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10 **BEFORE THE**
11 **CALIFORNIA GAMBLING CONTROL COMMISSION**
12 **STATE OF CALIFORNIA**

14 **In the Matter of the Statement of Reasons
for Denial of Application for a Third-Party
Proposition Player Services License for:**

16 **EAST SEA INVESTMENT GROUP, INC.,
JIAHUA YU, Chief Executive Officer,
17 Shareholder, Director, WANCHUN
HUANG, President, Chief Financial Officer,
18 Shareholder, Director,**

19 **1655 S. Azusa Avenue, Suite C
Hacienda Heights, CA 91745**

20 **Respondents.**

CGCC Case No.: CGCC-2021-0107-11

BGC Case No.: BGC-HQ2021-00009SL

**FIRST AMENDED STATEMENT OF
REASONS**

21
22 Complainant alleges as follows:

23 **PARTIES**

24 1. Yolanda Morrow (Complainant) brings this Statement of Reasons solely in her
25 official capacity as Acting Director of the California Department of Justice, Bureau of Gambling
26 Control (Bureau). This Operative Pleading replaces the Statement of Reasons filed on December
27 28, 2021.

1 evidentiary hearing to be conducted before the Commission as a Gambling Control Act (GCA)
2 hearing under the provisions of California Code of Regulations, title 4, section 12060.

3 8. Each of the Applicants timely submitted a Notice of Defense.

4 **BURDEN OF PROOF**

5 9. Applicants have the burden of proving that they are qualified to receive a license.
6 (Bus. & Prof. Code, § 19856, subd. (a).)

7 **CAUSE FOR DENIAL**

8 **(Unlicensed Endorsee/Funding Source and No License Prior to Activity)**

9 10. To acquire her 55-percent ownership interest in East Sea, Ms. Huang initially paid
10 \$5,500,000. To fund the acquisition in its entirety, Ms. Huang obtained a \$5,500,000 unsecured
11 loan from Daopan Huang (Ms. Huang's Lender), whom she identified as her father-in-law. At
12 the time, Ms. Huang reported a negative net worth of \$1,959,165 and a net loss of \$87,975 as her
13 income. Her reported occupation was as a manager of a restaurant. In response to the Bureau's
14 inquiries, Applicants' designated agent advised the Bureau that repayment of the loans did not
15 begin until East Sea began operations. The loan has been repaid based solely upon proceeds of
16 East Sea's ownership of Majesty. At no time was Ms. Huang's Lender licensed by the
17 Commission.

18 11. To acquire his 45-percent ownership interest in East Sea, Mr. Yu initially paid
19 \$4,500,000. To fund most of his acquisition payment, Mr. Yu obtained a \$4,300,000 unsecured
20 loan from Liquan Zhu (Mr. Yu's Lender), whom he identified as a friend. Mr. Yu's Lender made
21 the loan in the form of two checks, both payable directly to East Sea. In response to the Bureau's
22 inquiries, Applicants' designated agent advised the Bureau that repayment of the loans did not
23 begin until East Sea began operations. At no time was Mr. Yu's Lender licensed with the
24 Commission.

25 12. The Applications are subject to denial because endorsees or funding sources
26 unlicensed by the Commission provided \$9.8 million (98 percent) of East Sea's initial
27 capitalization through the private loans Ms. Huang's Lender and Mr. Yu's Lender made to Ms.
28 Huang and Mr. Yu respectively. The failure to seek licensing of these funding sources shows,

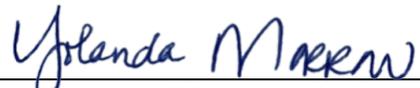
1 among other things, that Applicants pose a threat to effective regulation and control of controlled
2 gambling. Applicants also initially failed to disclose that repayment of the loans would not, and
3 did not, begin until East Sea began operations—i.e., received payments from Majesty.
4 (Bus. & Prof. Code, §§ 19850, 19852, subds. (h) & (i), 19855, 19856, 19857, 19859, subds. (a) &
5 (b), 19866, 19984, subd. (b); Cal. Code Regs., tit. 4, §§ 12002, subds. (ab)(1)(E) & (F),
6 (ab)(2)(C), (as)(4), (at), (av), 12104 subd. (b), 12114 subd. (d), 12130 subd. (e).)

7
8 **PRAYER**

9 WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged,
10 and that following the hearing the Commission issue a decision:

- 11 1. Denying Applicants' Application; and
- 12 2. Cancelling Applicants' Third Party Registration Nos. TPPP-000134, TPOW-000591,
13 and TPOW-000592.
- 14 2. Taking such other and further action as the Commission may deem appropriate.

15
16 Dated: December 29, 2021



17 YOLANDA MORROW, Acting Director
18 Bureau of Gambling Control
19 California Department of Justice
20 Complainant

1 **APPENDIX A**

2 **Business and Professions Code**

- 3 1. Business and Professions Code section 19811, subdivision (b), provides:

4 Jurisdiction, including jurisdiction over operation and
5 concentration, and supervision over gambling establishments in this
6 state and over all persons or things having to do with the operation of
7 gambling establishments is vested in the commission.

- 8 2. Business and Professions Code, section 19823 provides:

9 (a) The responsibilities of the commission include, without
10 limitation, all of the following:

11 (1) Assuring that licenses, approvals, and permits are not
12 issued to, or held by, unqualified or disqualified persons, or by
13 persons are conducted in a manner that is inimical to the public
14 health, safety, or welfare.

15 (2) Assuring that there is no material involvement,
16 directly or indirectly, with a licensed gambling operation, or
17 the ownership or management thereof, by unqualified or
18 disqualified persons, or by persons whose operations are
19 conducted in a manner that is inimical to the public health,
20 safety, or welfare.

21 (b) For the purposes of this section, “unqualified person” means a
22 person who is found to be unqualified pursuant to the criteria set forth
23 in Section 19857, and “disqualified person” means a person who is
24 found to be disqualified pursuant to the criteria set forth in Section
25 19859.

- 26 3. Business and Professions Code, section 19824 provides, in part:

27 The commission shall have all powers necessary and proper to
28 enable it fully and effectually to carry out the policies and purposes of
this chapter,³ including, without limitation, the power to do all of the
following:

* * *

(b) For any cause deemed reasonable by the commission, deny
any application for a license, permit, or approval provided for in this
chapter or regulations adopted pursuant to this chapter, limit,
condition, or restrict any license, permit, or approval, or impose any
fine upon any person licensed or approved. The commission may
condition, restrict, discipline, or take action against the license of an
individual owner endorsed on the license certificate of the gambling

³ “Chapter” refers to Business and Professions Code, division 8, chapter 5 (commencing with section 19800), also known as the Gambling Control Act.

1 enterprise whether or not the commission takes action against the
2 license of the gambling enterprise.

3 * * *

4 (d) Take actions deemed to be reasonable to ensure that no
5 ineligible, unqualified, disqualified, or unsuitable persons are
6 associated with controlled gambling activities.

7 4. Business and Professions Code, section 19850, provides:

8 Every person who, either as owner, lessee, or employee, whether for
9 hire or not, either solely or in conjunction with others, deals, operates,
10 carries on, conducts, maintains, or exposes for play any controlled
11 game in this state, or who receives, directly or indirectly, any
12 compensation or reward, or any percentage or share of the money or
13 property played, for keeping, running, or carrying on any controlled
14 game in this state, shall apply for and obtain from the commission, and
15 shall thereafter maintain, a valid state gambling license, key employee
16 license, or work permit, as specified in this chapter. In any criminal
17 prosecution for violation of this section, the punishment shall be as
18 provided in section 337j of the Penal Code.

19 5. Business and Professions Code, section 19852 provides, in part:

20 Except as provided in Section 19852.2, an owner of a gambling
21 enterprise that is not a natural person shall not be eligible for a state
22 gambling license unless each of the following persons individually
23 applies for and obtains a state gambling license:

24 * * *

25 (h) Each person who receives, or is to receive, any percentage
26 share of the revenue earned by the owner from gambling activities.

27 (i) Every employee, agent, guardian, personal representative,
28 lender, or holder of indebtedness of the owner who, in the judgment of
the commission, has the power to exercise a significant influence over
the gambling operation.

6. Business and Professions Code section 19855, provides, in part:

Except as otherwise provided by statute or regulation, every person
who, by statute or regulation, is required to hold a state license shall
obtain the license prior to engaging in the activity or occupying the
position with respect to which the license is required. Every person
who, by order of the commission, is required to apply for a gambling
license or a finding of suitability shall file the application within 45
calendar days after receipt of the order.

1 7. Business and Professions Code section 19856 provides:

2 (a) Any person who the commission determines is qualified to
3 receive a state license, having due consideration for the proper
4 protection of the health, safety, and general welfare of the residents of
5 the State of California and the declared policy of this state, may be
6 issued a license. The burden of proving his or her qualifications to
7 receive any license is on the applicant.

8 (b) An application to receive a license constitutes a request for a
9 determination of the applicant's general character, integrity, and
10 ability to participate in, engage in, or be associated with, controlled
11 gambling.

12 (c) In reviewing an application for any license, the commission
13 shall consider whether issuance of the license is inimical to public
14 health, safety, or welfare, and whether issuance of the license will
15 undermine public trust that the gambling operations with respect to
16 which the license would be issued are free from criminal and dishonest
17 elements and would be conducted honestly.

18 8. Business and Professions Code section 19857 provides:

19 No gambling license shall be issued unless, based on all of the
20 information and documents submitted, the commission is satisfied that
21 the applicant is all of the following:

22 (a) A person of good character, honesty, and integrity.

23 (b) A person whose prior activities, criminal record, if any,
24 reputation, habits, and associations do not pose a threat to the public
25 interest of this state, or to the effective regulation and control of
26 controlled gambling, or create or enhance the dangers of unsuitable,
27 unfair, or illegal practices, methods, and activities in the conduct of
28 controlled gambling or in the carrying on of the business and financial
arrangements incidental thereto.

(c) A person that is in all other respects qualified to be licensed as
provided in this chapter.

9. Business and Professions Code section 19859 provides, in part:

The commission shall deny a license to any applicant who is
disqualified for any of the following reasons:

(a) Failure of the applicant to clearly establish eligibility and
qualification in accordance with this chapter.

(b) Failure of the applicant to provide information,
documentation, and assurances required by this chapter or requested
by the chief, or failure of the applicant to reveal any fact material to
qualification, or the supplying of information that is untrue or
misleading as to a material fact pertaining to the qualification criteria.

1 10. Business and Professions Code, section 19866 provides:

2 An applicant for licensing or for any approval or consent required
3 by this chapter, shall make full and true disclosure of all information
4 to the department and the commission as necessary to carry out the
policies of this state relating to licensing, registration, and control of
gambling.

5 11. Business and Professions Code, section 19870 provides:

6 (a) The commission, after considering the recommendation of the
7 chief⁴ and any other testimony and written comments as may be
8 presented at the meeting, or as may have been submitted in writing to
9 the commission prior to the meeting, may either deny the application
or grant a license to an applicant who it determines to be qualified to
hold the license.

10 (b) When the commission grants an application for a license or
11 approval, the commission may limit or place restrictions thereon as it
may deem necessary in the public interest, consistent with the policies
described in this chapter.

12 (c) When an application is denied, the commission shall prepare
13 and file a detailed statement of its reasons for the denial.

14 (d) All proceedings at a meeting of the commission relating to a
15 license application shall be recorded stenographically or by audio or
video recording.

16 (e) A decision of the commission denying a license or approval,
17 or imposing any condition or restriction on the grant of a license or
18 approval may be reviewed by petition pursuant to Section 1085 of the
Code of Civil Procedure. Section 1094.5 of the Code of Civil
19 Procedure shall not apply to any judicial proceeding described in the
foregoing sentence, and the court may grant the petition only if the
court finds that the action of the commission was arbitrary and
capricious, or that the action exceeded the commission's jurisdiction.

20 12. Business and Professions Code, section 19871 provides:

21 (a) The commission meeting described in Section 19870 shall be
22 conducted in accordance with regulations of the commission and as
follows:

23 (1) Oral evidence shall be taken only upon oath or
affirmation.

24 (2) Each party shall have all of the following rights:

25 (A) To call and examine witnesses.

26 (B) To introduce exhibits relevant to the issues
27 of the case.

28 ⁴ “Chief” refers to the Director of the Bureau. (Bus. & Prof. Code, § 19805, subd. (d).)

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(C) To cross-examine opposing witnesses on any matters relevant to the issues, even though the matter was not covered on direct examination.

(D) To impeach any witness, regardless of which party first called the witness to testify.

(E) To offer rebuttal evidence.

(3) If the applicant does not testify in her or his own behalf, he or he may be called and examined as if under cross-examination.

(4) The meeting need not be conducted according to technical rules relating to evidence and witnesses. Any relevant evidence may be considered, and is sufficient in itself to support a finding, if it is the sort of evidence on which responsible persons are accustomed to rely in the conduct of serious affairs, regardless of the existence of any common law or statutory rule that might make improper the admission of that evidence over objection in a civil action.

(b) Nothing in this section confers upon an applicant a right to discovery of the department's⁵ investigative reports or to require disclosure of any document or information the disclosure of which is otherwise prohibited by any other provision of this chapter.

13. Business and Professions Code, section 19984 provides, in part:

Notwithstanding any other law, a licensed gambling enterprise may contract with a third party for the purpose of providing proposition player services at a gambling establishment, subject to the following conditions:

* * *

(b) The commission shall establish reasonable criteria for, and require the licensure and registration of, any person or entity that provides proposition player services at gambling establishments pursuant to this section, including owners, supervisors, and players. Those employed by a third-party provider of proposition player services, including owners, supervisors, observers, and players, shall wear a badge which clearly identifies them as proposition players whenever they are present within a gambling establishment. The commission may impose licensing requirements, disclosures, approvals, conditions, or limitations as it deems necessary to protect the integrity of controlled gambling in this state, and may assess, and the department may collect, reasonable fees and deposits as necessary to defray the costs of providing this regulation and oversight

⁵ "Department" refers to the Department of Justice. (Bus. & Prof. Code, § 19805, subd. (h).)

1 **California Code of Regulations, title 4**

2 14. California Code of Regulations, title 4, section 12002, provides, in part:

3 Unless otherwise specified, the definitions in Business and
4 Professions Code section 19805, supplemented by the definitions
5 found in Chapter 10 of Title 9 of Part 1 of the Penal Code
(commencing with section 330), govern the construction of this
6 division. As used in this division:

7 * * *

8 (ab) “Initial license” means the same as provided in Business and
9 Professions Code section 19805; and, for the purposes of this division
10 also includes:

11 (1) The following licenses:

12 * * *

13 (E) Initial TPPPS business license;

14 (F) Initial TPPPS endorsee license;

15 * * *

16 (2) The following license types:

17 * * *

18 (C) Initial TPPPS owner license type; or

19 * * *

20 (as) “TPPPS endorsee license” includes a license issued to any of
21 the following:

22 * * *

23 (4) Any TPPPS funding source.

24 (at) “TPPPS funding source” means any person, or their
25 successor in interest, that provides financing to any TPPPS owner
26 type licensee, for use by a TPPPS business licensee in which the
27 person is not licensed including but not limited to loans, advances, or
28 any other thing of value including without limitation credit and
chips. TPPPS funding source does not include any federally or state
chartered lending institution or any of the following entities that in
the aggregate owns at least \$100,000,000 in securities, loans, or
other investment instruments of issuers that are not affiliated with
the entity:

* * *

1 (av) “TPPPS owner type license” means a TPPPS business
2 license and a TPPPS endorsee license.

3 15. California Code of Regulations, title 4, section 12056, subdivision (a) provides, in
4 part:

5 If the Commission elects to hold an evidentiary hearing, the
6 hearing will be conducted as a GCA hearing under Section 12060,
7 unless the Executive Director or the Commission determines the
8 hearing should be conducted as an APA hearing under Section
9 12058

10 16. California Code of Regulations, title 4, section 12060, provides:

11 (a) If the Executive Director determines it is appropriate, he or he
12 may set an application for consideration at a GCA hearing in advance
13 of a meeting pursuant to Section 12054. The Executive Director shall
14 give notice to the applicant, pursuant to paragraph (2) subsection (c) of
15 Section 12052, to the Office of the Attorney General, and to the
16 Bureau no later than 90 calendar days in advance of the GCA hearing.
17 The Executive Director's determination will be based on information
18 contained in the Bureau's report or other appropriate sources
19 including, without limitation, a request from the Bureau or applicant
20 as well as the Commission's operational considerations. The
21 Commission retains the authority to refer the matter to an APA
22 hearing pursuant to subsection (a) of Section 12056 or hear the matter
23 at a Section 12054 meeting if the Commission deems it appropriate.

24 (b) When the Commission has elected to hold a GCA hearing, the
25 Executive Director shall give notice to the applicant, pursuant to
26 paragraph (2) subsection (c) of Section 12052, to the Office of the
27 Attorney General, and to the Bureau no later than 60 calendar days in
28 advance of the GCA hearing.

(c) The presiding officer shall have no communication with the
Commission or Commission staff upon the merits, or upon
information or documents related to the application prior to the
evidentiary hearing. The Executive Director shall designate a
presiding officer which shall be:

(1) A member of the Commission's legal staff; or,

(2) An Administrative Law Judge.

(d) The applicant or the complainant, or the applicant and the
complainant, may request a continuance in writing to the Executive
Director stating the reason for the continuance and any proposed
future hearing dates. The Executive Director or Commission may
approve the request.

(e) The complainant shall provide to the applicant, at least 45
calendar days prior to the GCA hearing, and the applicant shall

1 provide to the complainant, at least 30 calendar days prior to the GCA
2 hearing, the following items.

3 (1) A list of potential witnesses with the general subject of
4 the testimony of each witness;

5 (2) Copies of all documentary evidence intended to be
6 introduced at the hearing and not previously provided;

7 (3) Reports or statements of parties and witnesses, if
8 available; and

9 (4) All other written comments or writings containing
10 relevant evidence.

11 (f) A presiding officer shall rule on the admissibility of evidence
12 and on any objections raised except for objections raised under
13 subsection (g). A ruling by the presiding officer shall be final.

14 (1) In advance of the GCA hearing, upon a motion of a party
15 or by order of the presiding officer, the presiding officer may
16 conduct a pre-hearing conference, either in person, via
17 teleconference, or by email exchange, subject to the presiding
18 officer's availability and shall issue a pre-hearing order if
19 appropriate or requested by either party. The pre-hearing
20 conference and order may address the following:

21 (A) Evidentiary issues;

22 (B) Witness and exhibit lists;

23 (C) Alterations in the Bureau recommendation;

24 (D) Stipulation for undisputed facts including the
25 admission of the Bureau's report; and

26 (E) Other issues that may be deemed appropriate to
27 promote the orderly and prompt conduct of the hearing.

28 (2) The GCA hearing need not be conducted according to
technical rules of evidence. Any relevant evidence may be
considered, and is sufficient in itself to support findings if it is the
sort of evidence on which reasonable persons are accustomed to
rely in the conduct of serious affairs, regardless of the existence of
any common law or statutory rule that might make improper the
admission of that evidence over objection in a civil action.

(g) The Commission may, at any time upon a showing of
prejudice by the objecting party:

(1) Prohibit the testimony of any witness or the introduction
of any documentary evidence that has not been disclosed pursuant
to subsection (e); or

1 (2) Continue any meeting or hearing as necessary to mitigate
2 any prejudice.

3 (h) The complainant shall present all facts and information in the
4 Bureau report, if any, and the results of the Bureau's background
5 investigation, and the basis for any recommendation, if the Bureau
6 filed one with the Commission according to Business and Professions
7 Code section 19868, to enable the Commission to make an informed
8 decision on whether the applicant has met her, his, or its burden of
9 proof. The complainant may but is not required to recommend or seek
10 any particular outcome during the evidentiary hearing, unless it so
11 chooses.

12 (i) The burden of proof is on the applicant at all times to prove
13 her, his, or its qualifications to receive any license or other approval
14 under the Act.

15 (j) The applicant may choose to represent himself, herself, or
16 itself, or may retain an attorney or lay representative.

17 (k) Except as otherwise provided in subsection (g), the
18 complainant and applicant shall have the right to call and examine
19 witnesses under oath; to introduce relevant exhibits and documentary
20 evidence; to cross-examine opposing witnesses on any relevant matter,
21 even if the matter was not covered in direct examination; to impeach
22 any witness, regardless of which party first called the witness to
23 testify; and to offer rebuttal evidence. If the applicant does not testify
24 on her, his or its own behalf, the applicant may be called and
25 examined, under oath, as if under cross-examination.

26 (l) Oral evidence shall be taken upon oath or affirmation, which
27 may be administered by the Executive Director, a member of the
28 Commission, or the presiding officer, if an Administrative Law Judge.

(m) At the conclusion of the evidentiary hearing, the members of
the Commission shall take the matter under submission, may discuss
the matter in a closed session meeting, and may schedule future closed
session meetings for deliberation.

17. California Code of Regulations, title 4, section 12104, provides in part:

(b) The commission will endorse upon each certificate the names
of all other owners affiliated with the TPPPS business license.

18. California Code of Regulations, title 4, section 12114, provides in part:

(d) Each person who is required to hold a cardroom endorsee
license or TPPPS endorsee license must complete and execute a
separate application for renewal of that person's license. All
applications for renewal of a cardroom endorsee license or TPPPS
endorsee license must be submitted to the Bureau together with the

1 cardroom business license or TPPPS business license application in a
2 single package, as provided in subsections (a) through (c), inclusive.

3 19. California Code of Regulations, title 4, section 12130, provides in part:

4 (a) For the purposes of this section:

5 (1) “TPPPS registrant” means a person having a valid
6 TPPPS registration.

7 (2) “TPPPS registration” means a registration for an owner
8 or employee of a provider of third-party proposition player
9 services that was issued by the Commission prior to the
10 effective date of this regulation.

11 * * *

12 (e) If a TPPPS registrant is a corporation, partnership, limited
13 liability company, or other business entity, each owner, and individual
14 having a relationship to that entity specified in Business and
15 Professions Code section 19852, subdivisions (a) through (i),
16 inclusive, must individually request and obtain registration as an
17 owner listed on the business entity’s registration certificate.
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