



VICTORIAN CASINO AND GAMING AUTHORITY

***FIRST TRIENNIAL REPORT  
OF INVESTIGATION INTO THE  
“CASINO OPERATOR AND LICENCE”***

***UNDER SECTION 25 OF THE  
CASINO CONTROL ACT 1991***

*30 June 1997*



VICTORIAN CASINO AND GAMING AUTHORITY

30 June 1997

The Hon Roger M. Hallam  
Minister for Gaming  
Level 3  
1 Treasury Place  
Melbourne 3002

Dear Minister,

In accordance with the provisions of section 25 of the *Casino Control Act 1991*, I present the first triennial Report of the Victorian Casino and Gaming Authority relevant to its investigations into the Casino Operator and Licence.

Yours sincerely

A handwritten signature in cursive script that reads 'John C. Richards'.

**JOHN C. RICHARDS**  
Chairman

Level 5  
35 Spring Street  
Melbourne  
Vic 3000  
PO Box 1988R  
Melbourne  
Vic 3001

Tel 03 9651 3333

Fax 03 9651 3777

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## *1. INTRODUCTION*

Crown Limited (formerly Crown Casino Ltd) ("Crown") was granted a casino licence under the *Casino Control Act* 1991 ("the Act") on 19 November 1993. It commenced casino operations at the temporary Melbourne Casino at the Galleria ("the Galleria Casino") on 30 June 1994. Casino operations were transferred to the permanent Melbourne Casino at Southbank ("the Melbourne Casino") on 8 May 1997.

In accordance with the provisions of section 25 of the Act, the Victorian Casino and Gaming Authority ("the Authority") has conducted an extensive investigation of the casino operator and the casino licence. The Authority has considered all of the matters raised in that investigation, both individually and collectively.

The Authority hereby reports its findings and opinion, and the reasons therefor.

## 2. STATUTORY REQUIREMENT

Section 25 of the Act requires the Authority to conduct regular investigations of the casino operator and the casino licence, as follows:

*"25. Regular investigations of casino operator's suitability, etc.*

- (1) Not later than 3 years after the commencement of operations in a casino, and thereafter at intervals not exceeding 3 years, the Authority must investigate and form an opinion as to whether or not -
  - (a) the casino operator is a suitable person to continue to hold the casino licence; and*
  - (b) it is in the public interest that the casino licence should continue in force.**
- (2) The Authority must report its findings and opinion to the Minister, giving reasons for its opinion and must take whatever action it considers appropriate in the light of its findings."*

In the Second Reading Speech on the Casino Control Bill in the Legislative Assembly on 24 April 1991, the then Minister for Major Projects said:

*"Once a casino licence is granted, the Casino Control Authority is required to investigate the casino at least once every three years. In its investigation the Authority is to consider whether the casino operator is a suitable person to continue to hold the licence and whether it is in the public interest that the licence remains in force."*

The expression "suitable person", the criterion for investigation set out in section 25(1)(a) of the Act, is not defined in the Act. Section 9 of the Act, however, provides as follows:

*"9. Matters to be considered in determining applications*

- (1) The Authority must not grant an application for a casino licence unless satisfied that the applicant, and each associate of the applicant (as defined in section 4), is a suitable person to be concerned in or associated with the management and operation of a casino.*
- (2) In particular, the Authority must consider whether -
  - (a) each such person is of good repute, having regard to character, honesty and integrity;**

- (b) *each such person is of sound and stable financial background;*
- (c) *in the case of an applicant that is not a natural person, the applicant has, or has arranged, a satisfactory ownership, trust or corporate structure;*
- (d) *the applicant has or is able to obtain financial resources that are adequate to ensure the financial viability of the proposed casino and the services of persons who have sufficient experience in the management and operation of a casino;*
- (e) *the applicant has sufficient business ability to establish and maintain a successful casino;*
- (f) *any of those persons has any business association with any person, body or association who or which, in the opinion of the Authority, is not of good repute having regard to character, honesty and integrity or has undesirable or unsatisfactory financial resources;*
- (g) *each director, partner, trustee, executive officer and secretary and any other officer or person determined by the Authority to be associated or connected with the ownership, administration or management of the operations or business of the applicant is a suitable person to act in that capacity."*

The Authority has determined to be guided by the definition in section 9, in determining whether the casino operator is a suitable person under section 25(1)(a).

Section 3 of the Act defines "*public interest*" or "*interest of the public*", the criterion set out in section 25(1)(b) of the Act, to mean:

*"public interest or interest of the public having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations;"*

### 3. *EXTENT OF THE INVESTIGATION*

The Authority has sought and obtained legal advice in respect of the scope and form of the investigation process under section 25 of the Act, from Mr D.J. Habersberger QC and Mrs S.M. Crennan QC, and has also sought advice from the Auditor-General, Mr Ches Baragwanath.

Mrs Crennan QC advised in respect of the proper construction of the terms used in section 9 of the Act, as follows:

#### *Suitable person*

*“ ‘Suitable person to continue to hold the casino licence’ in Section 25, in my opinion, should ... be construed to mean a person who is both ‘fit and proper’ and ‘operationally capable’.*

*Accordingly any matter relevant to a person being:*

- (a) fit and proper; and*
- (b) operationally capable;*

*may be taken into account in determining whether a person is a ‘suitable person to continue to hold the casino licence’ under the provisions of Section 25.”*

#### *Reputation*

*“Innuendo and rumour are matters which go to ‘reputation in fact’ ... To ensure that real (or actual) issues are not clouded by innuendo and rumour it is appropriate to investigate innuendo and rumour to see whether such have a basis in fact. In the absence of a proper factual basis, innuendo and rumour cannot in fairness be given any significant weight at all.”*

Mr Habersberger QC advised in respect of the extent of the investigation required by section 25 of the Act, as follows.

*“It is clear that the first limb of s.25(1) requires an investigation of the suitability of the casino operator, which includes its associates. This is a similar test to that laid down in s.9(1) of the Act, as amplified by the particular matters listed in s.9(2), and would have been applied by the Authority before it granted Crown Casino Ltd (“Crown”) its casino licence in November 1993. The first limb of s.25(1) is also virtually the same test as that specified in s.20(1)(d) as a ground for disciplinary action. In essence, one could say that s.25(1)(a) is a further attempt at “ensuring that the management ... of casinos remains free from criminal influence or exploitation” (see s.1(a) of the Act).*

*Therefore, in my opinion, the Authority need go no further than s.9(2)(a) to (g) for guidance as to what matters it would have to consider in forming the opinion required under s.25(1)(a) - whether the casino operator and its associates were still persons of good repute, having regard to character, honesty and integrity, whether they were still persons of sound and stable financial background, whether the casino operator still had a satisfactory ownership, trust or corporate structure, whether it still had adequate financial resources and sufficiently experienced staff, whether its business ability was such that it was maintaining a successful casino, whether there were any business associations with any persons or bodies who were not of good repute or who had undesirable or unsatisfactory financial resources and whether all relevant officers were still suitable persons to act in their particular capacities.*

*Understanding what is required by the second limb of s.25(1) is rather more difficult. A number of points can be made concerning its construction. First, the phrases "public interest" or "interest of the public" are defined for the purposes of the Act in s.3(1) thereof as meaning:*

*"[the] public interest or interest of the public having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations."*

*In my opinion, this definition of the phrase "public interest" is quite restricted compared to what it might have been thought to encompass without the enforced statutory guidance. It is limited to certain aspects of "casino operations" rather than a broader approach to the question of the "public interest".*

*Secondly, there can be no doubt that the subject matter of s.25(1)(b), whatever that may be, is not the same as that in s.25(1)(a) of the Act.*

*Thirdly, the distinction between casino operator and casino operations is to be found in the Act itself. Part 3 of the Act is concerned with the "Supervision and Control of Casino Operators", whereas Part 5 deals with "Casino Operations".*

*Next, the question for the Authority under the second limb of s.25(1) is whether "the casino licence" should continue in force, that is the licence of a particular casino operator, in this case, Crown. It is not a direction to the Authority to embark on the task of deciding whether or not there should be any, or any particular number of, casinos in Victoria. Moreover, the question is whether the licence "should continue in force", that is, whether or not there should be a licence.*



*The matters discussed in the last paragraph would lead to the conclusion that s.25(1)(b) does not require the Authority to consider whether Crown's licence should not continue in force because of an argument that excessive gambling at the Crown Casino is damaging the moral or social fabric of Victorian society or even the "economic development generally in the State" (see s.1(c) of the Act).*

*The first point which I wish to make is that to a large extent the Authority is free to determine for itself the procedure to be followed in conducting the investigation. No rules have been set out in the Act concerning how such an investigation is to be conducted. (See also s.92(5) of the Gaming and Betting Act 1994). Unlike ss.16 and 20, there is not even a reference to the Authority giving the casino operator an opportunity to make submissions and requiring the Authority to "consider any submissions" made. However, there is no doubt that whatever procedure the Authority decides to adopt, it must afford the casino operator natural justice."*

The Authority has considered the advice of Mrs Crennan QC and of Mr Habersberger QC, and has determined to accept the advices as providing appropriate guidance for its investigations under section 25.

#### **4. *METHOD OF THE INVESTIGATION***

In June 1996 the Authority established three Sub-committees (Probity, Financial and Operational) and three associated working parties, to conduct the investigation. It also advertised for public submissions on 28 and 29 June 1996, with a closing date for submissions of 30 September 1996. Two submissions were received and considered. All relevant matters brought to the attention of the Authority were investigated.

##### ***Probity Sub-committee***

The membership of the Probity Investigation Sub-committee comprised Authority Members:

**Mr Brian Church** (Mr Church retired from the Authority on 6 May 1997, but was involved in all relevant investigations until that date);

**Rev Robert Gribben**; and

**Mr John Walter** (Mr Walter retired from the Authority on 14 October 1996, but was involved in all relevant investigations until that date).

The membership of the Probity Investigation Working Party comprised the Manager, Licensing and Compliance, the Compliance Manager, Casino Control Branch (CCB), and two Licensing Officers.

##### ***Financial Sub-committee***

The membership of the Financial Sub-committee comprised Authority Members:

**Mr Henry Bosch**; and

**Ms Tina McMeckan**.

The membership of the Financial Investigations Working Party comprised the Casino Project Manager and the Manager, Commercial Compliance. The Financial Investigations Working Party was assisted in its work by external legal and financial accounting firms who were selected by competitive tendering.

### *Operational Sub-committee*

The membership of the Operational Sub-committee comprised Authority Members:

**Mr John Richards;**

**Mr Donald Swan;** and

**Dr Desmond Hore** (Dr Hore joined the Authority on 2 February 1997).

The membership of the Operational Investigations Working Party comprised the Director of Casino Surveillance (DCS), the Chief Casino Inspector (CCI), the Compliance Manager, CCB, and a Senior Casino Inspector.

## 5. ***THE TERMS OF REFERENCE AND METHODOLOGIES OF SUB-COMMITTEES***

The advice of the Auditor-General was sought with respect to the proposed Terms of Reference of each Sub-committee and, in a letter dated 13 June 1996, the Auditor-General advised that the Terms of Reference for all three Sub-committees were "*found to be sufficient to provide a sound basis for the review*".

The Terms of Reference for each Sub-committee were approved by the Authority on 18 June 1996.

The methodologies of each of the three Sub-committees were as follows:

### ***Probity Subcommittee***

- (a) To follow the relevant requirements of section 9 of the Act, as they applied to the granting of the casino licence, to establish whether or not the casino operator and each associate of the operator is a suitable person to be concerned in or associated with the management and operation of a casino, having regard to whether:
  - each such person is of good repute, having regard to character, honesty and integrity;
  - each such person is of sound and stable financial background; and
  - any of those persons has any business association who or which is not of good repute having regard to character, honesty and integrity or has undesirable or unsatisfactory financial resources.
- (b) To investigate issues discovered subsequent to the completion of probity investigations for the casino licence in September 1993, where new or further information has emerged or is discovered in relation to historic matters previously reported to the Authority, and where probity investigations for the casino licence are relevant to the Authority's overall assessment of the licensee or associates.
- (c) To investigate:
  - the casino licensee company;
  - any company with a shareholding of 5% or more in the casino licensee company;
  - any individual with a shareholding of 5% or more in the casino licensee company;
  - any individual or company who is an "associate", within the terms of section 4 of the Act, of the casino licensee.

The following strategies were adopted to effect the probity investigations:

- where relevant, review of matters or issues previously investigated in relation to the granting of the casino licence;
- liaise with Victoria Police for the conduct of criminal history and criminal intelligence investigations on subject individuals;
- conduct Australian Securities Commission (ASC) company and director searches through the ASC database;
- liaise with the ASC in relation to previous and current investigations into subject companies and individuals;
- liaise with the National Crime Authority in relation to subject companies and individuals;
- liaise where appropriate with local, interstate and international law enforcement, casino regulatory and government agencies;
- seek updated financial and personal information from subject companies and individuals;
- search of records held by the Federal Court of Bankruptcy;
- search of records held by the Australian Stock Exchange;
- investigate, all relevant matters or allegations previously known or discovered during the probity investigation process; and
- investigate matters of complaints against the casino operator contained in public submissions.

### *Financial Sub-committee*

- (a) To follow the relevant financial and commercial requirements of sections 9, 10 and 11 of the Act, as they applied to the granting of the casino licence, to establish whether or not Crown, and each of its associates, is a suitable person to be concerned in or associated with the management and operation of the Casino.
- (b) To establish whether there are any financial or commercial aspects of the casino operations which could damage the public confidence and trust in the credibility, integrity, honesty and stability of casino operations or Crown.

The scope of the financial investigations included the following:

- review Crown's financial performance against the projections in its successful submission and its prospectus forecasts;
- review Crown's actual and projected level of indebtedness and its relationship with its banking syndicate;
- assess the financial viability of the enlarged project and the financial capacity of Crown and its Sponsor Hudson Conway Ltd (Hudson Conway), to successfully complete the enlarged project;

- investigate Crown's internal records, including financial dealings between it and Hudson Conway and with:
  - Crown Management Pty Ltd (CMPL) (Casino Operation)
  - Hudson Conway Management Ltd (Casino Construction)
  - Carolinus Pty Ltd
  - Casino Entertainment Pty Ltd
  - The Domain Apartments (former BP House, Albert Park Road)
  - Melbourne Live Pty Ltd
  - Simply Entertainment Pty Ltd;
- check compliance of Crown and Hudson Conway with the various agreements/ Transaction Documents;
- assess the financial strength of shareholders in Crown with more than 5% (excluding significant funds management companies);
- investigate the method of funding the Capital Golf Club by Hudson Conway, said to be for the exclusive use of Crown's commission based players, and how the costs are to be recovered from Crown;
- investigate all related party transactions with:
  - Director related entities,
  - Other related parties, and
  - Additional related parties;
- investigate changes to Crown's corporate structure since the Casino Licence was granted;
- investigate any financial or commercial issues that are raised in public submissions;
- investigate the proposed acquisition by Crown of Crown Management Pty Ltd from Hudson Conway; and
- investigate any other financial or commercial matters, which become known or are discovered during the investigation process, that may be relevant to the purpose of the review.

The following strategies were adopted with respect to the financial investigation:

- review Crown's quarterly financial reports, and identify issues to be investigated;
- meet with Crown to discuss identified issues;
- investigate Crown's internal records (with external accounting assistance);
- review public submissions and analyse/investigate any financial or commercial matters raised, which are considered relevant;
- obtain financial information (such as quarterly financial reports) from Hudson Conway and Consolidated Press Holdings;
- liaise with ASC and ASX (in consultation with the Probity Working Party);

- prepare a scope of services/tender document for selection of an experienced consultant accountant to assist in the audit/inspection of Crown's financial records and in financial analysis;
- appoint a consultant accountant with audit/due diligence experience; and
- prepare a scope of services document for the selection and appointment of a consultant accountant to assist in the review of the proposed acquisition of CMPL.

### *Operational Sub-committee*

- (a) To follow the relevant requirements of section 9 of the *Act*, as they apply to the granting of the casino licence (so far as that section applies to casino operational investigations), to establish whether or not:
- Crown has the services of appropriate persons with sufficient experience in the management and operation of a casino; and
  - Crown has sufficient business ability and can maintain a successful casino.
- (b) To investigate the casino operator's performance in opening and operating the Galleria Casino and in opening and operating the Melbourne Casino, its operational efficiency and compliance with legislation, rules of games and the Internal Control Manual.

The following information and reports were analysed:

- Inspectors' day book entries;
- Inspectors' reports to the CCI and DCS;
- Monthly reports to the DCS by the CCI; and
- Monthly reports to the Authority by the DCS.

Patron complaints and reported serious violations of gaming rules and procedures were analysed. Liaison occurred with law enforcement bodies on matters relating to cash transaction reporting, the detection and prevention of money laundering, and on casino crime related matters.

Liaison occurred with Crown and reports obtained on matters such as its staff policies relating to occupational health and safety issues. A review was conducted of the Galleria Casino opening, its subsequent operation and decommissioning and the opening and operation of the Melbourne Casino. An investigation was also made of all matters of complaint against the casino operator.

## 6. THE PROCESS AUDITOR

The Authority determined that a Process Auditor should be appointed to overview the investigation. The Authority appointed Mr Ron Pitcher of Pitcher Partners as Process Auditor. Mr Pitcher was selected from a strong list of suitable candidates.

The Process Auditor's function was to facilitate and contribute to the investigation, by undertaking a programme of activities with the aim of ensuring the integrity of the process, including the following:

- (a) reviewing the three Terms of Reference (Operational, Financial and Probity), commenting on the completeness of the proposed process and recommending any necessary changes;
- (b) monitoring the activities of the three Working Parties (Operational, Financial and Probity) on an ongoing basis;
- (c) consulting with the three Sub-committees regarding the progress of the investigation;
- (d) reporting to the Authority on any matter of concern with respect to the process of the investigation and suggesting how such matters could be addressed;
- (e) attendance at meetings of the Authority when formal reports of the three Sub-committees were considered, and when it made its final decision on the investigation; and
- (f) providing a written report, on the procedural integrity of the investigation.

In his report dated 27 May 1997 on the procedural integrity of the investigation, the Process Auditor said that:

*"the review process was conducted in a manner which ensured procedural integrity".*

A copy of that report is Appendix A to this Report.



## 7. *PROBITY INVESTIGATIONS*

Probity investigations focused on the casino operator and the two major, non-institutional shareholder companies, other companies associated with those two major non-institutional shareholder companies, and individuals deemed in terms of section 26 of the Act to be directly or indirectly associated with the casino operator. The Crown corporate structure is set out as Appendix B to this Report.

In addition to the major shareholding companies, ASC checks were performed and material analysed in respect of 616 companies associated with directors of the casino operator and its two major shareholding companies. The two major shareholding companies and, where appropriate, their subsidiary companies, were examined in detail.

A total of 122 persons were identified as persons directly or indirectly associated with the casino operator ("associates"). Each associate was required, by a formal notice pursuant to section 26 of the Act, to provide comprehensive information about their personal, family, probity and financial affairs.

Thorough investigative checks were completed in respect of all 122 associates.

Additional independent checks were conducted in respect of 21 associates who-

- \* are either directors of Crown or of one or other of its two major shareholding companies; and
- \* may have the power to exercise a significant influence over or with respect to operations in the casino.

Probity investigations concentrated on-

- \* issues discovered subsequent to the completion of probity investigations for the casino licence in September 1993; and
- \* new or further allegations which emerged or further information which was discovered in relation to matters reported to and considered by the former Victorian Casino Control Authority prior to September 1993.

All matters which were referred to the Authority, or which were reported in the media or raised in State or Federal Parliament, together with any matters separately identified by the Probity Investigation Working Party which raised probity issues, were investigated and considered by the Authority in the course of this investigation.

There were three matters which the Authority determined should not be considered in forming its present opinion as to the suitability of the casino operator to continue to hold the casino licence. They were:

- allegations in the Supreme Court of Victoria of criminal conduct by Gleem Pty Ltd, a subsidiary of Hudson Conway concerning the proposed construction of the Capital Plaza project for the Gas and Fuel Corporation;
- allegations in Federal Court of Australia proceedings concerning the sale of a Coles Myer Ltd building in Carlton involving Amadio Pty Ltd, a subsidiary of Hudson Conway, and other parties; and
- allegations concerning the involvement by Consolidated Press Holdings Ltd (CPH) in the sale of an environmental engineering company to Australian National Industries Ltd (ANI) when CPH was a controlling shareholder in ANI.

In the Gleem matter, the Authority has maintained close liaison with the officer commanding and other senior officers of the Major Fraud Group, since the Victoria Police commenced its investigation of the allegations of criminal conduct.

The Authority obtained legal advice from Mr David Habersberger QC that it would be inappropriate and disruptive of due legal process for the Authority to embark upon its own separate inquiry into the alleged criminal conduct.

The CCB Compliance Manager has maintained close liaison with senior officers of the Victoria Police Major Fraud Group and has provided regular monthly updates to the Authority on the progress of the Police investigations. Major Fraud Group senior officers have informed the Authority that its investigations are unlikely to be concluded before the end of 1997. The Authority has therefore determined that it would not be appropriate for it to consider the material relating to the alleged criminal conduct as part of this investigation. For these reasons and on the advice of Mr Habersberger QC, the Authority has determined that the allegations regarding the Gleem affair would not form part of this investigation.

The Amadio proceeding is the subject of an appeal to the Full Court of the Federal Court. The decision on the appeal has been reserved and for that reason the Authority has determined that this matter should not be considered in this investigation.

The CPH/ANI matter is referred to in more detail below.

### *Senate Inquiry*

The Federal Senate Select Committee on the Victorian Casino Inquiry did not produce any evidence or information from which the nature of any allegations relating to the casino operator or its associates could be determined.

A letter was sent to a member of the Select Committee, Senator Ray, who had been reported as making comments in the Senate in respect of the Melbourne Casino, inviting the provision of information to the Authority relevant to its investigation. No relevant or substantive information was provided in response to that letter.

### *Four Corners Program No. 1*

On 18 March 1996, the ABC Television Four Corners program showed a report on Hudson Conway and Crown and referred to allegations of fraud and deception involving Hudson Conway. Issues raised in the program have been the subject of investigation by the Authority and were considered in the course of this review.

### *Four Corners Program No. 2*

On 7 April 1997, the Four Corners program showed a report on the Packer group of companies, and some senior executives of the Packer organisation. Apart from an allegation involving CPH and ANI, which has been the subject of an inquiry by Mr Robert Ellicott, QC, on behalf of ANI, all such allegations have been investigated by the Authority. As at the date of this report, Mr Ellicott's report has been received by ANI, but not yet released.

The Authority has determined not to consider the allegation involving CPH and ANI as part of this investigation, but to defer consideration until the release of the Ellicott report.

Except in the case of the three matters previously referred to in this section which, for the reasons given have not been considered in this investigation, the Authority is satisfied that, for the purpose of this review, all probity matters have been comprehensively investigated.

The Authority will consider these three matters upon the conclusion of current investigations or court process. If the Authority considers it appropriate in regard to any one or more of these matters, it will proceed to exercise its powers pursuant to the relevant provisions of the Act.

## 8. *FINANCIAL INVESTIGATIONS*

### *Corporate Structure of Casino Operator*

Crown changed its name from Crown Casino Ltd on 28 November 1994. It is a significant publicly listed company. At 31 March 1997, it had 13,635 shareholders and a share market capitalisation of \$1,327 million (\$1,381 million including rights and options). Following its subsequent one for six share issue, its market capitalisation on 16 April 1997 was \$1,648 million (\$1,669 million including options).

Following the early exercise of the Hudson Conway option over 74,535,970 shares on 3 March 1997, the major shareholders of Crown were: Hudson Conway (directly and indirectly) (39.25%), Bareage Pty Ltd (7.60%), National Nominees Ltd (6.06%), Westpac Custodian Nominees Ltd (3.76%) and Carlton and United Breweries Ltd ("CUB") (2.58%). Hudson Conway and CUB are two of the original three founding shareholders. The third founding shareholder, The Federal Hotel Group, sold its initial 10% interest (35 million shares) to Hudson Conway. Bareage is a wholly owned subsidiary of the CPH group.

On 30 August 1993, Crown appointed CMPL, a wholly owned subsidiary of Hudson Conway, as its "Operations Manager" to provide services in connection with the operation of the casino and ancillary facilities. This company employs the more senior executives involved in casino operations.

### *Financial Investigations*

The financial investigations showed that Crown has out-performed its Prospectus forecasts in its first two financial years of operation. The main reasons for this better than planned performance were the conservatism of the Prospectus forecasts, a greater than forecast number of visitors to the casino, and the increase in number of gaming tables permitted at the Galleria Casino from 130 to 200.

The financial investigations also confirmed that, because Crown had significantly enlarged the Melbourne Casino Project, there was a need to raise substantial new debt and equity funding. Debt has increased by \$440 million from \$460 million (\$310 million secured and \$150 million unsecured) forecast in the Prospectus to \$900 million (\$550 million secured and \$350 million unsecured) at 31 March 1997. Equity has increased from \$350 million (350 million shares at \$1.00 each) by the issue of a further 375 million shares which raised a further \$620 million, including the one for six issue which was completed on 21 April 1997.

In late 1996 Crown estimated that it would have sufficient funds, both from existing cash reserves and forecast cashflows from operating activities, to complete the Project. The Authority's consultants noted that the ability of Crown to complete the Project will depend on:

- "(a) the ability of Hudson Conway Management ..... to manage project costs;*
- (b) Crown's ability to raise further equity and/or debt, should it be necessary; and*
- (c) the financial performance of both the temporary and permanent casinos."*

Crown has subsequently raised \$307 million by the issue of a further 195.5 million shares at various prices (17.1 million shares in January 1997, 74.5 million shares in March 1997 and 103.9 million shares in April 1997), and successfully completed the Melbourne Casino.

Enquiries were made of a number of financial and corporate governance organisations as to Crown's performance. Each organisation's written response was considered by the Authority.

### ***Payments to the State***

Throughout the period under review, Crown has paid all amounts payable to the State as they fell due. On 19 November 1993, Crown paid the State \$200 million for the casino licence and committed to further payments amounting to \$80.9 million (additional casino tax of \$2.4 million per month for 24 months plus \$23.3 million on off-site works). On 12 October 1995, Crown committed to pay an additional \$111.1 million to the State.

In the two and a half years to 31 December 1996, Crown has paid Casino Taxes, Community Benefit Levies and the Supervision and Control Charges amounting to \$229.5 million. In the three months to 31 March 1997, a further \$21.1 million was raised from these taxes and charges. From 30 November 1996, Liquidated Damages of \$7.9 million were paid by Crown to the State, due to the delayed completion of the Melbourne Casino.

### *Acquisition of Operations Agreement*

Crown has sought the Authority's approval, (pursuant to clauses 22.1(q) and 22.1(p) of the Casino Agreement), to acquire CMPL together with its subsidiary Crown Management (Queensland) Pty Ltd (CMQ), from Hudson Conway. As noted above, CMPL holds the Operations Agreement for the Melbourne Casino.

Advice regarding the proposal was obtained from the Authority's legal advisers and consulting accountants. The Authority advised Crown that it would not make a decision on the matter, until it has received and reviewed the proposed report of the independent expert, to be commissioned by the independent directors of Crown, as to whether the proposal was fair and reasonable to shareholders.

On 22 May 1997, Crown advised the Authority that negotiations were still continuing and were not expected to be concluded for some time.

## 9. OPERATIONAL INVESTIGATIONS

Letters were sent by the DCS to a number of relevant organisations, inviting comment on various aspects of Crown's casino operations. All information received was considered as part of this investigation.

### *Review Summary*

The following matters were specifically investigated:

- Compliance with games rules and procedures;
- Patron complaints;
- Minors in the casino;
- Excluded persons;
- Crown management structure;
- Special employee licensing;
- Crown training;
- Occupational health and safety, counselling and staff amenities;
- Corporate approach and marketing;
- Crown Club;
- Electronic gaming machines and control of large jackpot systems;
- Gaming equipment;
- Galleria Casino;
- Melbourne Casino;
- AUSTRAC compliance;
- Crown Security and Service Department;
- Crown Surveillance Department;
- Commission based players;
- Cheque cashing facilities for patrons;
- Casino related crime;
- Gross gaming revenue;
- Controlled contracts; and
- Internal controls.

Since the opening of the Galleria Casino, the Authority has maintained a CCB presence, sometimes referred to as the Inspectorate, at the casino premises. It currently comprises 30 Inspectors who work shifts to provide 24 hour supervision of casino operations. The principal functions of the CCB are to monitor Crown's casino operations to ensure compliance with the Act, rules of games and approved procedures included in Crown's Internal Control Manual. The CCB also receives and investigates complaints from patrons.

## *Compliance with Games Rules and Procedures*

Investigations revealed seven significant incidents of non-compliance by Crown and its staff. All of those matters have been subjected to extensive investigation by the DCS. In one case concerning a breach of the rules of Baccarat, disciplinary action taken by the Authority in accordance with section 20 of the Act, resulted in a fine of \$5,000 being imposed on Crown. In other instances, Crown was requested to implement new procedures to prevent further breaches. Gaming staff involved in some breaches were issued with written warnings by the DCS. Crown's records reveal a number of daily minor breaches by dealers, which have been addressed to the satisfaction of the DCS.

## *Patron Complaints*

CCB Inspectors dealt with 540 patron complaints to 31 May 1997 of which 40 (7.4%) were resolved in favour of patrons. Many of the complaints which involved an element of doubt led to a favourable result for the patron.

## *Minors*

Shortly after the Galleria Casino opened, there were a number of incidents regarding young children left alone by their parents in cars in the casino car park. Prompt action by Crown and the Victoria Police overcame the problem. During the period from 30 June 1994 to 31 May 1997 an estimated 23 million persons attended the Casino. During this period, Crown refused entry to 11,278 minors or suspected minors.

A total of 106 minors were detected and removed from the casino during the above mentioned period. The CCB investigated all of these breaches and issued warnings to minors or excluded those persons for a period of six months after attaining the age of 18. Warnings were also issued to Crown staff who were inattentive in their observations at casino entrances. No instances of gross negligence were detected which warranted prosecution.

On two occasions, Crown permitted a baby to enter and remain in casino restaurants, which were included in the licensed casino boundary. On the first occasion Crown received a warning and on the second occasion, the Authority took disciplinary action and fined Crown \$15,000.

## *Excluded Persons*

As at 31 May 1997, 495 exclusion orders were in force with 19 excluded persons having been prosecuted for breaching exclusion orders.



### ***Licensed Special Employees***

As at 31 May 1997, there were 5,136 licensed casino special employees. The CCB has investigated all identified breaches of the Act by licensees detected gambling in the casino. The CCB initiated one prosecution, which resulted in a conviction and fine, and two other prosecutions are pending.

### ***Performance of Gaming Equipment***

Gaming equipment at both the Galleria and Melbourne Casinos has functioned in a manner which has ensured the integrity of gaming and fairness to players.

There have been reliability problems associated with the equipment on two casino games. For the first eight months of operation at the Galleria Casino, there was a problem with spokes breaking off "Big Wheels" but this was resolved with the installation of stronger spokes. A further problem involved malfunctions of Caribbean Stud jackpot equipment, which caused disruption of gaming for patrons for periods of between 10 and 30 minutes. Crown installed a new jackpot system at the Melbourne Casino to overcome the problem.

### ***Crown Security and Service Department***

This Department has the primary function of ensuring the protection of Crown's assets and the safety of patrons. A serious incident occurred at the Galleria Casino in November 1994, when a person drove his car through the glass doors at the main entry. There is no available evidence to indicate that Crown could have avoided this incident.

Crown's handling of behavioural matters involving patrons has been satisfactory. However, two patrons have lodged complaints of assault with the Victoria Police against two Security and Service officers. These matters have yet to be determined by the courts. One patron initiated a civil claim against Crown, which was resolved. Another patron has commenced a civil claim against Crown alleging unlawful detention by a Security and Service officer. This claim has not been determined.

The Security and Service Department has performed its functions in a satisfactory manner.

### *Cheque Cashing Facilities*

Crown is considered to have satisfactorily operated its Cheque Cashing Facilities with the exception of one incident. This matter concerned the non banking of a cheque from a patron within the specified time limit of 20 days. The matter did not impact on Gross Gaming Revenue or casino tax. The DCS determined that prosecution or disciplinary action was not warranted, as he was satisfied that Crown did not intentionally contravene section 68(7) of the Act.

### *Casino Related Crime*

The Victoria Police Casino Crime Unit (CCU), a division of the Gaming and Vice Squad, maintains a 24 hour presence within the casino premises.

CCU have advised that to 31 May 1997:

- they had processed a total of 683 offenders for 1068 offences;
- no incidents of money laundering had been reported;
- there was little evidence to suggest that drugs were possessed or trafficked inside the casino;
- one casino special employee was charged and convicted on a number of counts of obtaining financial advantage by deception and false accounting; and
- no prosecutions had been instigated for prostitution inside the casino;

Having regard to the number of patrons who have attended the Galleria and Melbourne Casinos and the number of casino special employees, the level of incidents of actual or alleged criminal behaviour is not considered to be excessive.

## ***10. FINDINGS***

It is the view of the Authority that Crown has effectively, efficiently and fairly conducted the operation of a major casino in its first three years of operations.

From a financial perspective, Crown has complied with all of its legislative and contractual arrangements with the State and with the Authority. Crown's financial resources are considered adequate to ensure its ongoing financial viability.

Having regard to the probity investigations, the Authority is satisfied that the casino operator and its associates are suitable persons to continue to be involved in the conduct of the casino.

From an operational perspective, Crown has satisfactorily operated the Galleria and Melbourne Casinos. It has engaged the services of sufficient appropriately experienced persons in the management and operation of the casino. Crown has developed and maintained sufficient business ability to conduct a successful casino, and has established and maintained, throughout the period under review, a high level of operational efficiency. Crown has also planned, developed and operated both the Galleria and Melbourne Casinos with all necessary security and operating systems in place and functioning satisfactorily.

The Authority is satisfied that the casino operator and its associates are operationally capable to be involved in the conduct of a casino.

The Authority is satisfied that, having regard to the criteria set out in section 9 of the Act, the casino operator is a suitable person to continue to hold the casino licence.

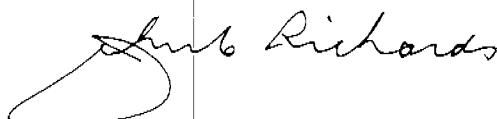
In considering the public interest, the Authority has had regard to casino patronage, the level of complaints by the public, the actual and alleged criminal offences associated with casino operation and the number of breaches of casino legislation, approved rules and procedures.

The Authority is satisfied that the Galleria and Melbourne Casinos have been operated in a manner which has engendered and continues to engender public confidence and trust in the credibility, integrity and stability of casino operations.

## ***11 OPINION***

The Authority has unanimously formed the opinion that in respect of the period under review:

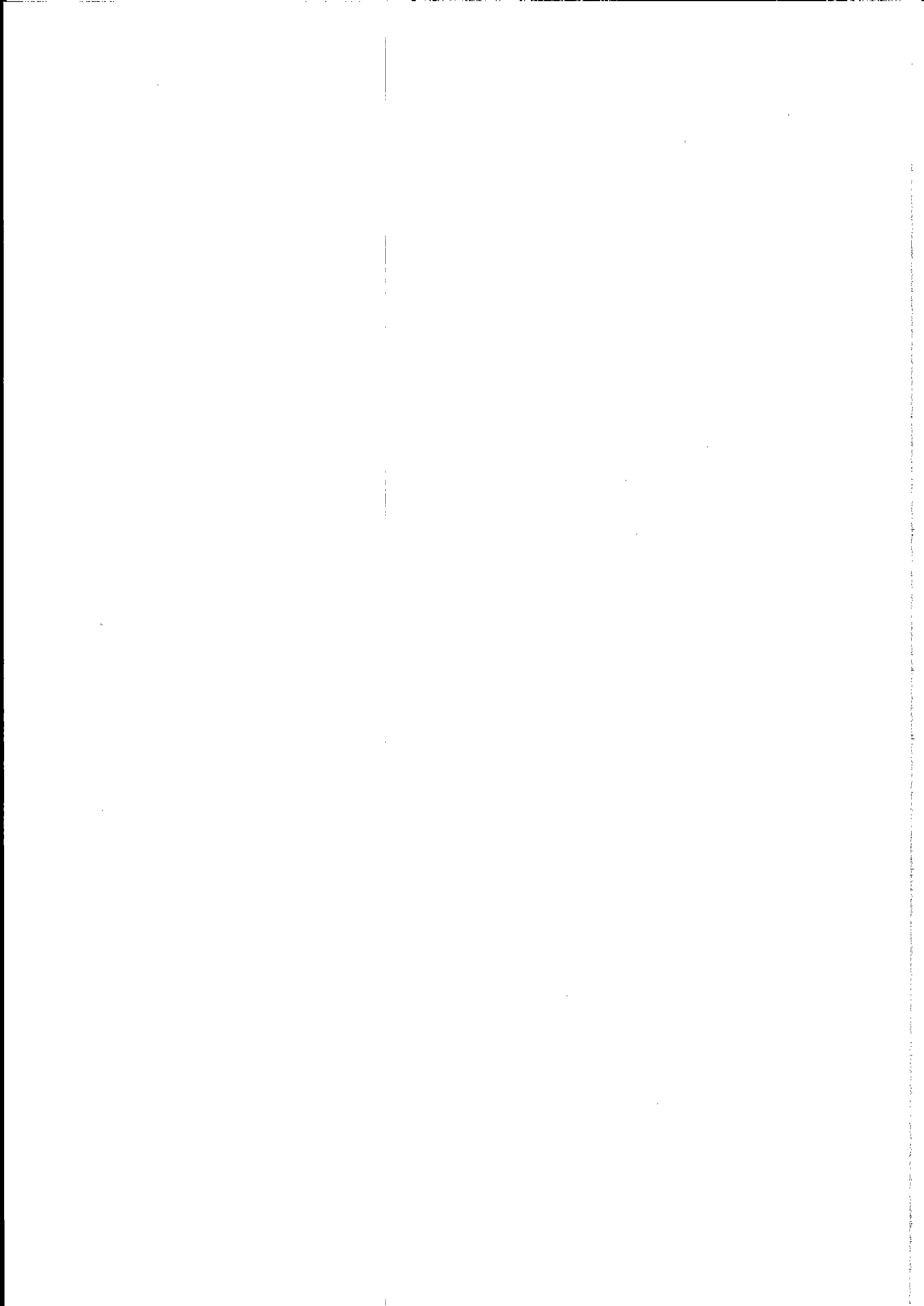
- (a) the casino operator is a suitable person to continue to hold the casino licence; and that
- (b) it is in the public interest that the casino licence should continue in force.



.....  
**JOHN RICHARDS**

Chairman

Victorian Casino and Gaming Authority





# PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

Level 6 161 Collins Street Melbourne Victoria 3000	Postal Address: GPO Box 5193 AA Melbourne Vic 3001 Australia	R G PITCHER G E WALSH K R HALL G E BLASHKI C J TATTERSON P T RILEY N J FLAVEL M W PRINGLE R CUMMINGS	T A JONAS S P CATLIN T J BENFOLD D B RANKIN A R FITZPATRICK I D STEWART R RIGONI G M RAMBALDI D A THOMSON
Tel 03 - 9289 9999 Fax 03 - 9289 9977	DX Address: DX 501 Melbourne		
Email: partners@pitcher.com.au			

RGP:jm

27 May 1997

## PRIVATE & CONFIDENTIAL

The Director of Gaming and Betting  
Victorian Casino and Gaming Authority  
Level 5 35 Spring Street  
MELBOURNE VIC 3000

Dear Sir

### PROCESS AUDIT - CASINO LICENCE REVIEW

We report having completed the process audit with respect to the procedural integrity of the review of the Casino Operator and Licence under Section 25 of the Casino Control Act 1991.

The three year review was conducted in the three areas of:

- Operations
- Financial
- Probity

Each of these areas was dealt with by separate working parties and sub committees appointed by, and reporting to, the members of the Authority.

The process audit was largely undertaken by our Mr R G Pitcher, and comprised of the following:

- A visit to and walk through of the Crown Casino at the Galleria World Trade Centre, with particular attention to control, supervision and security arrangements and procedures;
- A review of the Terms of Reference of each of the working parties;

- Monitoring the review process including discussions with each of the working parties;
- Access to files and documentation prepared by persons undertaking the review process;
- Attendance at some of the meetings of the sub committees;
- Monitoring the progress of the written reports of each of the working parties;
- Attendance at meetings of the Authority when it considered the formal reports of the sub committees and when it made its final decision on the review.

In our opinion, the Review Process was conducted in a manner which ensured procedural integrity.

Your faithfully  
PITCHER PARTNERS

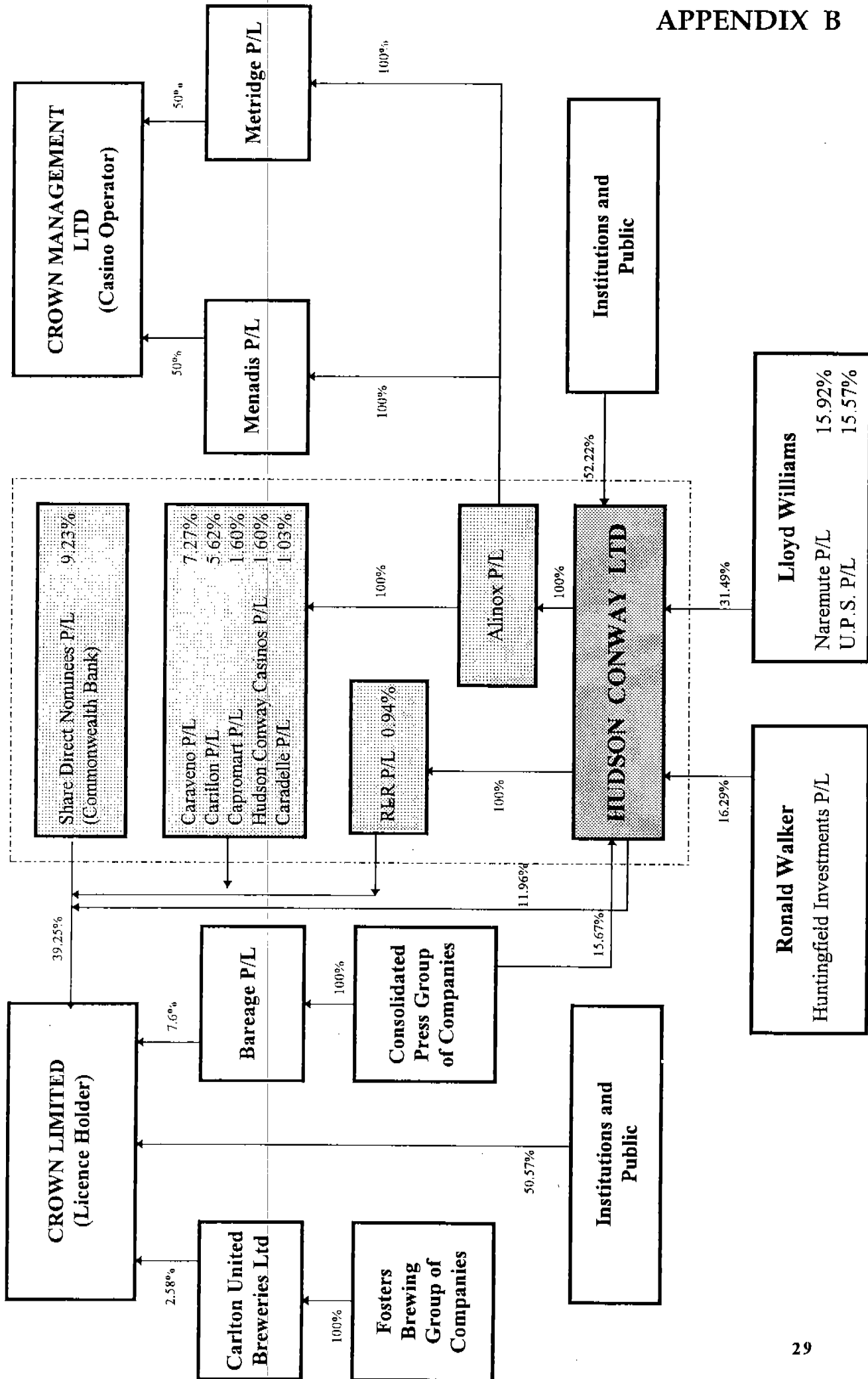


R G PITCHER

cc: Ms Sylvia Grobtuch

# CROWN LIMITED CORPORATE TREE

## APPENDIX B



Based on information  
as at 31/3/97



