

THE MACAU CONNECTION

Las Vegas Sands faces a criminal investigation into alleged unsavory business practices



REUTERS/BOBBY YIP

BY MATT ISAACS
BERKELEY, CALIF, MARCH 10

WHEN STEVE JACOBS joined Las Vegas Sands in 2009, the company was sinking.

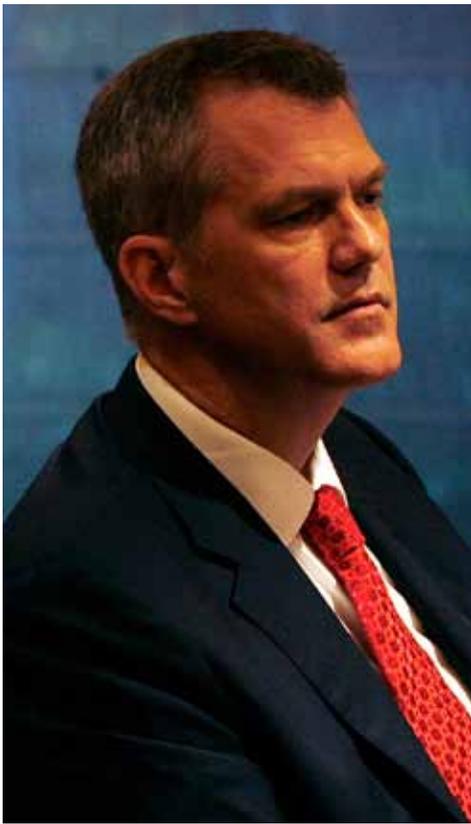
The Sands, which owns the Venetian resort, saw its stock price hit an alarming

low, below \$2 a share, around the time Jacobs, a 47-year-old Harvard graduate with a boyish face and close-cropped silver hair, took a job heading Sands China, which runs the company's Macau operations.

But over the course of the next year, Sands mounted a remarkable recovery, thanks in large part to Jacobs' leadership in Macau, a

gambling boomtown bigger than Las Vegas and 16 time zones ahead of the Strip.

"There is no question as to Steve's performance," Sands COO Michael Leven told the company's board of directors in early 2010, according to court records. "The Titanic hit the iceberg. (Jacobs) arrived and not only saved the passengers, he saved the ship."



FIRED: Sands China's then Chief Executive Steve Jacobs attends a media briefing in Hong Kong May 11, 2010. **REUTERS/BOBBY YIP**

The feel-good story, however, was not to last.

Within months, Jacobs was clashing with the company's CEO Sheldon Adelson over several issues, according to a legal complaint, including whether to hire more so-called junket operators who bring in high rollers. Jacobs says he objected, citing their corrupt reputation -- and last July, the company unexpectedly fired him effective immediately. Two security guards escorted him out of the casino without allowing him to gather his belongings, and then unceremoniously escorted him out of town, Jacobs alleges.

Today, Jacobs is firing on the ship he once saved. The former chief of Macau operations is suing Sands, and his description of unsavory business dealings in the lawsuit has touched off a criminal investigation.

Earlier this month, the company acknowledged it had received a subpoena for documents pertaining to possible violations of the U.S. Foreign Corrupt Practices Act, which bars U.S. corporations from bribing foreign officials. Not only are the Securities and Exchange Commission and Justice Department looking at Sands' actions, but the FBI has joined in.

A Reuters investigation in collaboration

"CASINO OPERATORS REGRET THE GROWING POWER OF 'JUNKET' OPERATORS IN MAINLAND CHINA THAT ACCOUNT FOR MOST OF THE MACAU CASINOS' EARNINGS."

with the Investigative Reporting Program at U.C. Berkeley has learned that casino executives, U.S. diplomats and the Chinese government share the concerns raised by Jacobs about Macau's booming junkets industry, which they describe as rife with organized crime.

An extensive review of court records, interviews with high-level federal officials, and State Department cables obtained by WikiLeaks and released to Reuters through a third party, reveal widespread corruption in a region that resembles a Chinese version of the early years of Las Vegas.

Among the Reuters-IRP investigation's findings:

- * The FBI has joined the federal investigation of Sands, prompted by the Jacobs allegations.

- * Sands has an internal background report on an alleged criminal figure who had financial links to the company.

- * Mainland China restricted visas to Macau based on its distress about the growing power of criminal groups, known as triads, in the region.

- * U.S. casino executives have discussed with U.S. diplomats the pervasive influence of the triads in the junkets for years -- yet nothing has changed.

Sands says that it has denied all allegations in the Jacobs lawsuit from the outset and on January 21 a subsidiary filed documents seeking to initiate a criminal complaint against Jacobs. It declined to provide a copy of the complaint.

The SEC and Department of Justice inquiries appeared to be a result of Jacobs' allegations in his wrongful termination lawsuit, Sands said by email to Reuters.

"Neither the SEC nor the Department of Justice has accused the company of any wrongdoing. The subpoena is described as a fact-finding inquiry and does not mean the SEC has concluded anyone has broken the law," it said.

BIGGER THAN LAS VEGAS

MACAU, A FORMER Portuguese colony located less than 40 miles (64 km) west of Hong Kong, for centuries served as a center for trading and piracy in the South China Sea, a base for vice, gold smuggling and

espionage.

But the brazen town on the tip of a Chinese peninsula has evolved into much more than a backwater den of iniquity.

Today Macau is a super-charged conduit for cash on the lip of the world's fast-growing major economy. The once worn casinos huddled near the ferry docks have gone upscale. And in the last ten years, it has become a major source of cash for America's largest casino operators.

Since 2001, when China opened its doors to U.S. casinos, annual revenues have increased more than tenfold to reach \$23.5 billion today -- more than two and half times the revenues of the Las Vegas Strip and Atlantic City combined. The enclave provides two-thirds of Sands' revenue worldwide, according to securities filings.

Behind the gaudy numbers, however, public records suggest the region is becoming a growing geopolitical concern.

The U.S. Department of State, in its 2011 International Narcotics Control Strategy Report, said Macau is "vulnerable to becoming a hub for the laundering of criminal proceeds."

Beyond the casinos, the report says, the "close proximity border with PRC (China) and Macau's open economy, including lack of controls on cross border physical movement of cash, are factors that create a risk of money laundering and terrorist financing activities."

And the triads, according to diplomatic cables, are expanding. A trusted academic told diplomats that China had clamped down on Macau visas, "at least in part to stem the rise of organized crime in the mainland."

The source of this criminal expansion is Macau's unique junket system, which whisks VIPs into casinos, stakes them, and offers legally suspect services to avoid China's strict currency and debt collection laws. The junket companies -- widely linked to the triads, according to diplomatic cables -- generated an incredible 72 percent of the region's gaming revenues last year.

"Casino operators regret the growing power of 'junket' operators in mainland China that account for most of the Macau casinos' earnings," one U.S. consulate official reported in a cable. "They believe the operators are directly or indirectly involved



HIGH STAKES: A croupier prepares to greet visitors inside the VIP room of Sands Macao in Macau May 18, 2004. **REUTERS/BOBBY YIP**

with organized crime in Macau and the mainland."

The U.S. casinos operating in Macau are bound by Nevada laws that prohibit them from bringing "disrepute" upon the state. But they have immersed themselves in the junkets -- while privately, according to cables, confiding their concerns about the criminality of the industry to diplomats.

Another cable quoted a senior U.S. executive saying the growth of the triads was leading to expanding corruption in China. Provincial officials were providing "sweetheart" land sales, business licenses, and government contracts to junket operators, in exchange for bank deposits or cash sums paid to the officials upon arrival in Macau.

SANDS' COMBATIVE STYLE

NO U.S. CASINO has more aggressively pursued the Macau dream than Las Vegas Sands.

Sands was the first U.S. casino to plant roots in Macau in 2004, and has since grown into the largest American company in the region, dwarfing the operations of competitors like Wynn Resorts and MGM Resorts International.

Sands raised the stakes for the entire territory. From a swath of reclaimed land, it created a new gambling resort called the "Cotai Strip," an Eastern rendition of Las Vegas with plans for shopping, restaurants and fancy hotels. The Chinese government



planners wanted a diverse assortment of properties, and Sands has delivered, building the Venetian Arena, the Grand Canal Shoppes and the Four Seasons apartments.

But where Las Vegas rivals went in softly, working with local businesses and regulators, Jacobs' suit and diplomatic cables suggest Sands wasn't there to make friends.

One diplomat in a cable referred to the casino's "combative" style. Others describe how Sands executives have gone over the heads of Macau politicians to lobby ranking members of China's politburo, much to the chagrin of the locals.

Jacobs says in court filings that one of his primary tasks involved repairing "strained relationships with local and national government officials in Macau who would no longer meet with Adelson due to his rude and obstreperous behavior."

Adelson, Jacobs charged, instructed him to secretly investigate senior Macau government officials. "Any negative information could be used to exert 'leverage' in order to thwart government regulations/initiatives," the lawsuit claims.

Jacobs in his suit also notes that he was repeatedly threatened with termination if he "objected to and/or refused to carry out Adelson's illegal demands."

In particular, Adelson insisted Jacobs hire a local lawmaker named Leonel Alves, he says in his lawsuit. For more than a year, Alves, a public official in a position to help the corporation, was also listed as its counsel -- a potential conflict of interest central to the U.S. federal bribery investigation.

A Sands senior executive acknowledged a potential conflict in an interview with the Macau Daily Times last fall. "When we deal with an individual that is a government official, we have to follow the rules of the United States," said Chief Operating Officer Leven. "So we are working our way through that."

Jacobs, meanwhile, says Adelson was pushing to "aggressively grow the junket business." In his lawsuit, he says that he himself objected to expanding the VIP segment, citing low profit margins and "given recent investigations by Reuters and others alleging (Sands') involvement with Chinese organized crime groups" connected to the industry.

Now, the FBI has joined the probe into Sands and is exploring the full range of Jacobs' allegations, "getting into all of it," a source familiar with the probe said.

Leven, the COO, told the Macau Daily Times last week that there were some "mentions"

in the federal subpoena about "triads and things like that," adding vaguely, "but we think that's cover."

RETURN OR DESTROY DOCUMENTS

ACCORDING TO THE JACOBS suit, Sands has already done its own poking around within Macau's criminal underworld. The casino commissioned background checks on local officials as well as two alleged criminals.

Sands has given at least one report to Nevada, a casino regulatory source said, but it has gone out of its way to stop the reports from reaching the public eye.

Last year, Reuters published a report on a man named Cheung Chi-tai, described in court testimony as the mastermind behind a plot to murder a dealer suspected of cheating.

At trial a witness identified Cheung as a leader of the Wo Hop To -- one of the largest triads in Hong Kong.

Cheung was also, according to witness testimony, "the person in charge" of a VIP room at the Sands Macao, and Hong Kong stock exchange filings showed him to be a "substantial shareholder" in a junket company with ties to the cloistered room.

The allegations emerged in a routine trial, barely noted beyond the crime pages of Hong Kong newspapers. Yet the revelations were

historic: this was one of the first documented examples of an alleged criminal figure financially linked to a U.S.-based, publicly traded casino.

The article led to an ongoing Nevada investigation. The company then commissioned its own private background report on Cheung, said a person involved in the Sands effort who requested anonymity.

The company also ordered a report, according to documents in the Jacobs case, on another figure who was identified as a member of a triad in a 1992 U.S. Senate Subcommittee probe. Charles Heung was described in a Subcommittee chart of organized crime as an officer of the Sun Yee On triad.

In a 2007 public hearing, the former chair of the Nevada Gaming Control Board, Randy Sayre, also said he had seen three public documents identifying Heung as "a high-ranking member of the triads," according to a transcript.

"ALL OF THE JUNKET OPERATORS ARE DIRECTLY OR INDIRECTLY INVOLVED WITH THE TRIADS."

Heung has repeatedly denied any participation in organized crime.

The Sands background reports on Cheung and Heung are the subject of a series of letters in the Jacobs case. Documents show the former executive still holds copies of at least one of the reports based on the investigations commissioned by the casino.

Sands' displeasure is reflected in its legal team's demand for the "immediate" return of the internal inquiries.

"All copies," the attorneys insisted, should "be returned to us or destroyed."

COMMON KNOWLEDGE

NEVADA SPENT DECADES cleansing itself of criminal elements. By the 1980s, as casinos largely assumed corporate control, gambling was widely considered one of the most heavily regulated industries in the United States. Nevada's oversight became the gold standard.

And from the moment Sands landed in Macau, the industry and state regulators insisted the same rules that apply at home apply there. Casinos can lose their licenses if they consort with the wrong characters.

Nevada has no office in Macau and largely depends on local oversight, which casino executives quoted in cables describe as lax.

Diplomats relay widespread concern about Macau's police and gambling regulator.

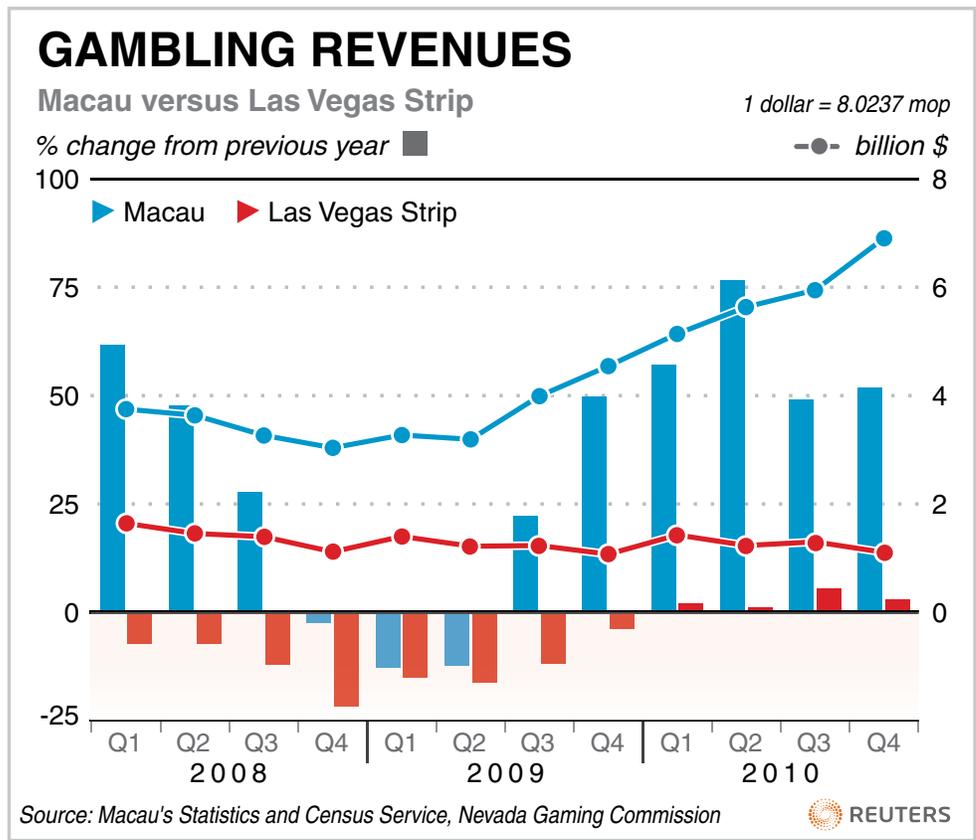
The Macau police force is "afraid of triad groups," a diplomat quoted the academic who was a trusted source as saying. Organized crime leaders in Macau "know the identity of each police force member and where they live," the diplomat continued.

Macau's Gaming Inspection and Coordination Bureau, which goes by DICJ for its Portuguese acronym, barely enforces its own rules, according to accounts in the cables.

Sands executives approached diplomats with particular frustration about the agency's oversight. "They alleged that junket operators are routinely licensed after cursory DICJ investigations," a diplomat wrote in a cable, "while the DICJ does not enforce its own reporting requirements."

A senior executive at MGM told the consulate that "there are some good people at DICJ, but if they're not directed to take enforcement action by Macau's political leadership, they won't."

One Macau casino executive, quoted in a U.S. State Department cable, reported that "all of the junket operators are directly or indirectly involved with the triads."



Other cables show U.S. diplomats and casino operators routinely discuss corruption in the Chinese enclave.

Another diplomat divulged that “private sector leaders have noted many loopholes that enable junket operators -- and the casino concessionaires themselves -- to enter legal gray zones with little fear of investigation.”

Then there is Manuel Joaquim das Neves, the long-standing head of DICJ, who was remarkably candid when discussing the junkets industry with diplomats. During a conversation with a U.S. official about the worldwide economic downturn, he implicitly linked the triads to Macau’s gaming sector, saying that “triads’ revenues will probably decline in 2009 along with Macau’s gaming earnings.”

Neves acknowledged some wiggle room in his agency’s licensing, which judges candidates primarily on their criminal history. “If you make hard rules in the beginning, no one applies,” a cable quotes him telling U.S. diplomats. “So we forgive small crimes in an applicant’s background.”

Neves told Reuters “there’s no logic” to any assertion that his agency is falling short of its duties. “The majority accept that we are doing a good job in Macau,” he said.

“I cannot say that in Macau we don’t have triads, but things are under control,” he added.

CHINA’S CONCERNS

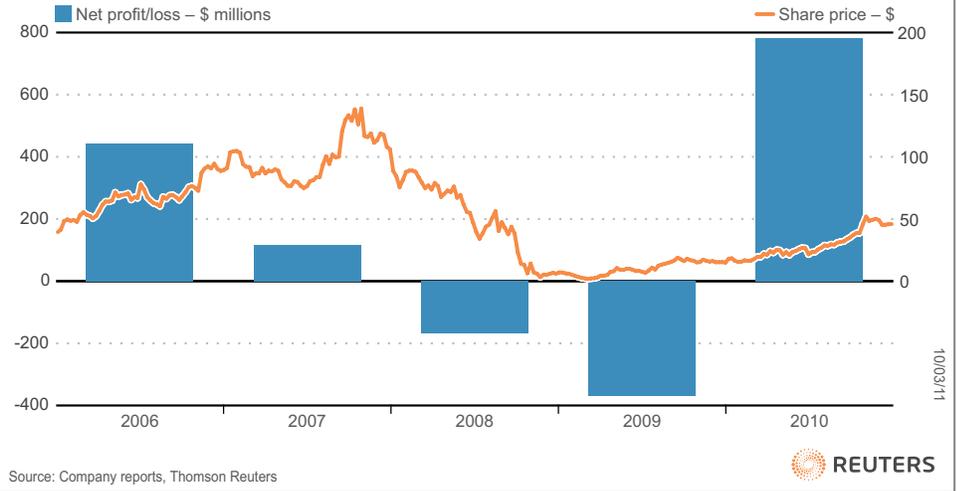
THE SCALE of the corruption in Macau has drawn fire from the most powerful and important critic of all -- the mainland China government. And China’s ire already has been felt once as the government choked off the supply of gamblers to Macau.

Criminality within the VIP segment made China “very concerned,” one U.S. diplomat revealed in a cable. In late 2008, according to a missive, it changed the rules of the game, cutting the number of visas from mainland China to Macau in a move that was disastrous for U.S. operators, including Sands.

“The fact that mainland gamblers account for the majority of funds flowing into Macau appears increasingly undesirable to Beijing,” says one post. “The perception is widespread that, with the implicit assistance of the big ‘junket’ operators, some of these mainlanders are betting with embezzled state money or proceeds from official corruption, and substantial portions of these funds are flowing on to organized crimes groups in mainland China, if not Macau itself.”

Las Vegas Sands

U.S. casino operator Las Vegas Sands has seen share price and profit swing wildly in the last few years as it made an aggressive, costly expansion into the Chinese gambling haven of Macau.



SANDS CHIEF: Las Vegas Sands Chief Executive Officer Sheldon Adelson speaks during a media briefing in Singapore December 21, 2009. **REUTERS/VIVEK PRAKASH**

SO MUCH POWER

EARLY LAST JUNE, at G2E Asia, a conference for casino industry insiders, the Venetian Macao hosted a session to discuss "The Future of VIP."

On stage, beneath a massive, glittering chandelier, sat three men: a former executive from Sands Macao, an academic, and Sean Monaghan, a junket analyst, who proclaimed: "These guys are huge, they're growing, and they hold so much power."

Monaghan was articulating what had already begun to be well understood by the U.S. diplomatic corps. By plunging millions of dollars into the development of the VIP sector, casinos had, in essence created a monster.

Jacobs, quoted in a cable, spoke to this point when he told a diplomat that "the junket operators maintain significant economic and political influence in Macau."

"The government and all the concessionaires rely heavily on the junket operators for the bulk of their revenue streams," says another cable. "They won't make any big moves against the junkets."

Another missive points out that as Macau derives over half of its revenues from the VIP market, it has "proven itself either incapable or unwilling" to rein in the companies.

Toward the end of the session, an emissary from the U.S. consulate rose to make a comment. "I find it remarkable," he said, "that we're talking here about junkets, yet not a single representative from the industry

sits before us."

A murmur circulated through the crowd.

The gentleman had identified the 800-pound gorilla -- who was not in the room.

Jacobs had grown wary of the dangers of this gorilla, he said in his complaint. His private objection to expanding the junket business was one of the final battles he fought with his boss. Soon enough, their differences would reach the point of no return.

Now Jacobs is shouting his concerns for all the world to hear, and federal authorities in Washington DC appear to be paying heed.

(Additional reporting by Peter Henderson; Editing by Peter Henderson, Lowell Bergman, Jim Impoco and Claudia Parsons)



TABLE GAMES: Croupiers prepare to greet visitors at Sands Macao casino in Macau, May 18, 2004. **REUTERS/BOBBY YIP**

COVER PHOTO: The Venetian Macao casino resort of Las Vegas Sands is seen lit up in the evening in Macau June 2, 2009. **REUTERS/BOBBY YIP**

FOR MORE INFORMATION CONTACT:		
<p>JIM IMPOCO, ENTERPRISE EDITOR, AMERICAS +1 646 223 8923 jim.impoco@thomsonreuters.com</p>	<p>CLAUDIA PARSONS, DEPUTY ENTERPRISE EDITOR +1 646 223 6282 claudia.parsons@thomsonreuters.com</p>	<p>PETER HENDERSON, SAN FRANCISCO BUREAU CHIEF +1 415 677 2541 peter.henderson@thomsonreuters.com</p>