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Sands China Ltd

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Findings of a
Discreet Consulting Exercise
In Macao, Hong Kong and Beijing

Live Source Reporting

25 June 2010

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IRR000704

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MARKED FOR IDENTIFICATION
PROPOSED EXHIBIT (PLTF)

1124

Case No. A627691

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This report is prepared on information made available up to the date of this report
and we reserve the right to amend opinions, conclusions or recommendations, if
necessary, based on factual information that comes to our attention after that
date.

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INTRODUCTION TO ASSIGNMENT

Background

We understand that Sands China Limited ("Sands") is about to make a further and very significant financial commitment in Macao.

We were informed that, in recent months, a number of worrying trends have emerged, which although apparently unconnected, might affect the overall business climate in which Sands is operating.

These issues have included various new regulations in Macao and the apparent slow down of government approvals for labour and various other necessary business items.

As a consequence of these issues, Sands is concerned as to the activities and motivation of Fernando Chui Sai On ("Fernando"), the incumbent Chief Executive of Macao SAR, and of Francis Tam Pak Yuen ("Francis"), the incumbent Secretary for Economy and Finance of Macao SAR (collectively "the Key Principals").

Prior to making such a significant financial commitment in Macao, Sands, as a prudent and responsible organisation, is keen to ensure that the local and national political and business environment remains conducive to such a substantial investment and also to ensure that it fully understands potential risks in order that these can be carefully considered and mitigated.

Agreed Scope of Work

Sands engaged us on 18 May 2010 to conduct a discreet consulting, intelligence gathering and investigative research exercise in Macao, Hong Kong and Beijing; this calculated to provide timely and accurate information in support of Sands' decision making progress.

Specifically, we were engaged to provide discreet information and reliable intelligence on significant political or policy decisions, in Beijing or Macao and which might impact upon Sands' decision to proceed with the investment.

This project included an investigation as to the current activities and likely motivation of the Key Principals with regard to (any) apparent desire to slow down relevant government approvals for necessary business items.

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We were also to provide to Sands a "top up" report, three months following the issuance of this report.

This part of the report -- designated "live source reporting" -- is the result of intelligence gleaned from well placed sources in Beijing, Hong Kong and Macao.

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This report is provided in accordance with our agreed engagement letter detailing the agreed scope of our work on this assignment, and other agreed business terms.

LIVE SOURCE REPORTING

Understanding Live Source Reports

The sources from which this material was generated are characterised below. It must be borne in mind that whilst they are all well placed to comment on the issues, their opinions may be coloured by virtue of their government position(s) or their personal attitude toward U.S. commercial or government organisations. The sources are not directly engaged in gaming and therefore the terms and descriptions that they use may not exactly correspond with terms commonly used in the gaming industry; this specifically so as it relates to the issue of local licences, gaming regulations etc.

Characterisation of Sources Utilised

During this exercise, we identified and discreetly approached sensitive sources in Beijing, Macao and Hong Kong. These individuals, males and females have requested that their identities remain undisclosed. They are all assessed to have meaningful, reliable and current access to relevant information.

The sources we accessed are characterised as below:

- Three separate sources at the Hong Kong & Macao Affairs Office ("HKMAO") in Beijing;
- Two separate sources in the Ministry of Foreign Affairs, Beijing and Macao;
- A politically connected mainland business person, who formerly had close working ties with Henry Fok Ying Tung (霍英东) and other powerful PRC connected businesspeople;
- A Xinhua News reporter formerly stationed in Hong Kong;
- An independent PRC consultant, who has undertaken research in Macao on

behalf of the mainland government;

- Two "think tank" research fellows who are retained by the mainland government to report on Hong Kong and Macao affairs;
- An employee of a sensitive mainland government department; and
- A professional services consultant who is very close to Fernando Chui Sai On

Intelligence on Fernando Chui Sai On and Francis Tam Pak Yuen

All key sources of information were asked to comment on the background and reputation(s) of Fernando Chui Sai On and Francis Tam Pak Yuen with specific emphasis on their political allegiances; level of integrity, business interest and also as to mainland and Macao policy toward gaming and to any specific views or issues which might impact Sands.

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Fernando Chui Sai On - Chief Executive

All sources we spoke to were largely consistent as to Fernando Chui Sai On's ("Fernando") background and political pedigree. The following is a short consensus of multiple source reporting:

Family Background

Fernando, born on 13 January 1957, was raised in one of the three richest and most well-connected Macao family clans, along with the Ho family (Edmund Ho Hau Wah's family) and the Ma family headed up by Ma Man Kei.

PRC officials are not believed to regard Stanley Ho's (何鴻燊) family as being politically influential on the mainland; this despite his huge wealth and his former dominance of the Macao gaming scene.

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Fernando is reported to have studied in the U.S. and to have earned two higher degrees from U.S. universities, before returning to Macao in the early 1990s.

Fernando became involved with Macao local political affairs in the 1990s, initially serving in the territory's Legislative Assembly. He held various positions in local environment, cultural, education and social organizations.

In 1999, following the Macao handover, Fernando was appointed as Macao's Secretary of Social Affairs and Culture.

In July 2009, Fernando was announced as the second Chief Executive of the Macao (SAR) and he officially assumed the role in December 2009.

Enquiries with PRC sources have established that the Chui family first became involved in the Macao construction business, under Fernando's grandfather, Cui Liu (崔六) back in the 19th century.

Our sources report that Chui Tak Kei (崔德祺), Fernando's uncle, grew the family's wealth and social status in the 1940s and became a significant force in the Macao construction industry.

PRC government sources stated that as a leader/founding member of Macao's Construction & Property Industry Chamber (澳门建筑置业商会), Chui Tak Kei played a key role in one of the four key "pillars" of Macao business.

Fernando's impeccable Communist Party credentials go back to his uncle, who was also said to be a long time supporter of the Chinese Communist movement; this when Macao was under Portuguese sovereignty. He forged close ties to the mainland regime by making donations and by cooperating in various activities. In recognition of the family's political loyalty, the Communist Party invited Chui Tai Kei

to assist in the drafting of the Macao Basic Law. They (officials) are reported to have arranged for Chui Sai Cheong (崔世昌) (Fernando's elder brother) and Chui Sai Peng (崔世平) (Fernando's cousin) to be members of the Macao's Legislative Assembly.

Our sources report that Fernando's wife Winnie Chui-Fok Wai Fun (崔慧芬), is the niece of Henry Fok Ying Tung (霍英东) ("Henry Fok"), the late Hong Kong tycoon whose relationship with the PRC government is legend.

One of our sources noted that Henry Fok was the most influential figure amongst Hong Kong/Macao tycoons; this due to his long-term association with the Communist Party. PRC leaders frequently sought Henry Fok's advice on important policy-related issues as to Hong Kong/Macao. Our sources report that it was Henry Fok who first recommended Fernando to the PRC leaders. This endorsement was crucial to Fernando's subsequent elevation to the Macao Chief Executive position.

Henry Fok's strong recommendation of Fernando for the C.E. position was actively supported by Edmund Ho Hau Wah ("Edmund"), his predecessor and close personal friend.

Reputation

Enquiries with well placed mainland sources, knowledgeable about Fernando, provided very positive comments as to his personality and general reputation. They describe him variously as being, down-to-earth, visionary, modest and easygoing. He apparently displays a polished demeanour and has a solid track record. He is said to have an amicable personality and to have demonstrated an ability to carry on effective communications with various and disparate parties.

His "blueblood" Communist family background, coupled with an easygoing personality made him a virtually unchallenged candidate for the C.E.'s post; his candidacy was widely accepted by key stakeholders in Macao.

Mainland Government Due Diligence into Fernando Chui Sai On

Our mainland sources have reported that the Central Chinese Government (various departments) had undertaken a most rigorous due diligence exercise into Fernando; this before making the final decision as to his suitability for the C.E. post. The purpose of this exercise was to identify any weakness which might compromise his ability to function or his loyalty to the Party.

According to our sources, during this exercise, PRC authorities learned that Fernando's reputation had been slightly tarnished by some minor allegations, these raised by local individuals who were hostile towards him and who accused him of displaying favouritism (as to land development issues) and to facilitate business deals involving members of his family clan, this when he was the Secretary of Social Affairs and Culture. The mainland government's internal view of these allegations is that they are "minor short comings" and that such criticisms will have little or no impact on his image or on his ability to operate in Macao. In fact, sources much closer to the issue opine that the parties more actively involved in these allegations were in fact, Fernando's brother Chui Sai Cheong and his cousin Chui Sai Peng.

As a consequence of this most rigorous Communist Party exercise, no significant derogatory information relating to Fernando's reputation or as to his integrity was identified. His loyalty and obedience to the Party was assessed as being very high.

Further source enquiries have failed to locate any information to suggest that Fernando or his immediate family currently have any direct involvement in the Macao casino business.

The PRC Government's Perception of Fernando's Performance

Mainland and Macao sources suggest that Fernando is genuinely interested in protecting the city's heritage and cultural/historical relics; this rather than simply boosting Macao's already developed gaming infrastructure.

Our PRC sources report that they believe, Fernando had historically delivered a rather satisfactory performance; this during his tenure as Secretary of Social Affairs and Culture in the Macao SAR. Senior PRC leaders are well informed as to some of his perceived significant achievements. They believe that he was influential in the implementation of a fifteen year, "free school" education policy for Macao residents. Additionally he is credited with the successful handling of SARS and other health outbreaks. Macao's successful accreditation as to a World Cultural Heritage Site was also attributed to his efforts.

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Fernando was thus viewed by the PRC leadership as being the best candidate for the Chief Executive's position, post-Edmund Ho. They viewed his membership of an influential Communist Party family, his relevant government experience, excellent relationship with Edmund Ho, as well as the other local leaders, plus his moderate personality as uniquely qualifying him for the job.

Fernando is not seen as being as active or extrovert as his predecessor, who has been somewhat controversial. He is perceived to be much more likely to "tow the mainland line" and to effectively collaborate with his mainland counterparts.

One key source further opined that the PRC does not need a strong leader in Macao which is somewhat cynically viewed as being actually operated on a, "one country one system" basis unlike the politically problematic Hong Kong.

We were informed that PRC leaders are currently satisfied with Fernando's performance and with his administrative skills; this despite the recent (1st May) street protests, the territory's distressed economy and other problematical social issues.

Fernando's brief is to maintain the status quo, preserve social stability, and to ensure that no challenge to the Communist Party's authority is permitted in Macao.

Social & Government Connections

Fernando is on good terms with a wide cross-section of dignitaries in Macao and Hong Kong, including Edmund Ho who reportedly enjoys a close personal relationship with Fernando; this since they were very young.

One source stated that Fernando maintains an arms-length relationship with Stanley Ho and his associates. This is partly due to the tycoon's historical feud with Henry Fok, Fernando's sponsor and father-in-law. Despite this stance, the source states that Stanley Ho voiced his political support for Fernando's nomination to C.E.

Fernando is also well-respected by various mainland "princelings", who have business interests in the territory. One of these individuals has a close relationship with a senior Party official, close to President Hu Jintao. These princelings are, to a certain extent, used by Fernando to project a positive image in Beijing.

One source states that Fernando has direct personal connection with Jia Qinglin, a ranking member in the Politburo Standing Committee of the Communist Part of China (the de facto cabinet). Jia is said to be the most powerful remaining associate of former President Jiang Zemin (who retains a considerable power base).

Our sources have reported that Fernando is acquainted with Vice President, Xi Jinping; this relationship stands from the time when the two toured the Sichuan

earthquake site in 2008. They are reported to maintain regular contact since that time.

In summary, Fernando is in a very strong position, both politically in Beijing and locally in Macao. Currently, it is most unlikely that any form of scandal or allegation made against him would stick. He is therefore in a very powerful position when dealing with foreign business interests, such as Sands.

Francis Tam Pak Yuen – Secretary of Economy and Finance

Background

Our mainland sources report that Francis Tam Pak Yuen (譚伯源) ("Francis") was born in May 1949. They report that Francis is a member of a wealthy local Macao family. Following his higher education in the United Kingdom, he returned to Macao in the 1970s to assist in the family business, these included various interests in commerce, the garment industry, the logistics industry and property.

Francis was first appointed Secretary for Economy and Finance of the Macao (SAR) in August 1998. He is currently serving in this capacity.

Well placed sources report that during 2002, he played a pivotal role in ending Stanley Ho's four decade-long gaming monopoly in Macao.

Our sources had a lot less information on Francis' background but were able to comment that Francis' family had the appropriate Communist Party's connections; albeit not as prominent as Fernando's. His membership of the Preparatory Committee of the Macao SAR and the China Overseas Friendship Association, amongst others, was given as evidence of the above.

Central Government's Perception of Francis' Performance

Our sources report that Francis is currently positively viewed by the Central Government. They regard him as a key member in the Macao government.

All sources interviewed provided complimentary comments on him, variously describing him as shrewd, capable, widely focused and down-to-earth. He has a much lower political profile than Fernando on the mainland.



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Our enquiries with key PRC sources failed to locate any information to suggest that Francis is on unusually close terms with any senior PRC government officials.

Mainland Policy Affecting Macao and the Gaming Industry

Hong Kong and Macao Affairs Office and Related Departments

The Hong Kong & Macao Affairs Office (HKMAO) is affiliated to the State Council and is the foremost PRC regulatory body tasked to oversee matters relating to Macao and Hong Kong.

The Ministry of Foreign Affairs also maintains a watching brief on Macao and it is especially interested in U.S. related matters as they affect Macao and the mainland.

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In Macao, the HKMAO has in effect, directly overridden the authority of the Macao SAR government, which has been much more receptive to direct instructions from Beijing than its Hong Kong counterpart under the "one country two systems" concept.

In addition to its task of gathering information through regular communications with the various local Macao government agencies, the Central Government also collects intelligence from multiple sources which include: the Central Liaison Office (Zhong Lian Ban), the Xinhua News Agency, state investigators from state-run think tanks (the Chinese Academy of Social Science, the State Council Research Development Centre etc.) and mainland executives/professionals working at PRC-funded companies in Macao. Another agency is also active in this respect.

Most of the departments above are required to deliver regular situation reports to HKMAO officials who in turn report selected news and intelligence to senior State Council leaders. Thereafter mainland leaders map out significant policy amendments based on internal discussions, attended by bureaucrats from the state-organs above.

Central Government Policy Relating to Gaming and the Economy

Whilst the Central Government in Beijing continues to recognize the gaming business as a significant contributor to the Macao economy, its policy is to contain the pace of growth of pure gaming and to keep "rampant American expansion" at bay in Macao.

Current PRC strategy is to cause the Macao economy to be more diversified rather than its almost total dependence on gaming. The term "restrained growth" (有限发展) has been repeatedly used by officials and other sources we spoke to in this respect. Central Government "think tanks" are of the view that the booming gaming industry (since 2002), in fact runs somewhat counter to the territory's long-term development objectives. The concept of "restrained growth" (of the gaming industry) was introduced after 2005 (this in anticipation of the 11th Five Year Plan) and is now a cornerstone of Macao policy.

Sources report that the current policy, which advocates diversifying Macao's economy and thus diminishing the territory's long-term reliance on the gaming industry, was first drafted in 2006 and further amended in 2008.

Our sources suggest that, in light of a recent official document, the "Planning Guidance for Reform Development for the Pearl River Delta Area" 《珠江三角洲地区改革发展规划纲要(2006-2020)》 and announced in 2006, that the Central PRC Government, for the first time, pledged to turn Macao into a regional tourism, cultural, gaming and exhibition centre. None of the sources we contacted have suggested that this guiding policy will be subject to any substantial amendment in the near future.

Our sources state that the policy was again reviewed and thoroughly examined in late 2009. Mainland officials reportedly held various internal gatherings and meetings

to discuss and review the wording and key contents of the policy but, after a considerable effort, the final result did not lead to any major revision. Minor amendments were reportedly made, as to the detailed planning, design layout and other particulars for the development of a nearby island, Hengqin, which is slated to be placed under the Macao SAR. Again the officials involved reached a consensus that Macao should continue to pursue a "moderately diversified economy"; this during the work up to the 12th Five Year Plan (2011-2015).

Issues of Current Concern to the PRC Government Relating to Macao/Sands

Our enquiries have uncovered a number of concerns which are impacting current PRC government thinking as to policy in Macao.

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- The Central Government is concerned about Macao SAR's over dependence on tax revenue from gaming.
- Sources report that a recent (2009) think tank report, drafted by fellows of China Academy of Social Science, claimed that tax revenue from the gaming industry will, in fact, have a directly "inverse correlation" with the long term tax revenue growth. One of our sources reported that PRC officials were impressed by this think tank report.
- The Macao government is shortly to retain consultants to consider methods to claw back "back-taxes" they perceive to be owed by various gaming operators. Discussions are ongoing as to how far to pursue this goal and as to which external experts/consultants to retain. Sources suggest that whilst this might impact Sands, it is not aimed at them directly.
- A source of considerable concern is, according to a well-placed Beijing government contact, an internal Central Government agency report that estimates some US\$2 billion is annually gambled away by serving Chinese government officials visiting Macao.

- This source stated that this concern was one of the key factors leading to the Central Government's tightening of its visa policy for mainland visits to Macao in 2007. Sources reported that this policy is unlikely to change in the near future. The same source reported that Macao's visa policy was further tightened in 2009.
- Sources suggest that measures to limit the maximum number of gaming tables in Macao were first muted in Beijing; this during June 2009 (we note that this move was not publically announced in Macao until March 2010, when Fernando made his first policy address); as well as measures to limit the annual growth of gaming tables to 10%, and to capping the total number of Macao gaming tables to 5,500 over the next three years.

Central Government's Perception of Sands

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We spoke to a wide variety of knowledgeable PRC sources in this respect. There is unfortunately a prevailing "conspiracy theory" amongst mainland think tanks and other government departments as to the expansion of "American" gaming companies in Macao, particularly Sands (which is seen as being synonymous with the U.S. expansion). Many of those interviewed perceived Sands' expansion plans as being the prelude to even further U.S. "interference and intrusion in Macao".

There is a widely held perception amongst officials that Sands serves the interests of the U.S. government in Macao.

One key source claimed that the year 2005 marked a turning point in the Central Government's perception of Sands. The source states that, during this year, Sands submitted a multi-billion dollar development plan for Hengqin Island to the Macao government. Sands' senior management (according to the source) were extremely upbeat about these plans and the very high likelihood of their being accepted by the Macao government. Apparently top level Sands management began to openly

discuss and promote this blueprint for a large convention centre and resort complex on Hengqin Island; this in public, and on a number of occasions. This disclosure caused considerable disquiet within the HKMAO and other government agencies, largely because the necessary approvals had not yet been received from the government.

The Central Government had initially been positive as to the Sands Hengqin investment but subsequently received numerous negative comments and objections from mainland agencies and from local gaming operators; specifically Stanley Ho during 2005. Think tanks and research groups opined that Sands' excessive growth in Macao would likely cause social instability and damage the territory's longer term development.

Prior to this series of very negative comments as to Sands' expansion plans (above), the situation had been much more favourable to Sands. We were informed that a number of Jiang Zemin's associates were still influential in 2005; and that they were still grateful for what they apparently perceive Sands to have done to "assist" China in securing the 2008 Olympics. These influential individuals were apparently, initially of the view, that the Hengqin investment opportunity was an appropriate way to return Sands' (very considerable) favour.

However, the former President, Jiang Zemin's "pro-Sands" position was reportedly never fully agreed to by the other PRC organs involved in overseeing Macao.

In 2005, the incumbent administration of President Hu Jintao, then just finding its feet, was essentially "neutral" towards Sands and U.S. gaming interests. Concerned with social stability issues (the mantra of Hu Jintao's administration), it reportedly took the warnings against Sands' rapid expansion seriously.

A separate source stated that Sands had essentially failed to transition its initially favourable relationship with the Jiang Zemin administration to the new leadership of Hu Jintao.

The new Central Government never issued a specific policy aimed against Sands' (future) developments, but the overall climate had now completely changed. The Hu Jintao government had many other priorities and its attitude towards Sands could, at best, be described as "ambivalent". Other PRC officials in charge of various departments, quietly changed their posture towards Sands in the face of these strong internal objections.

Another reliable source reported that, historically, Sands had made use of a "middleman" to develop PRC government relationships. This Beijing source believes that this middleman had apparently, "opened the PRC door" for Sands, this throughout the late 1990s. According to this source Sands, however, reportedly failed to pay a previously agreed fee to this individual. Furious with this snub, this middleman began actively lobbying against Sands after 2004.

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Sands as a "Front" for U.S. Government Interests

Beijing-based sources state that, during 2007, the U.S. government asked for the Central Government's permission to set up a U.S. consulate in Macao. This proposal was later declined by the Chinese side, on the basis that the U.S. already had two Foreign Service facilities in Guangzhou and in Hong Kong. They viewed a third one in Macao as being both redundant and unnecessary. There was, within Chinese government circles, a suspicion that the U.S. would become more involved in local Macao politics if it were granted a diplomatic presence in the SAR.

According to our other sources, some of the PRC officials involved strongly suspected that Sands was behind this U.S. diplomatic initiative.

Separately, another source reported that, following the September 11 terrorist attacks in the U.S., the U.S. Government had significantly increased pressure on its Chinese counterparts to revamp Macao's banking system, this with a view to combating international money-laundering operations. Chinese officials viewed these requests as being akin to submission to "U.S. government inspection" of Chinese sovereign interests and equally perceived this as an excuse for the U.S. to legitimise their "unwarranted intervention" into Macao's local affairs.

Another source reported that the Central Government was also surprised and deeply concerned by the apparent level of detail and accuracy of a 2005 U.S. government investigation into North Korea's "money laundering activity" in Macao (the Banco Delta Asia affair) which had much deeper political implications. Officials in the Ministry of Foreign Affairs and another government department were apparently "shocked" and "stunned" by the level of accuracy and detail in the U.S. government investigation. These officials then came to the conclusion that U.S. government operatives concerned must have been using "American" casinos as a cover in order to gather such accurate intelligence.

Many of the officials we contacted were of the view that U.S. intelligence agencies are very active in Macao and that they have penetrated and utilised the U.S. casinos to support their operations. Sands was specifically mentioned in this respect and Sands is the primary subject of such statements.

A reliable source has reported that central Chinese government officials firmly believe that Sands has permitted CIA/FBI agents to operate from within its facilities. These agents apparently "monitor mainland government officials" who gamble in the casinos. This source also reported that several PRC government bodies have reported "evidence" of "U.S. agents", operating from Sands, "luring" and entrapping

mainland government officials, involved in gaming, to force them to cooperate with U.S. government interests.

They state that "numerous" accounts of mainland officials, who were also "customers", being bugged, had been reported to various PRC government agencies.

Sheldon Adelson's "Statement"

We were informed by multiple sources that officials at the HKMAO are most unhappy, with what they perceive to be an "assertive and provocative" statement, made by Mr. Sheldon Adelson. They have internally reported on remarks he is attributed to have made in public, that "the expansion of the Venetian will change Macao's development course and will elevate the territory to a new stage", (this being translated from our source's direct Chinese description).

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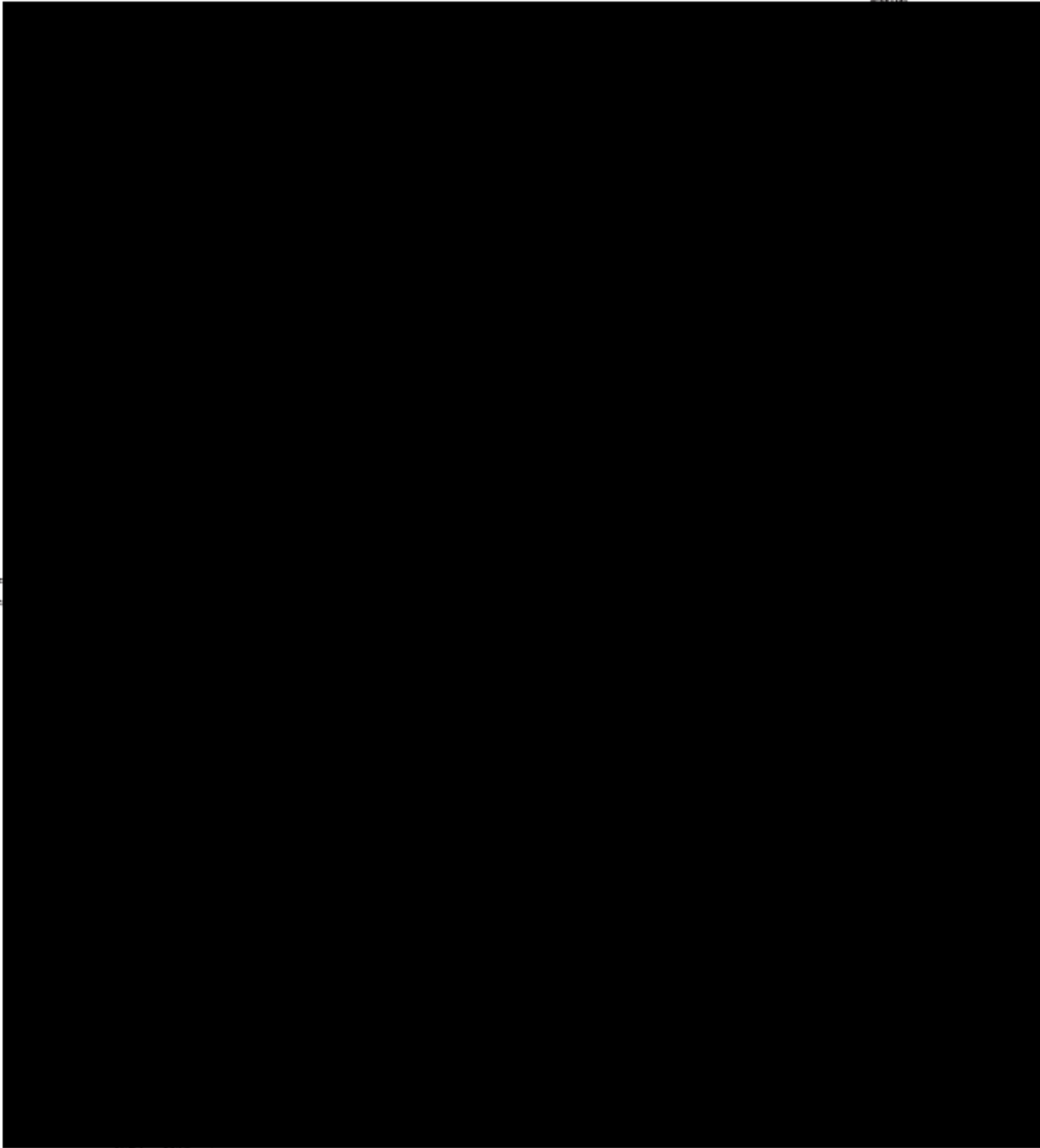
These remarks (whether or not they were actually made or intended) have been perceived by HKMAO officials and others as a sign of a growing and (to the PRC government parties involved) a totally unacceptable ambition; this to compete with the PRC government for influence in Macao. Mr. Adelson's apparent remarks were subsequently and directly quoted during a number of internal conclaves and meetings. This "incident" is reported to have made him "infamous" amongst some mainland officials and departments. [It may also contribute to the reluctance of Fernando and others to meet with him.]

The Stanley Ho Factor

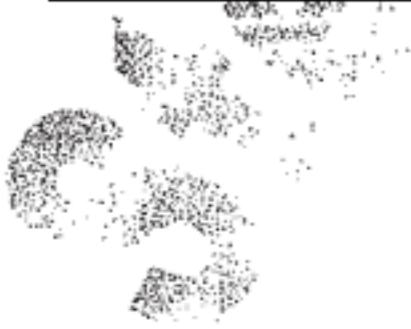
During 2008, the Central Government solicited the opinion of Stanley Ho and his organisation as to the activities of Sands and the other U.S. casino operators. Our sources report that, following the change of sovereignty, the "Ho Group" have sought to expand their political influence and relationships with the central Chinese government.

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