

9 APRIL 2020



## Crown Resorts Limited

### Legal and Regulatory Update

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#### CROWN RESORTS

##### *Class Action*

As previously advised, Zantran Pty Ltd, a shareholder in Crown issued class action proceedings in the Federal Court alleging that it suffered loss and damage arising out of and in consequence of Crown's operations in China during 2015 and up to the detention of Crown employees in China and an alleged failure to disclose information that was not generally available.

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The parties have also exchanged detailed evidence – Crown filed numerous lay witness statements, and evidence from two experts, one on Chinese law, and the other on market knowledge and quantum issues. The Applicant has now filed replies to that evidence, including two further reports from their Chinese law expert, and a report in response to Crown's evidence on market knowledge and quantum issues.

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In terms of next steps in the proceeding:

- Crown has challenged the admissibility of certain of the Applicant's china law evidence, with a hearing scheduled on that challenge on 22 April 2020;
- the experts are due to have a 'conclave' and produce a joint report in late April/early May;
- a second mediation is expected to be conducted by 30 June 2020; and
- the trial is listed for six weeks commencing 9 November 2020.

It is likely, although not certain, that some of the interim dates may be extended due to the current impact of COVID-19. However, at this stage, absent settlement, we think it more likely than not that the trial would proceed as scheduled in November, irrespective of COVID-19 issues.

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9 APRIL 2020

### *GST Matter*

As previously advised, this matter relates to the tax treatment of commissions and win and loss rebates paid to foreign patrons who attend Crown's casinos as junket participants. Crown is claiming a refund of GST paid to the ATO in respect of these commissions and win and loss rebates of approximately \$100 million.

The matter has been listed for hearing for 3 days from Tuesday, 9 June 2020 to Thursday, 11 June 2020. As a result of the COVID-19 situation, the Federal Court is not currently conducting hearings in person. The Federal Court has issued a general advice that it will be contacting parties shortly in relation to all hearings listed between now and 30 June 2020 to discuss all available options including conducting a hearing using technology such as Microsoft Teams. Crown has not yet been contacted by the Court but is open to conducting the hearing using videoconferencing technology and Crown's legal representatives have advised that they consider it a suitable matter to proceed using such technology.

On 13 March 2020, the matter was listed for directions before Justice Davies in the Federal Court. Programming orders were made at that time for the filing of submissions and various other pre-trial steps in the lead up to the hearing. Crown is continuing to undertake these pre-trial steps in order to be ready to proceed with the hearing on Tuesday, 9 June 2020.

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### **AUSTRALIAN RESORTS**

#### *Joint AML/CTF Program*

The new Group General Manager – AML continues to progress the implementation plan for the Joint AML/CTF Program and associated framework with the expectation that it will be progressively implemented during 2020.

Subject to the progress of the implementation of the Joint AML/CTF Program, Crown is planning to have an Independent Review of Part A of the Joint AML/CTF Program conducted during 2020 by a big four consulting/audit firm.

#### *AUSTRAC's Risk Assessment of Junkets*

Further to previous updates, the AML Team has now received a Confidential Draft of the "Junket Tour Operations in Australia: Money Laundering and Terrorism Financing Risk Assessment" from the AUSTRAC Risk Assessment team and we have been invited to review and provide comment. The Team is currently reviewing the Confidential Draft with a view to providing comment to AUSTRAC. The Team is also reviewing the Confidential Draft to analyse its findings against Crown's practices and what opportunities for enhancement are available.

9 APRIL 2020

*AML Sentinel Project (transaction monitoring automation)*

The AML and IT teams continue to focus on completing development of the Customer Intelligence dashboard for AML Sentinel and enhancements to existing dashboard counts and alerts introducing new functionality. It is expected that a number of the automated Sentinel Rules will be moved from the test environment to the live environment shortly after operations recommence in the business.

*Instrument and Payroll Compliance Review*

Detailed reports on progress on this matter have previously been provided to the Board. Work continues on the exercise of mapping positions identified as potentially misaligned with instrument or level of classification in conjunction with Counsel following which an assessment of whether any employees have been underpaid can be made. The process was expected to be completed towards the end of April 2020 however on account current circumstances, the outcome is likely be delayed.

Together with the review of salaried employees, Crown Melbourne and Crown Perth will also examine payroll compliance of employees covered by an enterprise agreement.

During the reporting period, Crown received an industry wide notification from the Fair Work Ombudsman relating to corporate compliance with workplace laws and, in particular, concerns over the underpayment of employees. In consultation with the Risk Management Committee and on advice from Deloitte and Counsel, Crown has written to the Fair Work Ombudsman advising of the mapping and payroll compliance assessment being undertaken by Crown. Crown has not yet received a substantive response from the Fair Work Ombudsman.

*IHG Trade Mark Matter*

IHG (through Six Continents Hotels) is the owner of the CROWNE PLAZA trade mark and Crown Melbourne is the owner of the CROWN brand (as used by the Crown Resorts group and licensees). IHG and Crown are in dispute in relation to the respective use of the CROWNE PLAZA and CROWN brands for hotel services.

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**CROWN MELBOURNE***Regulatory matters*

Crown Melbourne continues to remain engaged with the Victorian Regulator and Government on a proactive basis to address any regulatory issues associated with the shut-down.

9 APRIL 2020

*Allegations*

As the Board is aware, as a result of the various allegations raised by Nine/Fairfax/Wilkie, there are a number of regulatory actions taking place. REDACTED - PRIVILEGE

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Mr Wilkie also made 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.

*AUSTRAC Compliance Assessment*

AUSTRAC commenced its scheduled AML/CTF Program Compliance Assessment on Crown Melbourne in September 2019 which focused on Politically Exposed Persons and High-Risk Customers active at Crown Melbourne during FY16 and FY19. Crown Melbourne has duly responded to AUSTRAC's request for information.

AUSTRAC was originally scheduled to carry out its onsite review as part of the Assessment from 31 March 2020, however shortly before that date, AUSTRAC advised that it would put the onsite visit on hold due to the COVID-19 measures that were about to come into effect. AUSTRAC has sought confirmation from Crown that there would be an AML team presence and availability during the interim period for follow-up questions and/or clarifications on the information submitted previously.

*Dinner by Heston Blumenthal*

Tipsy Cake Pty Limited (**Tipsy**), the operator of Dinner by Heston Blumenthal is now in the process of being wound up. Crown has re-taken possession of the premises and terminated all the relevant contracts (the Lease, the Commercial Agreement and the Intellectual Property Licence).

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Crown has been dealing with the Liquidators regarding the winding up of the restaurant's operations.

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*Building Cladding Issue – Crown Melbourne*

Work progresses in relation the various workstreams previously identified in relation to this matter with regular reports being provided to the Risk Management Committee.

9 APRIL 2020

**CROWN PERTH***Regulatory matters*

Crown Perth continues to remain engaged with the WA Regulator and Government on a proactive basis to address any regulatory issues associated with the shut-down.

*Cashless – Use of EFTPOS*

The implementation plan for the use of EFTPOS (debit only) within the casino plan was referred to Crown Resorts Responsible Gaming and Crown Resorts Risk Management Committees, who have determined it is appropriate to defer implementation to a later date.

Due to the date of the Gaming and Wagering Commission of WA's (**Commission**) approval for use of EFTPOS (debit only) approaching 12 months (and likely to be further extended due to the implementation date being deferred), the Department of Local Government, Sports and Cultural Industries has advised that Crown Perth will be required to re-engage with the Commission prior to implementation.

*Crown Towers Perth Residual Land – Sale and Development Agreement*

On purchasing 5.823 hectares from the State to develop Crown Towers Perth in 2013, the Agreement for Sale and Development of Land (Sale and Development Agreement) required Crown to commence development of the undeveloped residual land (approximately 3 hectares) by no later than September 2020 and for all development on the land to be completed by September 2028. In failing to meet this obligation, the State has the option to repurchase the undeveloped residual land at the original purchase price.

As Crown Perth has no current plans to develop this land, Crown representatives are continuing to progress discussions with the Premier and Minister for Gaming for an extension of time or removal of this requirement from the Sale and Development Agreement.

**CROWN SYDNEY***Regulatory matters*

Members of Crown's regulatory and compliance, legal and gaming teams continue to engage with Liquor and Gaming NSW (**L&G**) on an ongoing basis to progress discussions and seek clarification on regulatory matters required to be approved prior to opening.

Key matters include surveillance camera locations and storage requirement for footage, approval of gaming equipment, Internal Control Manuals and Standard Operating Procedures, game rules, approval of the casino management system, liquor licensing, associate and special employee licensing requirements, determining a 'casino precinct', Responsible Gaming, marketing and promotion of the Restricted Gaming Facility and recruitment of VIP members prior to commencement of gaming operations. Relevant departments are engaged as required and kept updated on the progress of these matters.

A schedule of fortnightly meetings has been established, including monthly meetings in person with all key L&G personnel, managed by the Policy and Legislation section of L&G, which is overseen by Paul Sariban, Director of Policy and Legislation. During the disruption period resulting from COVID-19, the in-person meetings will occur by either phone or video conference.

9 APRIL 2020

*ILGA Inquiry*

On 3 April 2020, the Independent Liquor & Gaming Authority (**ILGA**) decided 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.

In its media announcement, ILGA said that the decision follows careful consideration of the current COVID-19 situation, Commonwealth and State Government advice and restrictions.

It is apparent from recent discussions with the Inquiry that it will essentially go into hiatus for an unspecified period, and will not be issuing new Summonses or materially progressing its discharge of the Terms of Reference during this period.

The Inquiry and its public hearings will resume promptly as soon as circumstances allow and updates regarding this and future timings will be announced publicly once determined.

As the Board is aware the subjects in focus for future hearings of the Inquiry are as follows:

Hearing	Themes
Hearing 1	Junkets, including policies and procedures for casinos as they relate to junkets and the regulation of junket activity, as well as the potential involvement of organised crime and criminal elements in junket activity.
Hearing 2	The sale of shares by CPH to Melco Resorts, including Crown's knowledge of and response to the transaction.
Hearing 3	The media allegations, including Crown's present and historical dealings with junkets and their representatives, and the Chinese detentions.
Hearing 4	The suitability of Melco and persons related to Melco to be close associates of Crown Sydney Gaming Pty Limited
Hearing 5	Future regulation of the casino industry including best practices both nationally and internationally

The effect of deferral on the current workstreams is set out below:

- The Summons issued to Joshua Preston to give evidence will not be called upon until a date to be notified, such notice being no less than one month.
- The same position is to be adopted in respect of Mary Manos and the private hearing which was to occur on 8 April 2020 (which will be adjourned on the same basis).
- Production of documents in answer to outstanding Summonses is excluded from the deferral. Documents are to be continued to be produced to the Inquiry in accordance with the times set out in the Summonses (or as extended by order). The Inquiry has indicated that it will not be issuing new Summonses during the period of the deferral.
- Management continues to work with MinterEllison and the Counsel team to facilitate compliance with outstanding Summonses and to progress work streams in preparation for future public and private hearings of the Inquiry.

As Directors are aware, in February 2020 Melco Resorts obtained judgment in the Supreme Court of New South Wales in respect of the maintenance of certain privileges, including legal professional privileges, by the Inquiry. Melco subsequently lost on appeal and has now made an application to the High Court for special leave to appeal the decision of the Court of Appeal. The special leave process can take many months to resolve, but will progress even while the Inquiry is deferred.

Since the Court of Appeal issued its judgment in March 2020, the NSW Government has announced that it intends to introduce a Bill 'to clarify that the powers given to the Hon. Patricia Bergin SC are equivalent

**9 APRIL 2020**

to that of a Royal Commissioner and have the effect of abrogating legal privilege.' This is unlikely to be addressed until at least when NSW Parliament resumes sitting.