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9  
10 BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT  
11 OF THE STATE OF CALIFORNIA

12 In the Matter of: ) ORGANIZATION NO.: 306030  
13 )  
14 THE COMMISSIONER OF BUSINESS ) CONSENT ORDER  
OVERSIGHT, )  
15 )  
16 Complainant, )  
17 )  
18 v. )  
19 )  
INNER MONGOLIA LITTLE SHEEP )  
20 CATERING CHAIN, COMPANY, LTD., )  
21 )  
Respondent. )  
22 )

23 This Consent Order is entered into between the Commissioner of Business Oversight  
24 (Commissioner) and Respondent Inner Mongolia Little Sheep Catering Chain, Company, Ltd.  
25 (IMLS), and is made with respect to the following facts.

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I.

Recitals

A. The Commissioner is the head of the Department of Business Oversight (Department) and is responsible for administering and enforcing the Franchise Investment Law (FIL) (Corp. Code, § 31000 et seq.), and registering the offer and sale of franchises in California.

B. IMLS is a Chinese limited liability company formed in the Inner Mongolia Autonomous Region of the People’s Republic of China in 1999. IMLS has its principal place of business located at 9 Wulan Avenue, Kundulun District, Baotou City, Inner Mongolian Autonomous Region, the People’s Republic of China.

C. Ted Tuern Lee is IMLS’ legal representative and, as such, is authorized to enter into this Consent Order on behalf of IMLS.

D. IMLS began franchising restaurants in Mainland China under the name “Little Sheep Hot Pot” (Little Sheep Hot Pot Restaurants) in 2001. Little Sheep Hot Pot Restaurants specialize in Mongolian style “Hot Pot” cooking.

E. IMLS established Little Sheep Hong Kong Holdings Company Limited (Little Sheep) in Hong Kong, China on January 27, 2004. IMLS is Little Sheep’s immediate parent company.

F. Little Sheep’s principal place of business is 20/F, Tai Hung Fai (Tsuen Wan) Centre, 55 Chung On Street, Tsuen Wan, Hong Kong, China.

G. Little Sheep was established by IMLS for the purpose of operating Little Sheep Hot Pot Restaurants in Hong Kong and Macau.

H. On October 25, 2017, IMLS granted Little Sheep the exclusive right to operate and to franchise Little Sheep Hot Pot Restaurants everywhere in the world outside Mainland China under a master franchise agreement. Little Sheep intends to offer and sell franchises to investors in the state of California under its October 25, 2017 master franchise agreement with IMLS.

I. On December 7, 2018, Little Sheep filed an application with the Commissioner for an initial franchise registration under Corporations Code section 31111.

J. Before filing the application counsel for Little Sheep notified the Commissioner that

1 IMLS had previously entered into a master franchise agreement with Three Lamb Investments  
2 International LTD (Three Lamb) on January 1, 2011.

3 K. Three Lamb is or was a company organized in British Columbia, Canada. Three  
4 Lamb's director is or was George Jiao (Jiao). Three Lamb had its principal place of business located  
5 at 2232 West 41st Avenue, Suite 202, Vancouver, British Columbia V6M 1Z8, Canada.

6 L. Three Lamb and Jiao's current whereabouts are unknown.

7 M. Under the January 1, 2011 master franchise agreement entered with IMLS, Three  
8 Lamb had the exclusive right to operate and sub-franchise Little Sheep Hot Pot Restaurants  
9 throughout Canada, Mexico, and the United States. As of January 1, 2011, 12 Little Sheep Hot Pot  
10 Restaurants were in operation, including seven franchises in the United States, and agreed to  
11 comply with all applicable laws relating to the exercise of its rights. As the exclusive master  
12 franchisee of Little Sheep Hot Pot Restaurants in California, Three Lamb had a duty to either  
13 register the franchises it offered pursuant to the FIL, or to satisfy the requirements of exemptions  
14 from registration under the FIL.

15 N. Three Lamb subsequently executed franchise agreements with the owners of the  
16 existing North American restaurants and began entering franchise agreements to establish other  
17 Little Sheep Hot Pot Restaurants in North America. Between 2011 and 2017, under the January 1,  
18 2011 master franchise agreement, Three Lamb operated, or granted others the right to operate, 40  
19 Little Sheep Hot Pot Restaurants in North America, including 13 locations in the state of California.

20 O. IMLS terminated its master franchise agreement with Three Lamb in July of 2018,  
21 and Three Lamb agreed to close all of its franchised locations and company-owned restaurants by  
22 June 30, 2020.

23 P. A review of the Commissioner's records failed to disclose a franchise registration  
24 application or exemption notice filed with the Department on behalf of IMLS or Three Lamb for the  
25 offer and sale of the 13 California franchised locations. The Commissioner therefore has concluded  
26 that the 13 franchises Three Lamb offered and sold on behalf of IMLS between 2011 and 2017,  
27 under the January 1, 2011 master franchise agreement, were neither registered nor exempt from the  
28 registration requirements of the FIL.

1 Q. Based on the foregoing, the Commissioner is of the opinion that Three Lamb, in  
2 violation of Corporations Code section 31110, offered and sold 13 unregistered, nonexempt  
3 franchises in California between 2011 and 2017 (the findings), and that IMLS, as grantor of master  
4 franchise rights to Three Lamb, is vicariously liable for the unlawful franchise sales made by Three  
5 Lamb.

6 R. IMLS neither admits nor denies the findings contained in this Consent Order.

7 S. The Commissioner finds that entering into this Consent Order is in the public interest  
8 and consistent with the purposes fairly intended by the policies and provisions of the FIL.

9 NOW, THEREFORE, in consideration of the foregoing, and the terms and conditions set  
10 forth herein, the parties agree as follows.

11 **II.**

12 **Terms and Conditions**

13 1. Purpose. The parties intend to resolve this matter for the purpose of judicial economy  
14 and expediency and without the uncertainty and expense of a hearing or other litigation and for the  
15 purpose of allowing Little Sheep to register its franchises.

16 2. Citations. Based on the findings set forth in the recitals above, and under Corporations  
17 Code section 31406, subdivision (a), IMLS agrees that it is ordered to desist and refrain from  
18 violating Corporations Code section 31110 and is further ordered to pay administrative penalties to  
19 the Commissioner in the amount of \$22,100.00 (the Administrative Penalty) for 13 violations of  
20 Corporations Code section 31110 (Citations).

21 3. Administrative Penalty. IMLS shall pay the Administrative Penalty of \$22,100.00 to  
22 the Commissioner. The Commissioner acknowledges receipt of payment of the Administrative  
23 Penalty from IMLS before or contemporaneous with the execution of this Consent Order.

24 4. Waiver of Hearing Rights. IMLS acknowledges that the Commissioner is ready,  
25 willing, and able to proceed with the filing of an administrative enforcement action on the findings  
26 contained in the recitals set forth above. IMLS hereby waives its rights to any hearing, and to any  
27 reconsideration, appeal, or other right to review which may be afforded it pursuant to the FIL; the  
28 Administrative Procedure Act; the Code of Civil Procedure; or any other provision of law. By

1 waiving such rights, IMLS effectively consents to this Consent Order and Citations becoming final.

2 5. Full and Final Resolution. The parties hereby acknowledge and agree that this Consent  
3 Order and Citations are intended to constitute a full and final resolution of the violations described  
4 herein, and that no further proceedings or actions will be brought by the Commissioner against IMLS  
5 or Little Sheep or their affiliates, principals or representatives in connection with these matters under  
6 the FIL or any other provision of law, excepting therefrom any proceeding to enforce compliance  
7 with the terms of this Consent Order. Moreover, the Commissioner agrees that Little Sheep’s  
8 franchise registration shall not be further conditioned or restricted in any way as a result of the  
9 findings in this Consent Order.

10 6. Information Willfully Withheld. This Consent Order may be revoked, and the  
11 Commissioner may pursue any and all remedies available under law against IMLS if the  
12 Commissioner discovers that IMLS knowingly or willfully withheld or misrepresented information  
13 used for and relied upon in this Consent Order.

14 7. Future Actions by Commissioner. If IMLS fails to comply with the terms of this  
15 Consent Order, the Commissioner may institute proceedings for any and all violations otherwise  
16 resolved under this Consent Order. The Commissioner reserves the right to bring any future actions  
17 against IMLS, or any of its members, partners, owners, officers, directors, employees, or successors  
18 for any and all unknown violations of the FIL.

19 8. Assisting Other Agencies. Nothing in this Consent Order limits the Commissioner’s  
20 ability to assist any other government agency (city, county, state or federal) with any prosecution,  
21 administrative, civil or criminal action brought by that agency against IMLS or any other person  
22 based on any of the activities alleged in this matter or otherwise.

23 9. No Presumption Against Drafter. Each party acknowledges that it has had the  
24 opportunity to draft, review, and edit the language of this Consent Order. Accordingly, the parties  
25 intend no presumption for or against the drafting party will apply in construing any part of this  
26 Consent Order. The parties waive the benefit of Civil Code section 1654 as amended or  
27 corresponding provisions of any successor statute, which provide that in cases of uncertainty,  
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1 language of a contract should be interpreted most strongly against the party who caused the  
2 uncertainty to exist.

3 10. Independent Legal Advice. Each of the parties represents, warrants, and agrees that he,  
4 she, or it has received independent advice from its attorney(s) or representatives with respect to the  
5 advisability of executing this Consent Order.

6 11. Headings. The headings to the paragraphs of this Consent Order are inserted for  
7 convenience only and will not be deemed a part hereof or affect the construction or interpretation of  
8 the provisions hereof.

9 12. Binding. This Consent Order is binding on all heirs, assigns, and successors in  
10 interest.

11 13. Reliance. Each of the parties represents, warrants, and agrees that in executing this  
12 Consent Order, he, she, or it has relied solely on the statements set forth herein and the advice of their  
13 own legal counsel. Each of the parties further represents, warrants, and agrees that in executing this  
14 Consent Order they have placed no reliance on any statement, representation, or promise of any other  
15 party, or any other person or entity not expressly set forth herein, or upon the failure of any party or  
16 any other person or entity to make any statement, representation, or disclosure of anything  
17 whatsoever. The parties have included this clause: (1) to preclude any claim that any party was in any  
18 way fraudulently induced to execute this Consent Order; and (2) to preclude the introduction of parol  
19 evidence to vary, interpret, supplement, or contradict the terms of this Consent Order.

20 14. Waiver, Amendments, and Modifications. No waiver, amendment, or modification of  
21 this Consent Order will be valid or binding unless it is in writing and signed by each of the parties.  
22 The waiver of any provision of this Consent Order will not be deemed a waiver of any other  
23 provision. No waiver by either party of any breach of, or of compliance with, any condition or  
24 provision of this Consent Order by the other party will be considered a waiver of any other condition  
25 or provision or of the same condition or provision at another time.

26 15. Full Integration. This Consent Order is the final written expression and the complete  
27 and exclusive statement of all the agreements, conditions, promises, representations, and covenants  
28 between the parties with respect to the subject matter hereof, and supersedes all prior or

1 contemporaneous agreements, negotiations, representations, understandings, and discussions between  
2 and among the parties, their respective representatives, and any other person or entity, with respect to  
3 the subject matter covered hereby.

4 16. Governing Law. This Consent Order will be governed by and construed in accordance  
5 with California law. Each of the parties hereto consents to the jurisdiction of such court and thereby  
6 irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the  
7 maintenance of such action or proceeding in such court.

8 17. Counterparts. This Consent Order may be executed in one or more separate  
9 counterparts, each of which when so executed, shall be deemed an original. Such counterparts shall  
10 together constitute a single document.

11 18. Effect Upon Future Proceedings. If IMLS applies for any license, permit or  
12 qualification under the Commissioner's current jurisdiction, or is the subject of any future action by  
13 the Commissioner to enforce this Consent Order, then the subject matter hereof shall be admitted for  
14 the purpose of such application(s) or enforcement proceeding(s).

15 19. Voluntary Agreement. IMLS hereby enters into this Consent Order voluntarily and  
16 without coercion and acknowledge that no promises, threats, or assurances have been made by the  
17 Commissioner or any officer, or agent thereof, about this Consent Order. The parties each represent  
18 and acknowledge that he, she, or it is executing this Consent Order completely voluntarily and  
19 without any duress or undue influence of anything from any source.

20 20. Notice. Any notice required under this Consent Order be provided to each party at the  
21 following addresses:

22 If to Respondent IMLS: Ted Tuern Lee, Legal Representative  
23 Inner Mongolia Little Sheep Catering Chain, Company, Ltd.  
24 9 Wulan Avenue  
25 Kundulun District  
26 Baotou City, Inner Mongolia Autonomous Region  
27 The People's Republic of China

28 With copy to: Carl E. Zwisler, Esq.  
Lathrop GPM

1 600 New Hampshire Avenue, N.W.  
2 Washington, D.C. 20037  
3 carl.zwisler@lathropgpm.com

4 If to the Commissioner:

5 Blaine A. Noblett, Senior Counsel  
6 Department of Business Oversight  
7 320 W. 4th Street, Suite 750  
8 Los Angeles, California 90013-2344  
9 blaine.noblett@dbo.ca.gov

10 21. Signatures. A scanned or electronic signature shall be deemed the same as an original  
11 signature.

12 22. Public Record. IMLS hereby acknowledges that this Consent Order is and will be a  
13 matter of public record.

14 23. Effective Date. This Consent Order shall become final and effective when signed by  
15 all parties and delivered by the Commissioner's agent via email to IMLS at the following email  
16 address carl.zwisler@lathropgpm.com.

17 24. Authority to Sign. Each signatory hereto covenants that he or she possesses all  
18 necessary capacity and authority to sign and enter into this Consent Order and undertake the  
19 obligations set forth herein.

20 [Signature page to follow]  
21  
22  
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1 IN WITNESS WHEREOF, the parties hereto have approved and executed this Consent Order  
2 on the dates set forth opposite their respective signatures.

3 MANUEL P. ALVAREZ  
4 Commissioner of Business Oversight

5 Dated: July 14, 2020

6 By \_\_\_\_\_  
7 MARY ANN SMITH  
8 Deputy Commissioner  
9 Enforcement Division

10 INNER MONGOLIA LITTLE SHEEP CATERING  
11 CHAIN, COMPANY, LTD.

12 Dated: July 13, 2020

13 By \_\_\_\_\_  
14 TED TUERN LEE, Legal Representative  
15 On behalf of Inner Mongolia Little Sheep Catering  
16 Chain, Company, LTD.

17 Approved as to Form

18 By \_\_\_\_\_  
19 Carl E. Zwisler, Esq.  
20 Lathrop GPM, LLP  
21 Attorneys on behalf of IMLS  
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