyone who has observed Twiggy over time knows that he is a brilliant entrepreneur and deal-maker.

But he would never make a great diplomat. Or even a passable politician.

And Forrest's decision to photo bomb a press conference with Health Minister Greg Hunt on Wednesday by inviting the Chinese consul-general to Victoria, Long Zhou, to give his imprimatur to a deal by the magnate to provide 10 million COVID-19 test kits, just created more heat.



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03 May 2020, by Paul Murray

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Long's words were not a problem. In fact they were highly conciliatory after Cheng's

vitriol. But the image of a leading Australian businessman so obviously advancing China's case in such a fraught political environment may well have been counter productive to his ambitions.

Forrest countered by saying he had done the same thing in Perth some weeks ago when he pulled off the first of his philanthropic deals to secure personal protection equipment (PPE) from China after a series of damaging media reports about Chinese companies raiding Australian supplies in January.

Which shows just how tin-eared he can be. Many people found that earlier episode jarring too, but pushed it aside because of the generosity on show.

But when it became apparent that Forrest was being reimbursed by taxpayers for the purchases by his charitable foundation, Munderoo, attitudes began to change. And the financial details and taxation implications for these purchases by Forrest from his business contacts in China has yet to be revealed in the turbulence that characterises the coronavirus media world.

The former head of the left-wing Australia Institute, Clive Hamilton, has emerged as an unlikely strong critic of China's influence in local politics.

Hamilton, now professor of public ethics at Charles Sturt University, claims it is a classic Chinese tactic to use business contacts to influence foreign governments.

If that were the case — and I'm not arguing that it is — people like Forrest wouldn't have to try too hard to influence the two most

recent premiers of WA because both hold similar views as his about the importance of the China relationship.

Before the new COVID-19 tensions, Premier Mark McGowan was a consistent supporter of WA's relationship with down-player of Beijing's critics.

When the Uighur issue bubbled up again late last year, McGowan was asked at a mining trade show — in front of Chinese media — about the effect of human rights issues on trade.

"It's not in Australia's interest to have those issues intertwined," he said. "There are literally hundreds and hundreds of thousands of jobs that are dependent upon it."

"I just don't think they should impact someone who has a job on a mine site in the Pilbara or someone who has a job in a manufacturing plant in Perth. I think we need to ensure as far as possible we keep those issues different, separate."

In a political environment where bipartisanship is always in scare supply, the Premier occupies exactly the same policy space as his predecessor, Colin Barnett.

Around the same time as McGowan's pleadings, Barnett penned an op-ed for the *AFR* in which he accused Australia of unnecessarily "poking the panda".

Barnett kicked off by quantifying the trade relationship: "Our exports to China are dominated by iron ore, coal and natural gas. Together, they account for about 65 per cent of the \$123 billion total in 2017-18."

"Exports to China are also very much centred on Western Australia

and Queensland," he wrote. "These two States produce more than three-quarters of Australia's exports to China."

"Three commodities and two

states is a narrow base for what is our main export market. The rapid growth of China over the decade has led Australia's iron ore production to double and LNG production to treble. China and resources might be able to sustain the mining states, but not Australia as a whole."

What Barnett didn't say was that the WA economy would collapse without our China trade. But that's the reality.

And Barnett then explained why the China relationship Federally is different to that at the State level: "The early investments by China also had features beyond the concentration on mining and energy. On the China side, it was the State-owned enterprises (SOEs) that led the way. They are large and sophisticated organisations that operate on the world stage today. They can be relied upon."

"On the Australian side, it was largely State governments at the forefront of government-to-government negotiations on big projects."

"Canberra will never acknowledge that but it was the reality. This was owing to State Government ownership of resources as well as the lingering political tensions between Beijing and Canberra."

Given the WA Government's massive reliance on iron ore royalties for its revenue base, the position taken by McGowan and Barnett is understandable.

The grim reality is that any suggestion of a prosperous future in WA without China trade is unrealistic. This State would be a much poorer place with a substantial drop in living standards for everyone.

Barnett finished with a cautionary warning: "Australia



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needs to concentrate on what really matters in our relationship with China and not be distracted by side issues, such as whether China has a developed economy or not.

"That should not be too hard. China has come a long way in a short period and still has a long way to go. We don't need to meddle in China's internal affairs and we certainly don't need to poke the panda."

The problem is that the origins of the coronavirus pandemic is not just an internal Chinese matter.

Labor's foreign affairs spokeswoman, Penny Wong, probably got close to the mark when she said Australia's pursuit of an inquiry — which she supports — needed the building of an international consensus before it went public.

Wong warned "the growing mistrust between the world's great powers" meant that navigating a relationship with China would be more difficult in the months and years ahead and it would resent any country "that sought to take advantage of it for its own interests".

"We must also begin a legitimate debate about the nature of our recovery, including the terms of our engagement with China and others," Wong says.

"We should be considering how

to secure key supply chains and greater diversification, without being dismissive of the reality of China's economic weight and the depth of our economic ties — which have been hugely beneficial to both countries, and will be important in recovering from this crisis.

"Our relationship with China, as with any country, must be guided by our values and our interests — including transparency and sovereignty. We need to rethink our relationship, but disengagement is not an option."

So what might a "re-thought relationship" look like? McGowan this week warned about cutting off our nose to spite our face.

It is easy to dismiss the views of

business leaders with strong China ties as self-interested or those of politicians who deal with the Chinese at the coalface as gutless appeasers.

But to what end? And who then are we to believe?

The bottom line is that we are not doing China a favour by selling them iron ore and gas. It needs our resources and it would get them from others if we were not a preference. We should also be aware that there is not another sizeable customer waiting in the wings to take China's place.

Economic interdependence aside, Australia cannot change where it is located. That's a geopolitical fact of life and one which pretty much demands that we need to find ways to co-exist with China. Which doesn't mean we have to bend to its will.

It is likely that there will be a fair bit of pressure for a strategic rebalancing of the relationship when this current dispute dies down. As they always have.

The pandemic has had the effect of pressure testing many of the systems in our society we take for granted — and the results in some areas have been alarming.

Many people have begun to question whether we are too dependent on China for things like pharmaceuticals and the PPE that we knew little about before this crisis.

It is unlikely that Australia will ever get back into manufacturing cars, but there are now obvious opportunities in smaller forms of manufacturing activity — especially items of strategic significance — that well-targeted Federal assistance could stimulate.

It is also obvious to many people that we have had too many eggs in one trade basket.

How we widen that spectrum in a world economy that will be licking its wounds from the cost of the pandemic will be a major challenge for Canberra.

Emotive language about "kowtowing" to the Chinese doesn't replace the reality that our trade relationship has made sense from both sides.

Any moves to recalibrate our relationship will always come back to one fundamental question: At what price to our own prosperity?

Australians buy a massive amount of Chinese goods because they are cheap. Is that really going to change?

So let me end by going back to the preface to *Riding The Dragon*, written 11 years ago, which suggests we have been in a similar spot before:

"The reality of modern China is that it offers Australia little choice. It is so big, so powerful, so hungry for resources and its inertia is so great that we have to deal with it as it is, not as we might like it to be.

"We don't have to like China, as likeable as a lot of it might be. But we do have to get on with it. For our sake.

"The question is not whether we agree with the Chinese system. It is whether we can find a way of dealing with a system so different from ours."

That was then. China is even bigger now. But have these questions really changed, or do they just keep emerging in different forms?



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5/26/2020

Crown cuts lease of Heston Blumenthal's scandal-plagued business

The Sydney Morning Herald

BUSINESS WORKPLACE WAGE SCANDAL

This was published 3 months ago

Crown cuts lease of Heston Blumenthal's scandal-plagued business

By [Ben Schneiders](#) and [Royce Millar](#)

January 31, 2020 – 9.10pm

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World-renowned chef Heston Blumenthal's scandal-plagued Australian restaurant appears doomed after its landlord and financial backer, Crown Casino, said it had moved to terminate its lease.

The company behind the Dinner by Heston restaurant appointed provisional liquidators just before Christmas. It came just days after it missed a deadline with the Fair Work Ombudsman to pay back staff the millions it owed them for underpayment.



Celebrity chef Heston Blumenthal. WAYNE TAYLOR

In a statement Crown said due to the appointment of the provisional liquidator "it has taken action" to terminate the lease of restaurant owner Topsy Cake Pty

<https://www.smh.com.au/business/workplace/crown-cuts-lease-of-heston-blumenthal-s-scandal-plagued-business-20200131-p53wqd.html>

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5/26/2020

Crown cuts lease of Heston Blumenthal's scandal-plagued business

Limited.

“While this is disappointing, Crown is working to provide assistance to Topsy Cake employees looking for employment within Crown,” a Crown spokeswoman said. “The provisional liquidator of Topsy Cake, however, will need to deal with employee matters at the first instance.”

In December 2018, a *Sunday Age* investigation revealed that Dinner by Heston was dramatically underpaying staff and Topsy Cake, the company that owned the restaurant, was based in a notorious tax haven.

The investigation revealed chefs at the Southbank eatery regularly worked 25 hours of unpaid overtime a week. That pushed pay down to as little as \$15 to \$17 an hour, well below the minimum rates of the award, the wages safety net.

The Fair Work Ombudsman soon after launched an investigation.

The spokeswoman said Crown would allow customers who purchased Dinner by Heston gift cards to exchange them for Crown gift cards. No timeframe was provided by Crown on when the lease of one of its high-profile tenants would end.

The move to terminate the lease creates further uncertainty for employees who had hoped that Crown may financially support the restaurant to keep it open.

Crown had provided the business - one of its marquee tenants - with a \$750,000 interest free loan. Industry sources said the interest free loan could have been used as a way to lure such a high profile business to the casino, boosting its appeal to visitors

Before Christmas Fair Work Ombudsman Sandra Parker said it was disappointing that Topsy Cake had not resolved the underpayment issue before it went into provisional liquidation.

“Topsy Cake was aware that a significant amount of wages and entitlements were owing to many workers who had been underpaid,” Ms Parker said.

“The circumstances of this matter are disappointing.”

An Ombudsman spokesman this week said it was working with the provisional liquidator to assist affected workers receive back-pay.

Provisional liquidators BRI Ferrier did not respond to a request for comment this week. A case management hearing for the winding up will be heard on Monday in Sydney.

Under Australian law, employees are treated as priority creditors in a liquidation and the government can pay for some unpaid entitlements if the business cannot do so.



5/26/2020

Crown cuts lease of Heston Blumenthal's scandal-plagued business

Accounts for the Dinner by Heston restaurant show it has reported persistent losses since opening in Melbourne in 2015.

Fair Work Ombudsman Sandra Parker PAUL JEFFERS

The accounts disclosed it was dependent on interest free loans from a related company run through a Caribbean tax haven and Crown Melbourne "to continue operating".

But its opaque structure - restaurant owner Tipsy Cake is based on the volcanic Caribbean island of Nevis - made it hard to determine the true health of the business.

The ownership of companies incorporated in Nevis is never disclosed so there is no way to know who is behind companies created there.

But the company has said Blumenthal sold his shareholding more than a decade ago but remained its chef patron and "integral" to its operation.

Blumenthal, a regular on Masterchef in Australia, is famed for his "multi-sensory" cooking and unusual food pairings such as bacon and egg ice-cream.

The Michelin-starred UK-based The Fat Duck, the eatery for which he is best known, was voted the world's best restaurant in 2005.

Do you know more? Contact us securely via [Journotips](#)

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Ben Schneiders



Ben Schneiders is an investigative journalist at The Age and has reported extensively on wage theft, corruption, business, politics and the labour movement. A three-time Walkley Award winner, he has been part of The Age's investigative unit since 2015.



Royce Millar



Royce Millar is an investigative journalist at The Age with a special interest in public policy and government decision-making.

5/26/2020

Crown cuts lease of Heston Blumenthal's scandal-plagued business

BUSINESS

Dinner by Heston restaurant at Crown casino found to be underpaying staff

Celebrity chefs planning to set up restaurants in Australia have been put on notice after liquidators revealed Dinner by Heston staff were underpaid more than \$4 million in the latest blow to hospitality workers.

Jeff Whalley, Herald Sun

Subscriber only | February 4, 2020 3:19pm



Heston Blumenthal pictured at Dinner By Heston at Crown. Picture: Mark Stewart

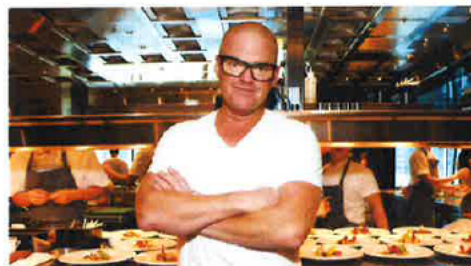
Liquidators of the Heston Blumenthal-fronted [Dinner By Heston](#) say the restaurant underpaid staff by more than \$4m over three years.

The revelation comes after Crown Melbourne on Friday ousted the trouble-plagued high-end restaurant from its base, giving it 14 days to vacate.

The restaurant's parent company Topsy Cake Pty Ltd applied for [provisional liquidation](#) on December 19 last year.



Vegemite ice cream served at Dinner by Heston, which was given 14 days to vacate its Crown-based premises.



Melbourne restaurant Dinner by Heston is accused of underpaying staff by more than \$4 million. Picture: Julie Kiriacoudis

after being appointed by the Federal Court.

But their report to creditors shows the depth of the problem, and links it to Melbourne's larger problem of underpaid restaurant workers.

"The company has quantified amounts totalling \$4,044,397 as not having been paid to current employees and former employees for work undertaken between 2015 and 2018 conclusive," the report says.

"These amounts are underpayments as a result of the company miscalculating entitlements."

The report also sheds light on the final months of the trouble-plagued business.

In the report, completed on January 31, it claims Crown effectively acted as a "joint venture arrangement" with the restaurant.

The liquidator says it is investigating "who was responsible for the under payment of wages from establishment of business in October 2015" and "the extent of (parent entity Cape Proprietary Pty Ltd) and Crown's involvement in relation to the management and conduct of the company's restaurant business".

It claims Crown provided bookkeeping and accounting services and attended to the payment of the majority of trade creditors.



📷 Inside Dinner by Heston at Crown.

The liquidators also say they will investigate Crown's retention of net trading receipts and whether it may constitute a preference payment in its favour.

"We are advised an issue developed some months prior to our appointment, as to Crown's accounting for net trading receipts," the report says.

"It has been suggested that, if the company is wound up, Crown may have been in receipt of preference payments."

The report also says "prior to our appointment, the Company and Crown sought to reach a commercial resolution of issues which existed between the parties, with the intention of generating sufficient funds to satisfy employee arrears payments. These discussions were unsuccessful."

But Crown today said the restaurant was not a joint venture.


"Topsy Cake Pty Ltd (trading as Dinner by Heston) was a tenant of Crown and responsible for its own operations and employed its own staff," the company said in a statement.

"Crown was not in a joint venture arrangement with Topsy Cake."

"Topsy Cake has asked the court to appoint a liquidator, on the basis that it is insolvent."

"In these circumstances, including ongoing substantial unpaid expenses to Crown, Crown has taken steps to bring the tenancy to an end."



 The restaurant was highly regarded in Melbourne's food circles.

Crown said it was working to provide assistance to Topsy Cake employees looking for employment within Crown.

“The Provisional Liquidator of Topsy Cake, however, will need to deal with employee matters at the first instance.”

“As the winding up application is now before the court, Crown will not be making any further comment concerning the liquidator’s appointment.”

United Workers Union national president Jo-anne Schofield said the case “is a warning to global celebrity chefs wanting to set up shop in Australia”.

“You must abide by our workplace laws, pay your workers correctly and treat them with respect, or you will not be welcome here,” Ms Scholfield said.

The union called on Crown to help pay the workers what they are owed.

“We have requested that Crown repay all unpaid wages and entitlements owed to our members – and offer employment to these members as well as sponsoring those who are on temporary visas.”

Workers today spoke out, voicing their outrage at the underpayments.

“I worked at Dinner by Heston for more than two years. Some weeks we worked more than 80 hours and never worked less than 60 hours. We are owed millions,” former Dinner by Heston chef William Trist said.

“It strains relationships when you work such massive hours. And then to get ripped off is the ultimate slap in the face. I feel angry that we’ve been treated like this.

“I think it’s absolutely crazy.”

MORE NEWS:

Another worker — who is still at Dinner by Heston — who only wanted to be identified as Steve said he was on a temporary visa.

“I am tired of being screwed over by this company. I feel like indentured labour,” he said.

“We were made to work these crazy hours and we’re so terrified of speaking out or standing up for our rights. We were told we were lucky to work 70-80 hours a week. My visa has been hanging in the balance for over six months. My whole life is in Australia. And I face losing it all.”

Crown has also said it will assist customers who have purchased gift cards at Dinner by Heston by enabling them to be exchanged for Crown gift cards.

The Fair Work Ombudsman — which is investigating the underpayments — said it had released records obtained during the course of the investigation under section 718 of the Fair Work Act 2009 to the provisional liquidators.

“(We) will continue to engage with the provisional liquidator to assist affected employees obtain backpay,” a spokesperson said.

“The provisional liquidator has advised that the winding up proceeding is scheduled for a case management hearing on 12 February 2020.”

5/26/2020

The nice couple from Dublin at Heston's restaurant were not quite what they seemed

The Sydney Morning Herald

INVESTIGATION BUSINESS WORKPLACE WAGE SCANDAL

This was published 3 months ago

The nice couple from Dublin at Heston's restaurant were not quite what they seemed

By [Ben Schneiders](#) and [Royce Millar](#)

February 8, 2020 – 11.30pm

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When world-renowned “multi-sensory” chef Heston Blumenthal opened a restaurant in Australia in 2015, Roger and Pauline Copsy from Dublin were among the lucky few to dine at the first sitting.

“To be married for 46 years, and to spend 4¾ hours and not be bored, says it all,” Mr Copsy, a then 70-year-old, gushed to the *Herald Sun* at the end of their \$525, 15-course degustation at the temporary Fat Duck restaurant at Crown casino. “It wasn’t just the taste of everything, it really was an experience,” he told *The Age’s* Good Food.



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The nice couple from Dublin at Heston's restaurant were not quite what they seemed

'Lucky' couple Roger and Pauline Copsey after the opening of Heston Blumenthal's Crown restaurant, then known as The Fat Duck, on February 3, 2015. WAYNE TAYLOR

But the Copseys were much more than just a pair of fortunate foodies desperate for the Heston experience. Roger was a senior accountant and expert in "international tax structures" and this couple were legal owners of an obscure corporate entity in low-tax Ireland called Bacon and Egg Ice Cream Limited.

Irish corporate records show this company's main business is the "exploitation of intellectual property rights," and Crown casino in Melbourne was paying it £1 million a year (\$A1.97 million) in licensing fees for the right to use the famous name on its restaurant, Dinner by Heston (which replaced The Fat Duck).

But while Bacon and Egg Ice Cream - named for one of Blumenthal's signature dishes - was extracting as much as \$A7.9 million over four years in licence fees from Crown, the highly-skilled chefs who created the food were being underpaid at least \$4 million. It is not suggested that the Copseys or Blumenthal were personally involved in the business's underpayments.

Dinner by Heston will not trade beyond this Friday night, *The Sunday Age* and *The Sun-Herald* have confirmed, and the company behind it, Topsy Cake, is expected to be placed into liquidation this week, owing another \$435,000 in accrued entitlements to staff, according to a creditors report. Considering the size of the business, it is the worst case of underpayment uncovered as part of *The Age's* investigation into the high-end restaurant sector and an inglorious end after all the initial hype.

Every week was at least 60 hours ... and a lot of times it was into the 80s.

Dinner by Heston Chef de Partie Michael Green

As for the millions in licensing fees, their final beneficiary is difficult to determine, and Mr Copsey through his old accounting firm, Copsey Murray, did not respond to a request for comment.

Representatives of the London-based Dinner by Heston did not respond directly to questions on that issue but released a statement criticising Crown for the collapse and its "deeply disappointing" decision to terminate its lease "which put jobs at risk".

"As a foreign company, Topsy (Cake) relied from the outset on the advice given by advisors in Australia and our partner Crown Melbourne, who were responsible for advising on the staff remuneration blueprint for the restaurant," a Topsy Cake spokesperson said.

Topsy Cake said neither itself or its holding company were able to fund the repayment of money owed to staff and it was "left with no option but to appoint provisional liquidators" after Crown did not agree to contribute to a bail-out plan.

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The nice couple from Dublin at Heston's restaurant were not quite what they seemed

Crown has defended its actions and a spokeswoman for the casino said Topsy Cake "was a tenant of Crown" and "responsible for its own operations and employed its own staff".

Dinner by Heston, through Topsy Cake, on paper has run at a loss and paid no company tax since arriving in Australia, according to corporate filings. It is part of a tangle of corporate structures in various jurisdictions globally. The Melbourne-based restaurant itself was owned directly through the notorious Caribbean tax haven of Nevis through which tens of millions of dollars have flowed since 2015. The Copseys' company was a "related" entity to this global network receiving fees for Blumenthal's intellectual property.

And as for Blumenthal, he is no longer a shareholder in the business and restaurants that bear his name, though the company itself says he remains linked as chef patron and is "integral" to their operation. He is paid by another part of the empire, the UK-based Fat Duck Group.

The problems for the group emerged after [a Sunday Age investigation in late 2018](#) showed the Melbourne eatery had been significantly - and unlawfully - underpaying their staff, many of whom were working 20 hours to 30 hours a week unpaid.

What appears to have hastened the end of Dinner by Heston's Australian experiment was a subsequent investigation by the Fair Work Ombudsman and demands they repay staff. Just before Christmas the company appointed provisional liquidators. When [Crown recently said it would terminate its lease](#) there was no way for the restaurant to trade its way out of trouble.

With an offshore owner based in a tax haven with few assets it is unclear how much the workers will ultimately receive.

Chef de partie Michael Green, 30, has worked at Dinner by Heston since it opened and now faces losing his job and has little choice but to return to Canada in a few weeks.

"So many of us are going to have to leave," said Mr Green, whose application for permanent residency was tied to his employment.

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Dinner by Heston chefs, from left to right: Carlos Ballesteros, Michael Green, William Trust and Angela Mogridge. SIMON SCHLUTER

Mr Green wanted to make a life here and as recently as last month volunteered to cook for firefighters at Bright, Victoria. "I love Australia, I love the life here, I love the people," he said. Before he leaves, he most wants to be paid what he is owed which, according to a conservative estimate by his union, is at least \$60,000.

For the young Canadian chef, working at a Heston Blumenthal restaurant was a "dream come true". But the excessive work became too much over time. "Every week was at least 60 hours ... and a lot of times it was into the 80s (hours a week)," he said. He'd experienced nothing like it back home where a busy week would be 45 to 50 hours.

The question of who pays - if anyone - what is owed to people such as Michael Green might be settled in the courts.

BRI Ferrier, in its creditors report, claimed Crown was in effect in a joint venture with the company that owned the restaurant, Topsy Cake, charging it rent of \$1 a year and offering it a range of financial and administrative support.

A Crown employee had set up the "blueprint" for how most staff were initially engaged, the report said, and that blueprint was "applied over several years resulting in the underpayment".

Recent changes to the Corporations Act may allow landlords such as Crown to be included in any clawing back of employee entitlements, according to Natasha McHattan, legal director at the Australian Restructuring Insolvency & Turnaround Association.

The new laws targeted transactions that attempted to prevent, avoid or reduce payments of employee entitlements, she said, including "targeting intentional or reckless actions where two or more entities get together with the effect of, essentially, ripping off employees' entitlements."

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The changes were primarily designed to target illegal phoenix activity, but there is potential that they could be applied to third parties such as landlords. "They may be broad enough to encompass something like this but as they are new they have not been tested," she said.

The liquidator also has an investigatory role to uncover whether there has been an attempt to transfer assets with the intention of "defeating creditors," she said.

For workers such as Michael Green it could be a drawn-out process to see what they get. Further complicating it is that as a temporary visa holder - as are many of his colleagues - he is ineligible for support under the Fair Entitlements Guarantee, a government program that pays out some worker entitlements in a corporate collapse.

"I had more good times than bad times at Dinner by Heston," chef Green said. "But I'd like to be paid for the hours that I did."

Do you know more? Send us a confidential and encrypted message on [Journotips](#)

**Ben Schneiders**

Ben Schneiders is an investigative journalist at The Age and has reported extensively on wage theft, corruption, business, politics and the labour movement. A three-time Walkley Award winner, he has been part of The Age's investigative unit since 2015.

**Royce Millar**

Royce Millar is an investigative journalist at The Age with a special interest in public policy and government decision-making.

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Crown's bet on Heston Blumenthal leaves it with bad taste

THE AUSTRALIAN

Crown's bet on Heston Blumenthal leaves it with bad taste

EXCLUSIVEBy **DEBORAH CORNWALL**, JOURNALIST

8:37PM FEBRUARY 12, 2020

An ugly break-up has prompted a furious response from Melbourne's Crown casino after the bosses of its failed five-star eatery, Dinner By Heston, tried to blame the gaming giant for their own "serial mismanagement".

Dinner By Heston formally went into liquidation on Wednesday after a NSW Federal Court judge found the restaurant — formerly fronted by world-renowned chef Heston Blumenthal — owed at least \$10m, including \$4.4m to staff.

Judge David Yates accepted an administrator's evidence that the foreign-registered eatery was insolvent and had no prospect of repaying its debts after Crown decided to evict it from its \$1-a-year tenancy agreement.

The eatery employed 50 chefs at its height but it has been plagued by scandal over the past year after the Fair Work Ombudsman found it had underpaid staff, forcing them to work 20 to 30 hours a week unpaid.

The restaurant, which trades under an arm of Britain-based Topsy Cake, opened fire on Crown on Tuesday in a statement accusing the casino operator of sharing responsibility for the underpayment scandal and refusing to help work on a solution "in the best interests of staff".

But Crown said the restaurant had only itself to blame. After opening to much fanfare in 2015, the restaurant failed from the start to turn a profit, churning through five managing directors who failed to turn it around.

"It is disappointing Topsy Cake continues to abrogate their responsibility for paying their staff correctly," a Crown spokesman told The Australian in a statement. "To assert that Crown is complicit in the actions of the UK owners is fanciful."

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Crown's bet on Heston Blumenthal leaves it with bad taste

Crown paid a staggering \$15m for the fit-out of the restaurant — part of its pitch to add global star Blumenthal to its line-up of celebrity chefs.

The casino operator also agreed to pay Blumenthal £1m a year for intellectual property rights, which included the understanding he would be a regular fixture at the restaurant.

But sources close to Crown said Blumenthal made only a handful of visits to Melbourne, and even then he was often distracted by other commitments such as “flogging Blumenthal’s Everdure barbecues” or cameo appearances on MasterChef.

“He’s a creative genius but it was unbelievable,” one source said.

The Australian also understands Blumenthal insisted Crown fly him and his entourage first class and put them up in its premium suites, including the Crown’s \$4500-a-night Crystal Villa.

DEBORAH CORNWALL, JOURNALIST

Deborah Cornwall is an award winning journalist, specialising in crime investigations and court reporting. She has worked as a national broadcast reporter, producer and writer for media organisations across the... [Read more](#)

5/26/2020

Heston restaurant owners blame 'partner' Crown for underpayment scandal

The Sydney Morning Herald

EXCLUSIVE BUSINESS WORKPLACE WAGE SCANDAL

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Heston restaurant owners blame 'partner' Crown for underpayment scandal

By [Ben Schneiders](#) and [Royce Millar](#)

February 10, 2020 – 11.09am

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The owners of the Dinner by Heston restaurant in Melbourne have directly blamed Crown Resorts for its role in an underpayment scandal at the high-end eatery, saying the casino company was more than simply a landlord, it was a "partner" in the failed business.

The restaurant, which is fronted by world-renowned chef Heston Blumenthal, will not trade beyond this Friday night after it went into provisional liquidation owing employees in excess of \$4 million from underpayment and more than \$400,000 in entitlements. It is expected to be put into liquidation by the Federal Court this week.



The Heston Blumenthal-fronted restaurant is set to close this week WAYNE TAYLOR

5/26/2020

Heston restaurant owners blame 'partner' Crown for underpayment scandal

The British-based arm of Dinner by Heston, a company called Topsy Cake, released a statement to *The Age* and *The Sydney Morning Herald* saying Crown was significantly involved in the underpayment scandal that has led to the imminent demise of the restaurant, and ignored attempts to address the problem. Crown disputes the claims.

"As a foreign company, Topsy relied from the outset on the advice given by advisers in Australia and our partner Crown Melbourne, who were responsible for advising on the staff remuneration blueprint for the restaurant," a Topsy Cake spokesperson said.

"As the financial effect became clearer, including the discovery that there were also significant overpayments of superannuation to some staff, Topsy Cake tried to discuss constructively with Crown, to work together to find a solution which would be in the best interests of staff.

"Regrettably Crown has not engaged with us or agreed to any proposal which was tabled in order to remediate the employees," the statement says.

"This is a complex issue and one that has affected a large number of industries and companies across Australia."

Topsy Cake, based in the Caribbean tax haven of Nevis, said it did not have the resources to pay its employees what it owes them. Blumenthal is no longer a shareholder in the business and restaurants that bear his name, though the company itself says he remains linked as chef patron and is "integral" to their operation. He is paid by another part of the empire, the British-based Fat Duck Group.

The company's insistence that Crown was a "partner" in the business rather than just a landlord reflects comments made in a creditors report by BRI Ferrier, which revealed Crown had offered a range of financial and administrative support to Dinner by Heston. BRI Ferrier said the arrangement was "best described as a joint venture".

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Heston restaurant owners blame 'partner' Crown for underpayment scandal

A Crown spokeswoman disputed the claims, saying Topsy Cake, trading as Dinner by Heston, was "a tenant of Crown. It was responsible for its own operations and employed its own staff."

"Topsy Cake has asked the court to appoint a liquidator, on the basis that it is insolvent. In these circumstances, Crown has taken steps to bring the tenancy to an end."

Crown was [charging the restaurant owner just \\$1 a year in rent while paying £1m pounds \(\\$A1.97m\) a year in license fees](#) to an obscure Irish entity that is related to a sprawling global network of companies that own the Blumenthal-fronted restaurants.

The problems for Dinner by Heston emerged after a *Sunday Age* investigation in late 2018 showed the Melbourne eatery had been significantly - and unlawfully - underpaying their staff, many of whom were working 20 to 30 hours a week unpaid.

What appears to have hastened the end of Dinner by Heston's Australian experiment was a subsequent investigation by the Fair Work Ombudsman and demands the restaurant repay staff.

Just before Christmas the company appointed BRI Ferrier. When Crown recently said it would terminate the restaurant's lease there was no way for it to trade on.

"Our main concern, now that the restaurant will have to cease trading, is our employees, and The Fat Duck group and Heston Blumenthal are actively involved in discussions with us to find a positive solution for them," Topsy Cake's statement said.

The dispute could result in legal action, with recent changes to the Corporations Act allowing landlords such as Crown to be included in any clawing back of employee entitlements, according to a legal expert.

The new laws targeted transactions that attempted to prevent, avoid or reduce payments of employee entitlements, said Natasha McHattan, legal director at the Australian Restructuring Insolvency & Turnaround Association.

The changes were primarily designed to target illegal phoenix activity, but there is potential that they could be applied to third parties such as landlords, she said.

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Ben Schneiders



Ben Schneiders is an investigative journalist at The Age and has reported extensively on wage theft, corruption, business, politics and the labour movement. A three-time Walkley Award winner, he has been part of The Age's investigative unit since 2015.

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Heston restaurant owners blame 'partner' Crown for underpayment scandal

**Royce Millar**

Royce Millar is an investigative journalist at The Age with a special interest in public policy and government decision-making.

5/26/2020

Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

brisbane times

EXCLUSIVE BUSINESS COMPANIES CROWN UNMASKED

This was published 3 months ago

Crown casino's 'Mr Chinatown' arrested and deported to China

By [Nick McKenzie](#)

February 7, 2020 – 10.34pm



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The Crown casino high-roller and junket partner known as “Mr Chinatown” - who is also a business partner of the Chinese president’s cousin - has been arrested and extradited to China for suspected money laundering and corruption.

Crown Resorts regarded Tom Zhou as a “very, very important person” and paid him tens of millions of dollars to lure high-rollers from China to Australia even though he was implicated in foreign influence operations, extortion, money laundering and had associations with drug and human traffickers.



"Mr Chinatown", Tom Zhou.

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Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

Zhou was detained in Vanuatu late last year but then flew to Japan and onto Fiji where he was detained again before being deported to China earlier this year as part of a longstanding international “red notice” arrest warrant. Fiji police confirmed on Friday that Zhou, a dual Australian and Chinese citizen, was held by immigration authorities before being flown to China.

His dramatic detention comes as his multi-million dollar gambling empire in Australia — built on the back of his dealings with Crown — is collapsing due to [media attention](#) and [investigations by the Australian Criminal Intelligence Commission](#). His arrest has also been noted by the Five Eyes intelligence community, sources said, and senior ministers had also been briefed, a source in Canberra confirmed.

Corporate records show Zhou was a business partner of millionaire Ming Chai, the cousin of Chinese president Xi Jinping. In Australia, Zhou set up a network of Chinese Communist Party influence organisations under the auspice of the Chinese Communist Party’s United Front operation and supported by the Chinese consulate in Melbourne, even though he was subject to a long-standing Interpol red notice.

According to court files and briefings from local and overseas security sources, Zhou also operated with the triads - Chinese organised crime groups which run money laundering, human trafficking and drug trafficking rackets in Australia and Asia and who have historically run casino high-roller tours known as junkets.



Ming Chai, cousin of Chinese President Xi Jinping.

Zhou’s activities ultimately drew intense attention from ASIO, as revealed in [an expose](#) by *The Age*, *The Sydney Morning Herald* and *60 Minutes* in 2019 that sparked a series of state and federal investigations.

His detention and extradition from Fiji appears to be a byproduct of intensive efforts by the Australian Criminal Intelligence Commission to attack organised crime groups who penetrated Crown and other casinos, forcing figures such as Zhou to move their operations overseas.

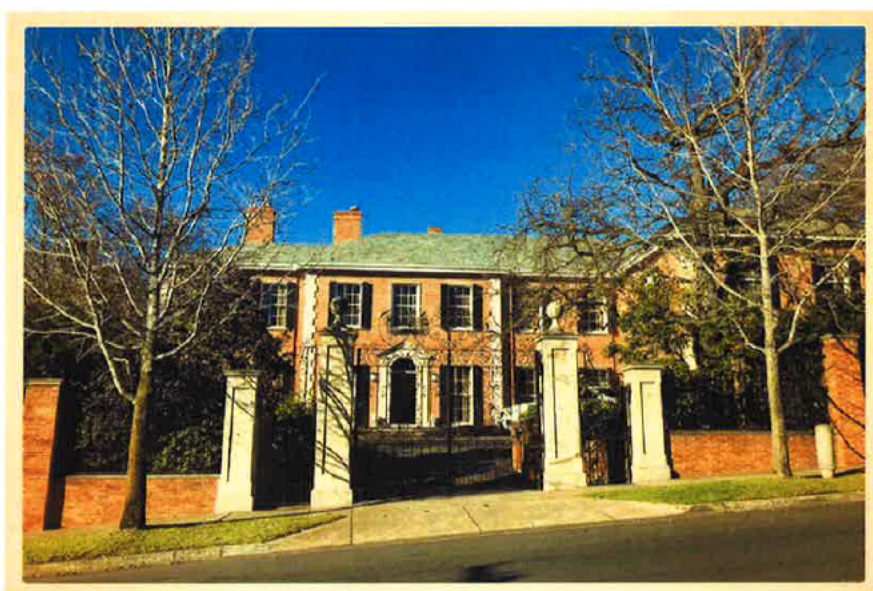
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Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

The ACIC's covert operations targeting industrial-scale money laundering was flagged by the agency's chief, Mike Phelan, last July, when he revealed it was "actively addressing the significant risks of money laundering through casinos, particularly through casino junkets".

But at the height of his powers, Zhou was flying around Australia with Ming Chai on private jets chartered by Crown or other Australian casinos. He donated \$26,600 to NSW Labor in 2015, met Victorian Premier Daniel Andrews at a 2012 function that Zhou helped host and, that same year, formed a business directed by the premier's former adviser Mike Yang.

Leaked casino files show Crown paid Zhou and his agents - who he controlled from his palatial Toorak home in Melbourne - tens of millions of dollars to lure high-roller gamblers from China. Crown paid Zhou's representative at its Perth casino \$28 million in a single financial year.



Tom Zhou's mansion in Melbourne's establishment Toorak.

Between 2012 and late 2016, Crown was keen to please Zhou and the high rollers he brought to Australia by [vouching for them through the visa process](#). In one leaked email, Crown staff prepare to vouch to Australian visa officials about a high roller on the basis that he was "referred by Crown VVIP Mr Zhou" and because "Crown staff ... has known Mr Zhou [for] more than 10 years".

Crown so valued its relationship with him that casino contractors told *The Age* and the *Herald* the casino agreed to let him run a boutique gift shop on its premises. Even after the relationship cooled in late 2016, Zhou earned commissions from Crown via his shadowy network of junket sub-agents.

Court files allege that Zhou had a second source of funds through suspected organised crime activity, including extortion and money laundering. He has been accused in various Chinese courts of extortion, standover tactics and even arranging for acid to be thrown in a man's face.

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Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

"The facts of a crime are clear and the evidence was reliable and sufficient," according to a 2013 court filing from the Intermediate People's Court of Wuhan. It also alleged Mr Zhou had been "misappropriating huge amounts of money" and had "absconded abroad." Although law enforcement agencies in Australia never charged Zhou, multiple sources said he likely laundered tens of millions of dollars through Crown.



Crown casino, Barangaroo RYAN STUART

The casino group has never fully explained why it partnered with Zhou when Chinese court records would have revealed he was suspected of serious organised crime and was a fugitive, having fled charges in China in around 2012.

Had Crown performed thorough due diligence on Zhou or his known agents or associates, it would have discovered many money laundering red flags. For instance, his business partner Ming Chai should have been marked by Crown as a "politically exposed person" because of his relationship to the Chinese President. Mr Chai's Australian wife still gambles regularly at Crown's high-roller room.

Australia's anti money laundering agency Austrac has warned casinos that "because [politically exposed persons] hold positions of power and influence they can be a target for corruption and bribery attempts, and ultimately for money laundering activities."

Chinese language newspaper reports in 2014 implicated Chai in serious alleged corruption. A Zhou business partner, Tian Di, who helped run his Crown high-roller junket tour operation, was also implicated in alleged corruption in China, according to court records.

It appears at least some in Crown suspected Zhou posed a reputational risk to the casino firm.

In around 2015, a senior Crown security executive helped arrange for a security firm that consults to Crown and is run by former policeman to work for Zhou. The executive wanted the firm to keep Zhou "out of trouble," according to one source

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Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

close to Zhou. This security firm's use of a serving policeman to work as a bodyguard for Zhou is being investigated by Victoria Police's ethical standards unit.

In around 2016, Crown banned Zhou from casino grounds due to his erratic behaviour (sources close to him say he was taking drugs, seeing prostitutes and prone to outbursts), but he was still able to run his high-roller business at the casino via sub-agents.

The task of finding out what Crown knew or should have known about Zhou has fallen to multiple inquiries now examining the casino firm's dealings with organised criminal groups.

In previous public statements, Crown's now former executive chairman John Alexander stressed that the firm complies with Australian anti-money laundering laws and maintained rigorous auditing procedures. Mr Alexander, who [stood down from his position](#) in January as part of the fallout from the *Age*, *Herald* and *60 Minutes* expose, also previously [attacked reporting about its relationship with Zhou](#) and other alleged organised crime figures as misleading and sensationalist.

Until his detention overseas, Zhou was heavily involved in three Australian organisations aligned with the Chinese Communist Party's United Front operation - the organisation which works to influence Chinese diaspora communities and overseas political systems to advance the aims of the Communist Party.

According to an online report, one of Zhou's organisations was "fostered" by the Communist Party's "Overseas Chinese Affairs Office of the State Council" and has "the strong support of the Melbourne Chinese Consulate" as it has strived to earn "the trust of the motherland" and the Chinese government.

Zhou's fate in China is likely to remain a mystery. Analysts have suggested that triads who engage in "patriotic" work for the Communist Party can receive special protection from the state.

**Nick McKenzie**

Nick McKenzie is an investigative reporter for The Age. He's won eight Walkley awards and covers politics, business, foreign affairs and defence, human rights issues, the criminal justice system and social affairs.

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Crown casino junk partner Tom Zhou, known as 'Mr Chinatown', arrested and deported to China

5/26/2020

Fast tracks and bulk deals: How Crown got visas for its high rollers

THE AGE

EXCLUSIVE POLITICS FEDERAL CROWN UNMASKED

This was published 3 months ago

Fast tracks and bulk deals: How Crown got visas for its high rollers

By **Nick McKenzie** and **Rob Harris**

February 10, 2020 – 11.30pm

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Crown casino's "special arrangement" with the Australian government gave Chinese high rollers access to fast-tracked Australian visas and allowed Crown itself to vouch for people's character, according to details released under freedom of information laws.

For 13 years, the Australian government allowed Crown to lodge bulk applications on behalf of Chinese nationals and then act as the middle man for applicants who hit a roadblock.



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Fast tracks and bulk deals: How Crown got visas for its high rollers

Crown casino, Melbourne. JASON SOUTH

The arrangement was set up under the Howard government in 2003 after "discussion between Ministers' offices at the time" and lasted until 2016, when the dramatic arrest of Crown employees in China in late 2016 prompted the Department of Home Affairs Mike Pezzulo to cancel the deal.

It first came to light last year after former [Crown Resorts employee Jenny Jiang blew the whistle](#) on the powerful organisation and alleged that Crown's desire to penetrate the lucrative Chinese market had been facilitated by Australian consulate staff in China.

The FOI documents reveal that the Australian government set up a single point of contact in the Australian Consulate in Guangzhou, where they could lodge bulk applications on behalf of Chinese nationals regardless of where they live.

Australian officials held frequent meetings with the company to fast-track visas for its "high roller" clients and a dedicated consulate official was nominated to liaise with Crown representatives on issues with applications as they arose to provide an opportunity for them to clarify any concerns.

In 2010, a new system was introduced involving checklists, which were completed by Crown representatives who were expected to vet applications "to ensure that applications are only presented for bona fide visitors" and that supporting documentation provided was "accurate and genuine".

"These representatives may also attest that they know the applicants personally," the agreement between Crown and the immigration department said.

The immigration department documents do not include any detailed discussions of the risks that the visa arrangement might unwittingly lead to, including breaching Chinese laws banning companies from gathering groups of gamblers to visit overseas casinos, and the limits in Chinese laws on how much money can be taken out of the country.

The Age and *The Sydney Morning Herald* have previously revealed that some of these risks were realised, with [leaked Crown files](#) showing the company sometimes relied on the word of organised criminals to vouch for the character of visa applicants. For instance, internal Crown emails reveal the casino company [used high roller agent, Tom "Mr Chinatown" Zhou](#), a suspected organised crime boss, to vouch for a number of high rollers as they sought Australian visas.

A federal law enforcement watchdog [launched an integrity investigation](#) following reports by *The Age*, *The Sydney Morning Herald* and *60 Minutes* last year on Crown's efforts to attract ultra-wealthy Chinese gamblers to its casinos in Melbourne and Perth, sometimes with the assistance of firms backed by powerful Asian crime gangs.



<https://www.theage.com.au/politics/federal/fast-tracks-and-bulk-deals-how-crown-got-visas-for-its-high-rollers-20200209-p53z1q.html>

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Fast tracks and bulk deals: How Crown got visas for its high rollers



"Mr Chinatown", Tom Zhou.

The documents reveal that, when a visa application was refused, the dedicated consular official "informs the Crown representative directly", which "allows Crown the opportunity to assist in explaining to applicants the reasons for refusal," the document says.

"Crown representatives are aware that calls are often made to clients to verify claims made the application and representatives should advise their clients that they might expect a call following lodgement of the application."

Regular meetings were also held between department officers and Crown representatives to discuss specific issues of concerns as well as "broader issues around the arrangements".

Asked about the arrangements, the department said recently its stakeholder agreement with Crown was the same as it has with "a number of large international organisations" to facilitate the quick visa processing of short stay visas.

"These arrangements always make it clear that applicants are subject to the full range of applicable checks," the department said. "All individual visa applications

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are assessed against legislative requirements. There is no reduced vetting in certain locations or for certain applicants."

It said the Australian consulates in China were "well aware of the risks that may be present in their caseloads" and that each visa applicant "must meet all requirements, including relevant national security and character criteria".

But Crown internal emails suggest Crown's vetting processes were poor and information it gave to immigration officials may have enabled those of poor character to enter Australia. The emails also reveal staff lobbied Australian officials to expedite the provision of hundreds of visas for junket operator, SunCity, which is accused of organised crime links.

"I will be asking the consulate to give these [applications] special and prompt attention," Crown's president of international marketing, Michael Chen wrote in a September 2014 email about helping SunCity obtain visas.

In another case, Crown intervened on behalf of a Chinese high roller, Chen Rongsheng, who had a criminal conviction for insider trading. Crown's Mr Chen told Australian visa officials in Guangzhou that their client was "one of [our] key target patrons" who would be part of a group of punters prepared to gamble millions of dollars at Crown.

In late 2014, Mr Chen, Crown's then-president of international marketing, wrote to colleagues advising them about when Crown should "activate the emergency line" to Australian immigration officers. It was to be used "only for critical cases (i.e. big customers)" and not "last minute girlfriend additions".



Nick McKenzie



Nick McKenzie is an investigative reporter for The Age. He's won eight Walkley awards and covers politics, business, foreign affairs and defence, human rights issues, the criminal justice system and social affairs.



Rob Harris



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Crown in due diligence push as junket scandal hits VIP business

The Sydney Morning Herald

BUSINESS COMPANIES GAMING & WAGERING

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Crown in due diligence push as junket scandal hits VIP business

By [Patrick Hatch](#)

February 19, 2020 – 5.36pm



Crown Resorts' newly installed chairwoman Helen Coonan says the casino group's due diligence procedures are being "significantly improved", as it faces a rout in high-roller turnover triggered by revelations it partnered with [junket tour operators linked to organised crime](#).

The James Packer-controlled company revealed a 34 per cent dive in VIP turnover in the six months to December 31, which drove a sharper than expected fall in underlying profitability.



Crown's gambling turnover fell 34 per cent to \$13 billion, while group-wide normalised revenue was down 5 per cent to \$1.4 billion. DANIEL POCKETT/GETTY IMAGES

Crown blamed the drop on weak high-roller market conditions and "negative publicity" stemming from revelations by this masthead the casino giant went into business with "junket" operators with links to organised crime in an effort to bring wealthy Chinese gamblers to its Australian casinos.

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Crown in due diligence push as junket scandal hits VIP business

Those and other probity and regulatory issues will be examined by a [NSW gambling regulator inquiry](#) over the coming months.

Ms Coonan, a former Howard government minister who took over as chair from long-standing Packer-family lieutenant John Alexander in a reshuffle three weeks ago, said the company was taking steps in "recognition that everyone in this business can do better".

That included putting more senior managers in critical areas and bringing in experts to look at anti-money laundering controls. It has also hired former NSW deputy police commissioner Nick Kaldas to help with due diligence and communication with law enforcement agencies and regulators.



Crown's newly installed chairwoman and CEO, Helen Coonan and Ken Barton. EAMON GALLAGHER

"That was then - whatever that was - and that will be the subject of the inquiry, and we are focused on the future of this very significantly improved scrutiny and due diligence around all of our business operations," Ms Coonan said.

Crown's new chief executive Ken Barton said pressure on its VIP business was compounded by the coronavirus outbreak and resulting China travel ban, but did not issue a trading update.

Mr Barton said the impact had also flowed onto its main gaming floor, as people avoided its casinos for fear of infection.

"The uncertainty of exposure in public places has probably meant that people are just being more cautious," he said.

Like other China-exposed stocks, Crown shares have fallen sharply as the coronavirus crisis spread. They closed flat at \$11.76 on Wednesday.

Despite the challenges of the high-roller business, Mr Barton remained upbeat about the prospects for the VIP-only casino it is building in Sydney and which is due to open early next year, noting that the local high-roller market was a growing opportunity.

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Using "normalised" figures - which applies a long-term win rate to its gambling turnover, to strip out the impact of lucky or unlucky streaks by its high-stakes customers - Crown reported an 11 per cent fall in net profit after tax to \$173 million, below market expectations of \$196 million.

On a statutory basis, including a more favourable than usual win rate in VIP gambling, Crown's net profit increased 25 per cent to \$218 million.

Crown declared an interim dividend of 30¢, flat on the same period last year.

Shares closed down marginally at \$11.76.

**Patrick Hatch**

Business reporter at The Age and Sydney Morning Herald.

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A very important probe for Crown's VIP business



FINANCIAL REVIEW



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A very important probe for Crown's VIP business

The outcomes of the NSW inquiry into Crown and the casino sector will be crucial for its new VIP-only Sydney casino.



Feb 24, 2020 - 12.00am



Crown Resorts' new dynamic duo are determined to put on a brave face ahead of the first public hearings of the NSW Independent Liquor and Gaming Authority's inquiry into the state's casino sector, [which starts on Monday](#).

Chairman Helen Coonan, who replaced executive chairman John Alexander just a few weeks ago, says the casino giant has been "very encouraged by the notion that the whole regulatory settings can be examined during this inquiry".

New chief executive Ken Barton was similarly pleased that inquiry head Patricia Bergin, SC, won't just be digging into Crown affairs in NSW, where it plans to open its new Sydney casino in the Barangaroo precinct in December.



<https://www.afr.com/chanticleer/a-very-important-probe-for-crown-s-vip-business-20200223-p543hs>

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A very important probe for Crown's VIP business



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The ILGA inquiry looms as crucial for Crown's Sydney casino. **Bloomberg**

"I think we will work co-operatively with them on looking at the regulation as it currently stands and looking at does it actually need to be more contemporary to deal with a change of circumstances," Barton said last week after releasing [Crown's December-half profit numbers](#).

But Crown's attempt at a small target strategy is probably wishful thinking.

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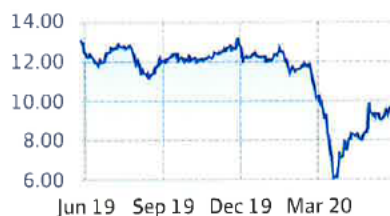
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While the probe will take a broad look at the regulatory settings of the casino industry, it's important to remember it was called to look specifically at two things: the purchase of a stake in Crown by Lawrence Ho's Melco Resorts, and allegations of the links between organised crime and the junket operators that bring VIP gamblers to Crown's casinos in Melbourne and Perth.

Along with news that ASIC is now also examining the Melco deal, the public has also been given a fresh reminder of these links via a new joint investigation by *The Age/The Sydney Morning Herald* and *60 Minutes* over the weekend.

The investigation probed [Crown's relationship with a Hong Kong-listed junket operator called Suncity](#), which has been accused of links with Asian crime gangs. Up until late last year, Suncity's VIPs had a special gaming room in Crown's Melbourne casino. Suncity has denied all allegations of probity problems.

(The newspapers and television program are properties of Nine Entertainment Co, the publisher of *The Australian Financial Review*.)

Potentially tricky territory

Junkets will be centre stage at the ILGA inquiry on Monday. Last month, counsel assisting the inquiry, Adam Bell, said the first round of hearings would examine "the vulnerabilities of casinos to money laundering and with anti-money laundering strategies. We will also explain what junkets are, the roles they perform with respect to casinos and identify their vulnerabilities to organised crime".

The only witness listed for Monday's hearings is Paul Bromberg, who will appear via video link from Bangkok. Bromberg is the senior vice-president of

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A very important probe for Crown's VIP business



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While it must be pointed out that Crown has strenuously defended its record on probity matters and its systems and processes, the casino group's relationships with junket operators are potentially tricky territory.

Barton admitted last week's profit numbers, which showed an 11 per cent fall in normalised profit for the December half (normalised numbers strip out the impact of luck), [were affected by the negative publicity surrounding Crown due to the probe.](#)

While the entire Asian market for massive VIP gamblers – or whales as they're colloquially known in the industry – was down more than 20 per cent during the period according to data for the region's casino capital of Macau, turnover from Crown's VIP program play plunged 34.2 per cent in the December half, and almost 40 per cent in Crown's biggest casino in Melbourne.

By comparison, VIP turnover at The Star Entertainment Group [rose 17 per cent during the period](#), although as Citi analyst Bryan Raymond points out, The Star was flattered by the fact the whales had an unusually lucky streak, meaning they kept playing for longer than they would have if the cards and dice had gone against them.

Crown didn't provide guidance for full-year earnings – it never does – but said trading had been soft due to the coronavirus and the ongoing weakness in the VIP business.

Extremely difficult

Depending on how the next few months unfold, it's even possible Crown might need to issue a profit downgrade. As Morgan Stanley points out, for Crown to hit consensus expectations for earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2020 full year, the casino group will need to achieve 4 per cent growth in the June half.

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trends of the December half suddenly turning around and Crown hitting that growth target.

Of course, none of this will come as a surprise to Crown investors, who are resigned to an extremely difficult June half.

Their eyes are firmly focused on December, when Crown is due to open the doors on its Crown Sydney hotel and casino at Barangaroo, ahead of a big-bang launch event in January 2021, timed for Chinese New Year.

The bull thesis around Crown is that when this property is fully ramped up, Crown's prospects are transformed. It will have a new source of earnings and cash flow, three world-class casinos in Sydney, Melbourne and Perth and an extremely strong balance sheet with next to no debt.

It will be a cash machine and a prime takeover target for an international player with deep pockets – and patient investors will get their reward.

But there are two shadows over this rosy vision. The first is the outcome of the ILGA inquiry, and the second is the state of the VIP market, given Crown Sydney is a VIP-only property.

The very worst-case scenario for Crown is that the inquiry finds something so extraordinary that it forces the NSW government to take away its licence.

But this seems extremely unlikely. First, Crown is a heavily scrutinised business operating in a heavily regulated industry, so finding something of that magnitude that regulators don't already know about would seem highly unlikely. And second, as several observers have pointed out, with more than 40 storeys of the Barangaroo casino out of the ground, and the tax revenue from the casino already baked into future NSW budgets, the state government is likely to remain highly pragmatic about a project of this magnitude.



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What's more likely are recommendations that require Crown to submit junket operators it works with to more rigorous screening and approval processes. Crown employees working in particularly sensitive areas – dealing with junket operators or anti-money laundering, for example – might also face a new probity regime.

Measures like this will make doing business with VIPs harder, and slower.

This matters for Crown Sydney given Citi's Raymond estimates about 27 per cent of the new casino's revenue will come from foreign VIPs.

But that business is tough and getting tougher; EBITDA from this market across Crown and The Star has fallen by about 40 per cent since its recent peak in 2018.

The two operators have argued this is actually a positive given the foreign VIP market operates at lower margins than their domestic businesses, mainly because of all the rebates and freebies given to the gamblers, and the commissions that must be paid to the junket operators.

And there's no doubt the VIP business is inherently volatile; not only can it be knocked around by factors such as trade tensions, corruption crackdowns in China and now the coronavirus, but the pool of big gamblers is so small – around 1500 people – that one or two more or less visits during a half can make turnover figures bounce around.

Still, Crown will be hoping the VIP trade does rise again as Crown Sydney opens its doors. Having a big pool of domestic VIPs is important, but getting those whales down from north Asia will also be crucial.

Another interesting question for Crown is where the table games segment is headed. Crown Sydney will be exclusively table games – that is, no slot machines – which means Barton will have watched the drop in table game play at Crown and the flat activity at Star in the December half closely.

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**FINANCIAL REVIEW**

That should mean room for Crown Sydney to grow into.

James Thomson is a Chanticleer columnist based in Melbourne. He was the Companies editor and editor of BRW Magazine. *Connect with James on [Twitter](#). Email James at j.thomson@afrc.com*

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Crown casino savaged for staying open during 'national security' crisis

The Sydney Morning Herald

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Crown casino savaged for staying open during 'national security' crisis

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By [Nick McKenzie](#)

March 20, 2020 – 3.30pm



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The deputy head of parliament's powerful national security committee has savaged the Victorian government for allowing Crown casino to keep operating during the coronavirus pandemic, saying the failure to shut it down might expose more people and prompts national security concerns.

The blast from Labor politician Anthony Byrne against his party's own state government came as Crown Resorts suspended its shares from trading until next Tuesday, or further announcement, while it is "continuing to work with the Victorian government" over its virus response.

Mr Byrne rubbished the description of Crown by the Victorian premier Daniel Andrews as a "unique" space that was entitled to remain open pending further advice, and described the decision to keep operating as "untenable".



<https://www.smh.com.au/national/crown-casino-savaged-for-staying-open-during-national-security-crisis-20200320-p54c3g.html>

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Crown casino savaged for staying open during 'national security' crisis



Crown casinos are staying open despite coronavirus concerns. JOSH ROBENSTONE

“Given this once-in-a-lifetime pandemic is a matter of national security requiring us to take all steps to protect our community, Crown and other casinos have to be shut down,” Mr Byrne said. “Crown doesn’t offer a unique community service. It is not a special place. It undermines confidence in government measures to contain the virus by giving Crown a free ride to remain open.”

Mr Byrne said he was “dealing with petrified emergency services workers – what do I tell them if they are infected by a person exposed to the virus they caught at the casino?”

He said state governments that allowed casinos to keep operating were applying a “blatantly inconsistent approach” in dealing with the health crisis and risked sending mixed messages to the public and businesses. “Why is there one rule for casinos and one rule for other businesses? Casinos are not an essential service,” he said.

The decision to allow the casino to stay open is in contrast to mass shut downs of casinos in Las Vegas, where authorities have closed the famed casino strip. On Wednesday, Nevada Governor Steve Sisolak justified the 30-day closure as “common sense.” In Macau – the world’s other major casino destination – casinos were shut down for 15 days in February to control the virus spread.

By contrast, in Victoria and Perth Crown is permitted to run its gaming rooms with every second poker machine turned off. In NSW and Queensland, Star Entertainment is restricting the opening hours of its gaming rooms to stem the spread of the virus, with its three casinos shuttered for four hours every morning to enable a “comprehensive cleaning process”.

Mr Byrne’s criticism will feed into the perception that Australian casinos wield significant political and regulatory sway.

On Friday a government spokesperson said the exemptions were “a matter for the Chief Health Officer. Crown is one of Victoria’s largest single-site employers with more than 12,500 working there.

Crown explained its decision on Friday to suspend trading in its shares by saying “it is continuing to work with the Victorian government in relation to the measures in place for Crown in response to the novel coronavirus ... pandemic”. It has previously announced “social distancing” policies to restrict the number of patrons in individual food and beverage, banqueting and conference facilities from 450 people to 100.

Crown critic and Monash University School of Public Health professor Charles Livingstone warned on ABC Radio on Thursday that the failure to shut down casinos may exacerbate the spread of COVID-19.

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Crown casino savaged for staying open during 'national security' crisis

"In my opinion poker machines are a high-risk vector for infection given they require people to regularly and repetitively touch buttons," Charles Livingstone said.

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Nick McKenzie



Nick McKenzie is an investigative reporter for The Age. He's won eight Walkley awards and covers politics, business, foreign affairs and defence, human rights issues, the criminal justice system and social affairs.

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Crown to shut gaming floor after losing social distancing exemption

THE AGE

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Crown to shut gaming floor after losing social distancing exemption

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By **Tammy Mills**

Updated March 21, 2020 – 6.11pm, first published at 3.31pm



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Victorian Premier Daniel Andrews said Crown was no longer exempt from social-distancing rules. AAP

Crown Resorts will close the main gaming floor at its flagship Melbourne casino after it was stripped of its exemption from social-distancing rules aimed at arresting the advance of coronavirus.

The Victorian government had provided Crown's Southbank casino complex with a controversial exemption from the rules limiting indoor gatherings to 100 people. The James Packer-backed casino giant offered its own suite of policies

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Crown to shut gaming floor after losing social distancing exemption

such as deactivating every second poker machine and limiting attendance numbers at restaurants, bars, ballrooms and conference facilities.

But Premier Daniel Andrews said on Saturday the chief health officer had revoked the exemption.

"We're not confident the measures that were in place and were appropriate are appropriate now," Mr Andrews said.

The revocation prompted the casino to inform staff on Saturday afternoon that it would close the main gaming floor. Smaller gambling rooms, such as the Mahogany Room, will remain operating.

Deakin University public health and gaming expert Samantha Thomas said Crown should have been playing by the same rules as everyone else from the start.

A former federal chief medical officer, John Horvath, and a former secretary for Commonwealth Department of Health, Jane Halton, both sit on the casino's board.

"This should have been implemented much earlier and the government should understand that pandemics trump gambling profits," Professor Thomas said.

Calls for the temporary shutdown of Crown's casino escalated this week after gaming giants around the world, including in Las Vegas, have moved to close their venues in response to the deadly pandemic.

Australian public health officials from every state and territory wrote to gaming ministers saying poker-machine venues often attracted older people who were at a heightened risk of illness or death from coronavirus, as well as people who might be unable to exercise rational decision-making to avoid venues due to addiction.

The deputy head of Parliament's national security committee also savaged the Victorian government for allowing Crown casino to keep operating.

Labor politician Anthony Byrne spoke out against his party's own state government, saying Crown and other casinos must close down.

The closure of Crown Melbourne, however, would have a damaging economic impact. The casino and hotel complex is Victoria's largest single-site employer in the private sector, with more than 12,500 staff. Crown is also a significant generator of revenue for the state government. In the last financial year, Crown paid tax to the state of Victoria of \$238 million.

ASX-listed Crown Resorts - which placed its shares in a trading halt since Friday amid "discussions" with government health officials - has been bracing for a heavy hit to its earnings. Restrictions on international air travel have drastically reduced patronage from its highest-spending gamblers - known as "whales" - who visit Australian casinos from China.

Crown's lucrative high-roller program revenue was already in sharp decline after an investigation by *The Age*, *The Sydney Morning Herald* and *60 Minutes* revealed

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it had partnered with tour agents backed by some of Asia's most powerful organised-crime syndicates.

In response to the coronavirus pandemic, two of the biggest casino giants in Las Vegas, MGM Resorts and Wynn Resorts, will this week close all their properties on the world-famous gambling strip.

"It is now apparent that this is a public health crisis that requires major collective action if we are to slow its progression," MGM chief executive Jim Murren said last week.

"Accordingly, we will close all of our Las Vegas properties as of Tuesday, March 17, for the good of our employees, guests and communities."

Comment was not immediately available from Crown.

Victoria's tally of coronavirus cases rose to 229 on Saturday after 51 new cases of coronavirus were confirmed overnight.

The new cases include 30 men and 19 women, with ages ranging from the early teens to late seventies. Two further cases are still being investigated by the Health Department.

The overwhelming majority of cases have been recorded in the metropolitan Melbourne. Twelve cases of COVID-19 have been detected in regional Victoria - five in Greater Geelong, and one each in Hepburn, Surf Coast, Warrnambool, Macedon Ranges, Mildura, Latrobe and Ballarat.

Overall, 51 people have recovered from the disease across the state.

So far almost every confirmed case has been an overseas traveller or someone who has been in close contact with a person already known to have been infected.

There are two confirmed cases of COVID-19 in Victoria that may have been acquired through community transmission.

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Tammy Mills



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