

## FRANCHISE DISCLOSURE DOCUMENT

Cannect LLC  
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# FENG CHA

We are **Cannect LLC** a Texas limited liability company. We offer franchises to qualified individuals and entities to own and operate a FENG CHA™ franchise under our service marks, trade names, programs, and systems under the name “**FENG CHA.**” Our franchisees offer quality drinks and desserts to the public under the Service Marks and the FENG CHA programs and systems (the "Method of Operation").

The total investment necessary to begin operation of a **FENG CHA** franchise is **\$194,916.10 to \$513,375.63**. This includes the initial investment of **\$45,000** that must be paid to us. Your initial investment and initial fees are more fully described in Items 5, 6, and 7 of this Disclosure Document.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Johnny Gao at 412 N. Bowser Rd., Richardson TX 75081 or at (972) 762-1373.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as “A Consumer's Guide to Buying a Franchise”, which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

**ISSUANCE DATE: February 29, 2024**

## How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits, or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only Feng Cha business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Feng Cha franchisee?</b>	Item 20 lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## What You Need to Know About Franchising Generally

**Continuing responsibility to pay fees.** You may have to pay royalties and other fees even if you are losing money.

**Business model can change.** The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

**Supplier restrictions.** You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

**Operating restrictions.** The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

**Competition from franchisor.** Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

**Renewal.** Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

**When your franchise ends.** The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

## **Some States Require Registration**

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit F.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the Location of the State Specific Addenda.

## Special Risks to Consider About This Franchise

Certain states require that the following risks be highlighted:

1. **Out of State Dispute Resolution**. The franchise agreement requires you to resolve disputes with us by mediation, arbitration, and litigation only in Texas. Out-of-state arbitration, litigation, and mediation may force you to accept a less favorable settlement for disputes. It may also cost you more to sue, arbitrate, or mediate with us in Texas than in your own state.
2. **Spousal Guarantee**. Your spouse must sign a document, such as a guarantee, that makes your spouse liable for your financial obligations under the franchise agreement even if your spouse does not own any part of the franchise business. If you live in a community property state, your spouse may be liable for your financial obligations even if he or she hasn't signed anything. In either case, both you and your spouse's marital and personal assets, including your house, could be lost if your franchise fails.
3. **Supplier Control**. You must purchase all or nearly all of the inventory and supplies that are necessary to operate your business from the franchisor, its affiliates, or suppliers that the franchisor designates, at prices the franchisor or they set. These prices may be higher than prices you could obtain elsewhere for the same or similar goods. This may reduce the anticipated profit of your franchise business.

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" to see whether your state requires other risks to be highlighted.

## **The Following Apply to Transactions Governed by Michigan Franchise Investment Law Only**

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- a. A prohibition on the right of a franchisee to join an association of franchisees.
- b. A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protection provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- c. A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- d. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- e. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- f. A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- g. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
  - (1) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (2) The fact that the proposed transferee is competitor of the franchisor or sub franchisor.
  - (3) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (4) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

- h. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).
- i. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.  
If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, the franchisee may request the franchisor to arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations, if any, of the franchisor to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENFORCEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to:

Consumer Protection Division  
Antitrust and Franchise Unit  
Michigan Department of Attorney General  
670 G. Mennen Williams Building  
525 West Ottawa Lansing, Michigan 48933  
(517) 373-7177

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# 1. THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

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We are **Cannect LLC** (called “We,” “Us,” or “Our”). We were organized in Texas on November 10, 2016. We do business under the **FENG CHA**, logo. We do not intend to do business under any other names. FENG CHA and Cannect LLC are called “us” or “we” or “FENG CHA” in this Franchise Disclosure Document. “You” means the prospective purchaser of a FENG CHA franchise, and includes owners or partners of a corporation, partnership, or other legal entity that purchases a FENG CHA franchise. No distinction is made herein between a Feng Cha franchise or a Feng Cha office, and the two phrases are used interchangeably.

We are the franchisor of the FENG CHA franchise system. We have been in business as a franchisor since November 10, 2016. We license our franchisees in specified territories to own and to operate franchises under the name “FENG CHA”. We authorize our franchisees to operate a beverage and desert cafe, serving primarily oriental-style foods, and to use our Method of Operation and our service marks in the operations of the franchisee’s business.

We have sister company affiliates under common ownership one of which licenses intellectual property rights to us, and the other of which is a principal supplier of certain FENG CHA items. The intellectual property rights are held by CANNECT LLC. The supplier is OFFO LLC. We also operate a company-owned store, FENG CHA LAB LLC, which engages in activities similar to those of our franchisees, and tests potential new concepts. You will not have a direct relationship to the intellectual property licensing company or the company-owned store, but you will deal directly with OFFO LLC, the supplier of certain FENG CHA items. Our officers, Zhongming Gao and Yan Chen, have ownership interests in OFFO LLC and FENG CHA LAB LLC.

Our principal office address, and the principal office address of all our affiliates, is 412 N Bowser Rd, Richardson, TX 75081. Our telephone number is (972) 762-1373. We began offering FENG CHA franchises in January 2017. We do not have any other business activities. We have never offered franchises in any other line of business. We produce and sell innovative advertising and sales promotion materials. We may attempt to negotiate group discount rates for the benefit of our franchisees for products, supplies, and equipment.

Our registered agents for service of process are outlined in Exhibit D to this Disclosure Document.

We and our affiliate companies retain the right to own or operate additional **FENG CHA** franchises.

The market for oriental beverage and desert retail outlets is emerging and growing in the United States. The principal sources of direct competition for your franchise are similar businesses, some of which may be part of other, existing franchise chains that provide beverage and deserts to consumers. Indirect sources of competition come from grocery or other supply sources where consumers may purchase their own ingredients.

There may be federal, state, and in some cases local regulations pertaining specifically to the preparation and service of foods such as those used in Feng Cha beverage and deserts and in the restaurant industry more generally. These include regulations regarding food handling permits, employee training, and related items. We will only approve ingredients, processes, and services which have received approval, as applicable. Other legal regulations that apply to all businesses generally may include:

Federal, state, and city, county, parish, borough, municipality, or other local laws

**Federal** Examples of federal laws are wage and hour, occupational health and safety, equal employment opportunity, hazardous materials communication to employees, hazardous waste and environmental, and the Americans With Disabilities Act.

**State** State laws may cover the same topics as federal laws. Examples of state laws include environmental, occupational health and safety, fire, health, and building and construction laws.

**Local** Local laws may cover the same topics as federal and state laws. Examples of local laws include health and sanitation, building codes, fire codes, and waste disposal.

This Disclosure Document contains a summary of some material provisions of the Franchise Agreement. However, the Franchise Agreement expresses and governs the actual legal relationship between us and you.

The Franchise Agreement does not make you our agent, legal representative, joint ventures, partner, employee, or servant for any purpose. You will be an independent contractor and will not be authorized to make any contract, agreement, warranty or representation or to create any obligation, express or implied, for us.

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## 2. BUSINESS EXPERIENCE

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### **Zhongming Gao** - Co-Founder and Co-CEO

Mr. Gao is co-founder and co-CEO of Feng Cha. He has served as such since our formation in Texas in 2016.

### **Yan Chen** - Co-Founder and Co-CEO

Ms. Chen is co-founder and co-CEO of Feng Cha. She has served in these capacities since our formation in Texas in 2016.

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### 3. LITIGATION

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No litigation is required to be disclosed in this Item.

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### 4. BANKRUPTCY

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No bankruptcy is required to be disclosed in this item.

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### 5. INITIAL FEES

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The Initial Franchise Fee (“IFF”) is **\$35,000**. The Initial Franchise Fee is paid in consideration for our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of the Franchise Agreement, the opening of the Franchise, and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others. Our proprietary software is also included in the Initial Franchise Fee. Simultaneous with the execution of the Franchise Agreement, you will pay to us the entire Initial Franchise Fee.

Before we enter into a franchise agreement with you, and to conduct further evaluation of your qualifications to become one of our franchisees, as well as to permit you more in-depth evaluation of our franchise system, you may enter into a franchise deposit agreement. Such a franchise deposit agreement may permit you priority to become a franchisee in a geographic area that interests you, and has a nonrefundable \$5,000 deposit associated with the agreement, which is credited toward your initial franchise fee upon signing the franchise agreement.

You will be required to participate in basic training, presently delivered through an online platform. Upon successful completion (with a 100% passing grade), you will be required to attend an in-person training at a location of our designation, anticipated to span at least six (6) days. Associated with this in-person training, you will pay us a \$10,000 Initial Training Fee, to cover our costs in delivering in-person training as well as the follow-up on-site support (estimated at 7 days) when your franchised business is under its soft opening.

We may provide referral incentives to existing franchisees, employees, real estate professionals, franchise brokers and others for qualified referrals of prospective franchisees. We reserve the right to determine the amount of these incentives, which may be equal to some or the entire Initial Franchise Fee.

We may also pay membership fees to public, quasi-public and private services that refer potential franchisees from identified groups (such as veterans or military personnel planning to leave the service).

You will also pay for initial supplies, inventory and smallware that will be used in your beverage and dessert restaurant, including supplies and smallware used for the location and lobby. We require all such supplies, inventory and smallware to be purchased from us, or our affiliate, and the anticipated total cost, is generally around **\$19,901.30 - \$32,516.80**. Among the initial supplies, inventory, and equipment will be your fructose dispenser (sugar machine), smallware kit, and cup sealer machine, initial marketing materials (posters, interior signage, canvas and etc.) as well as your initial supply of tea, coffee, concentrates, and flavoring ingredients, as well as packaging materials, cups, , and other merchandise bearing our logo. Additionally, certain fresh ingredients including dairy products and fresh fruit will need to be acquired.

Additionally, equipment such as appropriate refrigeration and freezer fixtures, a coffee and espresso machine, and other related items will be purchased from us. Your kiosk, or any additional kiosk, will be purchased through an approved third party supplier. The anticipated cost for these items is **\$36,000-\$55,000**.

Your use of our required point-of-sale (POS) system with our designated and approved payment processing company will require a device fee of approximately \$2,000.

You must open the franchise within **270** days after the date of the Franchise Agreement. This time requirement may be extended for multiple franchise purchases. If this obligation is not fulfilled, we may elect to terminate the Franchise Agreement by refunding one-quarter of the Initial Franchise Fee and any amount paid for purchases of unused advertising materials and apparel from us or our parent. We may retain the remaining portion of the Initial Franchise Fee and any amount paid to us, our parent or our affiliates for used advertising material and apparel. You must return any unused products you have obtained from us.

We may offer franchises at a reduced rate to prospective franchisees who in our opinion possess the knowledge and experience to conduct business with minimal assistance from us or who are purchasing multiple franchises. Such a reduced rate would be determined on an ad hoc basis, at our discretion, without any specific criteria, and without a defined reduction in rate. Occasionally, we may grant new franchises to our owners and employees and their family members with reduced or no initial fees.

The Initial Franchise Fee and the amount paid for the initial advertising materials are not refundable in whole or in part under any circumstances other than those listed above.

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## 6. OTHER FEES

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<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
License Fee	5% of Gross Revenue.	Payable on the 5 <sup>th</sup> of each month, for all treatments completed during the preceding month.	This fee must be payable through automatic debit processes as outlined in the FENG CHA Operating Manual.
National Advertising Fee	1% of Gross Revenue.	Payable on the 5 <sup>th</sup> of each month, for all Gross Revenues of the preceding month.	This fee must be payable through automatic debit processes as outlined in the FENG CHA Operating Manual.
Additional Training	The then-current rate of our personnel, currently <b>\$500</b> per day.	Before opening or after you open your franchise for business.	You must give us not less than 35 days' prior written notice of your desire to receive additional training. The duration of training is negotiable depending upon your needs. You will not receive any compensation for services rendered by the trainee during this or any other training. We may designate qualified franchisees or master franchisees to conduct some or all of your training. The training fee listed here is paid to us. You will additionally be responsible for associated travel expenses.
Refresher training programs and seminars	<b>\$500</b> per registration, per person.	Upon demand	In addition to a reasonable training fee, you are exclusively responsible for paying all travel, living and other expenses and compensation of attending refresher training programs and seminars. (See Franchise Agreement, Section 3.2)
Operational Non-Compliance Fee	\$100 per day until cured	Upon demand	If you fail any compliance inspection, or otherwise are confirmed to be non-compliant with the agreement or with the operations manual, you will incur this fee

<b><u>Name of Fee</u></b>	<b><u>Amount</u></b>	<b><u>Date Due</u></b>	<b><u>Remarks</u></b>
			until you correct the non-compliance.
Reexamination Fee	\$100 per reexamination per trainee	Upon demand	Training is deemed completed upon successful completion of the final training exam. In the event that you do not successfully complete the final training exam on your first attempt a reexamination fee of \$100 will apply for each trainee requiring additional examination.
Cost to Attend Annual Convention and Trade Show	\$1,000 to \$3,500	As arranged with third party vendors, in years when a convention is held.	You are required to attend our annual convention and trade show when it is held. The amounts in this table are estimates for your travel, food and lodging costs to attend. This is not a fee collected by us; these amounts are paid to third parties vendors. Travel and lodging costs, including plane fares, may vary greatly based on your franchise location and the distance to the location of the annual convention.
Transfer Fee	Greater of \$5,000 or 5% of proposed purchase price for the business.	Before transfer	The Transfer Fee will be paid by delivering: (i) a non-refundable deposit of \$1,000 with the written request for our approval of the proposed purchaser and (ii) the balance of the Transfer Fee on the closing date of the transfer. This fee will reimburse us for our legal, accounting, credit check, and investigation expenses that result from the transfer.
Renewal	Up to the greater of \$10,000 or 25% of the then-current initial franchise fee.	Immediately upon demand	

<b><u>Name of Fee</u></b>	<b><u>Amount</u></b>	<b><u>Date Due</u></b>	<b><u>Remarks</u></b>
Step-In Right Costs and Fee	Fee of 10% of revenues due for operations occurring during exercise of Step-In Rights. Out-of-pocket expenses and costs we incur, together with reasonable compensation (no less than 60% of the net profits) for management services.	As Incurred	In addition to the Step-in Fee, you must reimburse us for our out-of-pocket expenses and costs we incur if we step-in to operate your franchise according to Franchise Agreement, and must pay reasonable compensation to us, as well as a Step-In Fee of 10%.
Late Charge	The greater of <b>1.5%</b> per month or the maximum amount allowed by applicable law.	Each month that amounts owed remain unpaid	You will not be compelled to pay late charges at a rate greater than the maximum allowed by applicable law.
Late Payment Penalty	\$100 per day from the date due until paid in full.	As incurred	You will not be compelled to pay late payment penalty in an amount greater than the maximum allowed by applicable law
Addendum Fee (Note 3)	\$500	As incurred	You must pay us a processing fee for modifications to your franchise agreement that are made at your request. Because those requests which you make are unknown to us, we do not know what proposed modifications that might include, and cannot anticipate which proposed modifications could be agreed to by us. When you request an amendment or addendum to your franchise agreement or related agreements we may require that you sign a general release releasing us from all claims you may have except claims which, under state law, may not be released.
Relocation	You will reimburse us for our out-of-pocket	Prior to relocation	Any relocation is subject to our prior approval.

<b><u>Name of Fee</u></b>	<b><u>Amount</u></b>	<b><u>Date Due</u></b>	<b><u>Remarks</u></b>
	costs concerning the relocation, plus \$5,000.		
Audit (Note 2)	Our costs for the audit if you understate revenue by more than 2% or fail to deliver to us required reports on time.	Immediately upon demand	See notes below.
Re-Inspection Fee and Costs	You will pay a Re-Inspection Fee of \$500 and additionally reimburse us for our out-of-pocket costs if you fail an inspection and the inspector performs a reinspection.	Immediately, as applicable, upon demand.	The Re-Inspection Fee of \$500 is due in connection with the re-inspection, and you additionally owe reimbursement for the inspector's travel expenses, inclusive of a reasonable fee for the driving or commuting time to and from your store, will be assessed, and inclusive of any required round trip airfare, lodging, ground transportation, and per diem meals.
Liquidated Damages (Non-Competition)	\$1000 per day	Upon demand	Paid for each day that you operate the franchise without having complied with the post-expiration and termination or transfer requirements.
Liquidated Damages (Termination)	4% of average monthly revenue generated during twelve-month period prior to termination, multiplied by number of months remaining in your Agreement.	As incurred	Should your material breach or non-cured default result in termination, you agree to a liquidated damage that accrues upon termination.
Attorneys' fees and costs	Our actual costs	As incurred	Payable if we incur costs in obtaining injunctive or other relief for the enforcement of any term of the franchise agreement because of your default under the franchise agreement.
Indemnification	Our actual costs	As incurred	You must reimburse us for claims against us involving your business operations, including reasonable attorneys' fees.

<b><u>Name of Fee</u></b>	<b><u>Amount</u></b>	<b><u>Date Due</u></b>	<b><u>Remarks</u></b>
Prohibited product or service fee.	\$500 per product or service, per day of use or offering of unauthorized products or services (including unauthorized ingredients, menu items, services, or use of unauthorized third-party vendors for goods or services)	If incurred	In addition to other remedies available to us. Cure must be immediate upon oral or written notification. The fee applies if you continue to sell or purchase an unauthorized product or service after we have notified you to cease.
Software Fee	Approximately \$252 - \$647 per month, which may vary based on third-party vendor's then-current rates.	As invoiced.	You will use our designated software for point-of-sale or online order services, and pay any designated vendor their then-current rates.

\*Unless otherwise indicated above, all fees are imposed by and payable to us. All fees are non-refundable. Current fees are uniformly imposed and collected, as described above.

## **NOTES**

- 1. Taxes.** You must pay any taxes imposed as a result of your payment to us of initial or ongoing fees.
- 2. Audits.** We may audit your reports, books, statements, business records, cash control devices, and tax returns at any time during normal business hours. Audits will be conducted at our expense unless you understate the Gross Revenue for any reported period or periods by more than 2 percent or unless you fail to deliver any required report of Gross Revenue or any required financial statement in a timely manner. In the event of an understatement or failure to deliver, you will reimburse us for all audit costs. These will include, among other things, the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit. You will immediately pay all Licensing Fees, National Advertising Fees, Local Advertising expenditures and late payment charges that the audit determines are owed. These payments will not prejudice any other remedies we may have under the Franchise Agreement or by law.
- 3. Addendum Fee.** If you request a modification to your Franchise Agreement that must be achieved through a written addendum to the agreement, we incur legal costs to prepare an appropriate legal document. To defray these costs, for each addendum you request, we charge a processing fee. Such a fee is assessed per addendum, and not per clause or change requested. It is only assessed as actual requests for an addendum are approved, and upon completion and execution of the addendum. Changes or addenda requested by us are not subject to this processing fee.

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## 7. ESTIMATED INITIAL INVESTMENT

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### YOUR ESTIMATED INITIAL INVESTMENT\*

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
Initial Franchise Fee	\$35,000	Check or Wire/ACH	Due upon signing Franchise Agreement.	Us
Initial Training Fee (up to three attendees)	\$10,000	Check or Wire/ACH	Due upon confirmation of your training request.	Us
Advertising (Note *)	\$4,000 to \$6,000	As Incurred	As Incurred	Approved Suppliers
Franchise Premises Rent and Security Deposit (Note 2) (Note *)	\$16,000 to \$40,000	As Incurred	As Incurred	Landlord
Equipment, Fixtures, Signs and Technology Materials (Notes 3 and 4)	\$50,114.80 to \$77,158.83	As Incurred	Before Opening and As Incurred thereafter	Our approved Suppliers
Initial inventory of tea, coffee, cups, menu boards and packaging materials. (Note 4) (Note *)	\$18,901.30 to \$31,516.80	ACH	Due upon order	Our affiliate or approved suppliers.
Initial Training Expenses (Travel and living expenses for your attendance at training)	\$1,000 to \$9,000.	As Incurred	Due thirty (30) business days prior to the commencement of training.	Vendors of travel services
On-Site Support Expenses (for a 7-day on-site support during your location's soft launch)	\$1,000 to \$4,200	Check or Wire/ACH	Due as the trainer incurs the expenses.	Us or our designated Trainer
Leasehold improvements and architectural costs (Note 2)	\$30,000 to \$220,000	As incurred	As incurred	Landlord or contractors
Insurance - liability and worker's compensation (initial deposit)	\$1,900 to \$4,500	As Incurred	Before Opening	Insurers
Professional Services (including licenses and permits)	\$1,000 to \$15,000	As Incurred	As Incurred	Attorneys, Accountants, Etc.
Miscellaneous Initial Expenses	\$5,000 to \$10,000	As Incurred	As Incurred	Approved Suppliers

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
Additional Funds (Notes 1 and 5)	\$20,000 to \$50,000	As Incurred	As Incurred	Employees, Suppliers, Utilities, etc.
<b>TOTAL</b>	<b>\$194,916.10 to \$513,375.63</b>			

**Notes:**

You should anticipate the preceding initial expenditures in connection with the establishment of a **FENG CHA** franchised business. Additional factors related to each expenditure category are described in the following notes.

Note \*: Please note that all entries of these anticipated initial investment amounts reflect an estimate for the initial three months.

Note 1: We estimate that the initial phase covered by the additional funds estimate to be approximately **3 months**, with the estimated amounts ranging from 1 month at the low end of the estimates to 3 months at the high end of the estimates, based upon our supply order data. The predominant factors for calculating the 3-month estimates are amounts paid for your location, employee wages and inventory.

Note 2: The typical franchise will need approximately 1200-2,500 square feet of space. The cost of purchasing or leasing retail or warehouse space varies with the location and size of the premises.

Note 3: You are required to have access to a reliable computer, telephone, internet services and reliable transportation.

Note 4: Supplies, equipment, and inventory are required as outlined in the FENG CHA ShareDrive: myfengcha.com and a copy of an itemized projected supply and equipment list may be obtained from the Franchise Relationship Manager prior to execution of your Franchise Agreement.

Note 5: A minimum of **\$20,000 to \$50,000** of additional funds is strongly recommended. You should plan on other sources of income to cover your living expenses. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

Note 6: No allowance has been made in this table for interest or other financing expenses related to opening the franchise. The need for this type of expense will vary with the terms of any financing you get in connection with your franchise. Financing sources may reduce your initial cash requirements, and the availability and terms of financing to any individual franchisee will depend upon factors including the availability of financing in general, your credit worthiness, the collateral security that you may have and policies of lending institutions concerning the type of business to be operated by you. The investment and expenditures required of actual franchisees may vary considerably from the projections outlined above, depending on many factors, including geographical area, the amount of space leased by you and the capabilities of any particular management and service team. If you are purchasing multiple franchises, you will incur the estimated initial expenditures for each franchise you operate.

You must pay all taxes required by local, state or federal laws related to the services furnished or used in connection with the operation of your franchise. You must obtain all permits, certificates or licenses necessary for the full and proper conduct of the franchise.

The initial marketing program will include social media promotion as well as working with local media platforms to advertise the new store's opening.

### **Note to Franchise Transferees**

It is up to you and the selling franchisee to negotiate and determine the purchase price for the Franchised Business, which may include some or all the items listed in the chart above. We will not necessarily review or comment on the sufficiency or appropriateness of the purchase price to be paid by you. To the extent that any of the items listed above are not included in the purchase price, you may need to incur these costs in addition to the purchase price. A transfer of a franchise will require review of the purchase agreement, execution of an approved transfer acknowledgement agreement, execution of a termination and release of the departing franchisee, and execution of a new franchise agreement by the new franchisee.

### **Note to Renewal Franchisees**

As upon renewal, you will have already established the Franchised Business, you will not incur all of the above estimated amounts. However, we may require you to renovate and replace equipment, signage, and the Franchise Premises as we may require to reflect and to comply with our then-current standards and image. The cost of such renovation and replacement of the Franchised Business will vary depending on the condition of your Franchised Business and our assessment of the renovations which need to be made to bring the Franchised Business up to date with our then-current standards and image.

Any fees paid to us and our affiliates are not refundable. Amounts paid to any third parties may be refundable, depending upon the contracts between them and you.

We do not finance any of these initial expenses. The availability and terms of financing will depend on various factors including the availability of financing generally, your credit worthiness, security available to you, lending institution policies concerning the type of business to be operated by you, and other comparable elements.

We require no other payments other than those already disclosed in Items 5, 6, and 7 of this Disclosure Document.

These tables estimate your initial start-up expenses. These figures represent our estimates based upon our experience and the experience of our licensees. We do not guarantee that you will not have additional and different expenses than those we have identified in this table. Your actual costs will depend upon many factors, including, how well you follow our directions and suggestions, your business skill and experience, local economic conditions, the local market for your products, the location and condition of your franchise premises, the prevailing wage rates, competition, and your sales levels during the initial period.

You should review these estimates with your business advisors before you decide to purchase the franchise or to make any expenditure.

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## 8.

# RESTRICTIONS ON SOURCES OF PRODUCTS & SERVICES

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We will lend to you a copy of our FENG CHA Operating Manual at the mandatory training course described in Item 11, below. We may amend the FENG CHA Operating Manual, including changes that may affect minimum requirements for your franchise operations. You will strictly follow the requirements of the FENG CHA Operating Manual as we amend it. You will carry out immediately all changes at your cost, unless we otherwise specify. We reasonably may designate minimum standards for operations and designate guidelines, as specified in the FENG CHA Operating Manual. The FENG CHA Operating Manual is confidential and our exclusive property. You can find the FENG CHA Operating Manual on [myfengcha.com](http://myfengcha.com).

The FENG CHA Operating Manual contains the FENG CHA System and related specifications, standards, operating procedures, accounting and bookkeeping methods, marketing programs and ideas, advertising layouts, advertising guidelines, operation requirements, public relations guidelines, service guidelines, and other rules that we may prescribe.

You must purchase all advertising materials, equipment, supplies, software, kiosks, architecture/design plans, insurance, real estate agency services, and payroll services from us or our approved suppliers to ensure uniformity and quality of the advertising. Any equipment, products, inventory, or other items that bear the FENG CHA logo or have the words "FENG CHA" in them must be bought from us or an approved supplier.

You must purchase all equipment, inventory, and all other items used in your franchised business from us or from approved suppliers to ensure the quality and uniformity of services in the FENG CHA franchise system. Among the approved suppliers is our affiliate, OFFO LLC, who is the only approved supplier for ingredients, flavors, and certain equipment and packaging. We may attempt to negotiate group discount rates for the benefit of our franchisees for products, supplies, and equipment. Zhongming Gao and Yan Chen have ownership interest in OFFO, LLC.

All specifications that we require of you and lists of approved suppliers will be included in the FENG CHA Operating Manual. We will upon request provide them to approved suppliers and suppliers seeking approval. We will use our best judgment to set and modify specifications to maintain the integrity and quality of our franchise system.

We are currently the only approved suppliers for advertising materials and equipment, products, inventory, and all other items that bear the FENG CHA name or logo.

With advance written notice, you may request our approval to obtain products, equipment, supplies or materials from sources that we have not previously approved. We may require you to give us sufficient information, photographs, drawings, samples and other data to allow us to determine whether the items from these other sources meet our specifications and standards. These specifications and standards will relate to quality, durability, value, cleanliness, composition, strength and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered

to a designated independent testing laboratory for testing before approval and use. You will reimburse us for the actual cost of the tests. We may license any supplier that can meet or exceed our quality control requirements and standards, for a reasonable license fee, to produce and deliver FENG CHA products to you but to no other person. Our confidential requirements, systems and formulas will be revealed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently follow our standards, requirements and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose within 30 days of receiving written notice from you of your request for approval.

We or our agents may inspect any approved manufacturer, supplier or distributor facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier or distributor. If we find from any inspection that a manufacturer, supplier or distributor fails to meet our specifications and standards, we will give written notice describing this failure to you and to the manufacturer, supplier or distributor, with a notice that unless the failure or deficiency is corrected within 30 days, the manufacturer, supplier or distributor will no longer be approved.

We may derive revenue from products and services that you are required to purchase. This revenue results from sales by us and our parent to our franchisees of products bearing our names and services marks, certain marketing and brand development services, and rebates from third-party suppliers. In fiscal year 2023, we received \$22,155.67 from the sale of such products to our franchisees and from supplier rebates representing 1.9% of our \$1,139,792 annual revenues. We estimate that purchases from us or approved suppliers will be from **60** to **90** percent of the total purchases you make to commence operations of your franchise. We estimate that purchases from us or approved suppliers will be from **70** to **90** percent of the total purchases you make to operate your franchise on an ongoing basis.

We may receive rebates, price adjustments, or discounts on products or services sold to you by recommended or approved suppliers. Except as disclosed, these suppliers do not currently pay us a rebate on all franchisee purchases based on a percentage of sales such suppliers make to our franchisees, but may do so in the future, which might be on a percentage or as a flat amount, if such arrangements are negotiated in the future.

We may designate an approved software system or portal based upon our accounting computer software and customer relationship management needs, which will address some of your business needs, including specifically your point-of-sale system. If we do, you will be required to use this software, or any other system so designated in the Operations Manual, together with your accounting systems and a public accounting firm specified by us or otherwise approved by us in writing.

You will be required to make use of certain vendors, including approved vendors for architectural services, general contracting services, real estate broker services, marketing materials or signage, and others as set forth in our Operations Manual.

There are no other obligations for you to purchase or lease according to specifications or from approved suppliers. Except as explained above, we have no required specifications, designated suppliers or approved suppliers for goods, services, or real estate related to your franchise business. Except as explained above, we will not derive revenue from your purchases or leases.

We currently provide material benefits to franchisees based on use of designated or approved sources including the right to renew your franchise rights and to obtain additional franchises.

We negotiate purchase arrangements with suppliers, including price terms for the benefit of our franchisee. In the future, we hope to create and augment the effectiveness of cooperatives for the purchase of products and materials and the provision of advertising, for the benefit of the **FENG CHA** franchise system.

You may not sell any products, services or activities other than those specifically recognized and approved by us as part of our franchise system without our prior written approval. We periodically will provide you suggested retail prices for the products and services offered at the Franchised Shop and, to the extent permitted by applicable law, we may require that you adhere to our suggested prices, including maximum prices or participation in national or regional events, programs, or promotions.

You are required to obtain and keep in force by advance payment of premium appropriate liability insurance. The insurance will include, at a minimum, the following:

- A. Comprehensive general liability insurance, including completed operations, property damage, contractual liability, independent contractors liability, and personal injury coverage with a combined single limit of at least **\$1,000,000** per occurrence and **\$2,000,000** aggregate.
- B. Workers' compensation and employer's liability insurance, and other insurance required by statute or rule of the state in which the franchise is located and operated.
- C. Business interruption and lost profit insurance
- D. Employer Practice liability insurance.
- E. You must obtain automobile liability insurance, including owned, non-owned, leased and hired vehicle coverage, with a combined single limit of at least \$1,000,000 for death, personal injury and property damage for each vehicle designated for business use.

The insurance will not be limited in any way because of any insurance we maintain. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement. The policy or policies will insure against our vicarious liability for actual and, unless prohibited by applicable law, punitive damages assessed against you.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom.

The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, products liability, personal injury, death, or property damage that may accrue due to your operation of the Franchise. Your policies of insurance will contain a separate endorsement naming us as an additional named insured. Failure to obtain insurance that meets these minimums, or to name us as additional insured, will be a basis for us to deliver you a notice of default, which could result in termination of your Franchise Agreement.

In addition to the computer equipment we require you to purchase as disclosed in Item 7 above, we may require you to install and use accounting and business control computer systems approved by us. You must lease, purchase or otherwise acquire, from sources of your choice and at your expense, software and hardware (including but not limited to programs, computer terminals and Internet) which

strictly conform to our specifications as outlined in Item 11, below. Your total purchase costs for these additional computer systems will range from \$1,500 to \$5,000.

## 9. FRANCHISEE’S OBLIGATIONS

**This table lists your principal obligations under the franchise and other related agreement. It will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document.**

<u>OBLIGATION</u>	<u>SECTION IN FRANCHISE AGREEMENT</u>	<u>DISCLOSURE DOCUMENT ITEM</u>
a. Site selection and acquisition or lease	Section 1.1 & 1.2	Items 6 & 12
b. Pre-opening purchases and leases	Sections 4.1, 5.1 & 8.2	Items 7 & 8
c. Site development and other pre-opening requirements	Sections 1.3, 3.1, 4.1 & 5.1	Items 7, 8 & 12
d. Initial and ongoing training	Sections 3.1 & 3.2	Items 6 & 11
e. Opening	Sections 4.1 and 5.1	Item 11
f. Fees	Sections 2.1, 2.2, 2.3, 2.4, 6.1, & 7.1	Items 5, 6 & 17
g. Compliance with standards & policies/ FENG CHA Operating Manual	Sections 5 & 6.3	Items 11 & 17
h. Trademarks and proprietary information	Sections 1.1, 5.1, 5.3, 5.4, 5.5, 5.8, 5.9, 6.5, 9.2 & 9.10	Items 13, 14 & 17
i. Restrictions on products and services offered	Sections 1.2, 1.5, 5.1, 5.2, 5.5, 5.6, 5.7, 5.9, 5.10, 6.3, 6.5	Items 8, 12, 13, 16 & 17
j. Warranty and customer service requirements	Sections 5.1, 5.2 & 5.5	Item 11
k. Territorial development and sales quotas	Section 1.1	Items 7 & 12
l. Ongoing product & service purchases	Sections 2.9, 5.1, 5.2, 5.5, 5.9, 5.10 & 8.2	Items 7 & 8
m. Maintenance, appearance and remodeling requirements	Sections 1.4, 5.1, 5.2, 5.5 & 6.5	Items 7, 11 & 17
n. Insurance	Section 8.2	Item 7
o. Advertising	Sections 1.5, 2.3, 2.4, 2.6, 5.1, 5.2, 5.3, 5.4, 5.5 & 6.5	Items 9 & 11
p. Indemnification	Sections 6.7 & 8.1	Item 6
q. Owner’s participation/ management/ staffing	Sections 2.9, 3, 4.1, 5, 6.5, 6.8, 7, 9.3, 9.10, 9.12 & 9.14	Items 11, 15 & 17
r. Records and reports	Sections 2.8, 5.1, 5.2 & 5.5	Items 6, 11 & 17
s. Inspections and audits	Sections 2.9, 5.1, 5.2 & 5.5	Items 6, 11 & 17
t. Transfer	Section 7	Item 17

u. Renewal	Section 6.1	Item 17
v. Post-termination obligations	Sections 5.8, 5.9, 6.5, 6.6, 6.8, 9.9, 9.10	Item 17
w. Non-competition covenants	Sections 5.8, 5.9, 6.5, 6.6, 6.8, 9.9, 9.10	Item 17
x. Dispute resolution	Sections 9.7 & 9.8	Item 17
y. Liquidated Damages	Section 6.3, 6.5 & 9.8	Item 6

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## 10. FINANCING

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We do not offer direct or indirect financing. We do not guarantee your note, lease, or obligation.

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## 11. FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

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**Except as listed below, we are not required to provide you with any assistance.**

### **Pre-Opening Obligations**

**Before you open your franchise, we will:**

- 1) Designate your Franchise Territory in the Franchise Agreement before the Franchise Agreement is executed. (Franchise Agreement, Section 1.1) It is your sole responsibility to locate a site for the franchised business (the "Franchise Premises"), which must be approved in writing by us. Our approval of the Franchise Premises is not a guarantee of the success that you will have. You may not relocate the Franchise Premises without our prior written approval. (Franchise Agreement, Section 1.4) Our approval of the location will be based on such factors as visibility to the public, projected vehicle and foot traffic, proximity to competitors, accessibility, and available parking. After you submit a proposed location, we will review and provide a decision within 10 business days. Our decision may approve, approve conditionally, or propose an alternative location. If we are unable to agree with you on a suitable location within 120 days of the execution of the Franchise Agreement, your agreement will be terminated and the initial deposit or initial fee will be forfeited.
- 2) Provide initial orientation and training to you and up to two of your managers. (Franchise Agreement, Section 3.1). At your option and cost, provide on-site pre-opening and opening training, supervision and assistance at your franchised Feng Cha shop.
- 3) Assist you in planning for your compliance with local laws and regulations to enable you to operate your franchised business.

- 4) Loan you a copy of the FENG CHA Operating Manual. (Franchise Agreement, Section 5.1). The table of contents for our Operations Manual as of the date of this Disclosure Document is found in this Item.
- 5) Give you a list of any approved or designated suppliers. (Franchise Agreement, Section 5.1) This will assist in obtaining equipment, signs, fixtures, opening inventory, and supplies. This assistance comes through your receipt of this list, and does not involve direct assistance in placing orders or affixing or otherwise situating such items at your location. Written specifications will be provided, but items will not be delivered or installed by us.
- 6) Provide you with a design package and review your final plans and specifications to approve your build-out.
- 7) Approve or assist in obtaining approved advertising content or materials. At your election, we may provide this assistance through delivery of written specifications, or may additionally directly assist in making arrangements with approved suppliers. We do not deliver or install the materials selected for your location.

### **Time to Open**

The typical length of time between the signing of the Franchise Agreement or first payment of consideration for the Franchise and the opening of the Franchise for business is about 90-120 days. You are expected to complete the mandatory training and commence your franchise business operations within **270** days after you sign the franchise agreement. Factors that may affect this time are finding and negotiating for the franchise premises, arranging for the training session, equipping the Franchise, obtaining initial inventory, financing and business permit requirements, and your personal operational needs. Any failure caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages or other events beyond your reasonable control will be excused for a time that is reasonable under the circumstances.

If the commencement of operation obligation is not fulfilled, we may terminate the Franchise Agreement by refunding one-quarter of the Initial Franchise Fee. We may retain the remaining portion of the Initial Franchise Fee. You then are required to return any product or equipment you have obtained from us. (Franchise Agreement, Section 4.1).

### **Operating Manual Table of Contents**

The FENG CHA Operating Manual is confidential and remains our property. It contains mandatory and suggested specifications, standards and procedures. We may modify the FENG CHA Operating Manual, but the modifications will not alter your basic status and rights under the franchise agreement. The revisions may include advancements and developments in supplies, products, equipment, sales, marketing, operational techniques, and other items and procedures used for the operation of the franchise. As of the date of this disclosure document, the Table of Contents of the current version of the FENG CHA Operating Manual consists of approximately **98** separate pages and currently includes:

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**Training**

We will give you an Initial Training and familiarization program before the start of your business. You will first complete an orientation, delivered via online portal (with a required 100% completion score). Then the in-person Initial Training will be held at our headquarters or a designated site (Franchise Agreement, Section 3.1) over an estimated seven-day period, subject to change. All your accommodations, travel, room, board, and wage expenses during this period are borne exclusively by you. Following the Initial Training, our trainer will deliver on-site training and support as you prepare for your opening and as your store holds a “soft” opening. The training program must be completed by all franchisees or their designated managers, unless, at our reasonable discretion, based upon a franchisee’s experience, it is deemed unnecessary. As of the date of this disclosure document, the current agenda for the training includes:

**TRAINING PROGRAM**

**Training outline:**

Subject	Hours of Class-room Training	Hours of On-the-Job Training	Location
<b>Course Orientation:</b> Overview of how the course will be conducted as well as how to navigate the teachable web-site used for the course.	10 min		Online
<b>Menu Training:</b> A basic overview of the menu and how to describe each drink to customers. What to recommend with what drinks and tools for making recommendations.	40 min		Online
<b>Customer Service:</b> An overview of the values of customer service and how to be successful with customers. Includes several scenario analyses to help with understanding how principles are put into action.	35 min		Online
<b>Franchise Compliance:</b> An overview of how franchises will be compliant with their Franchise Agreement as they operate the store.	25 min		Online
<b>Supplies:</b> An overview of how franchises will order and maintain their orders. This includes how supplies operate during initial and ongoing operations.	25 min		Online
<b>Hours, Holiday, Disruptions:</b> An overview of how franchises set their store hours as well as how those hours can change whether it is due to holidays or operational disruptions.	20 min		Online
<b>Hiring Employees:</b> An overview of how franchises should go about the process of hiring new employees. The lesson includes how to conduct interviews and necessary legal documents for hiring.	40 min		Online
<b>Employee Compensation:</b> An overview on how much to compensate your employees as well as different incentive systems that can be used.	20 min		Online
<b>Employee Training:</b> Provides a sample modular framework that franchises can use to train their employees at each level of seniority.	25 min		Online
<b>Employee Management:</b> An overview on ways to effectively manage employees. Breaks down different responsibilities and expectations of employees, promotion metrics, how to conduct performance reviews, how to take corrective steps with an employee, and methods for retaining employees.	50 min		Online

Subject	Hours of Class-room Training	Hours of On-the-Job Training	Location
<b>Marketing:</b> An overview of methods that franchises can undertake in order to market their location as well as an overview of what's considered compliant marketing.	20 min		Online
<b>Understanding the Cup and Sugar Level:</b> An overview of how the Feng Cha cup relates to recipes as well as how to read the sugar chart.	20 min		Online
<b>Kitchen Preparation:</b> Covers how to prepare all necessary preparatory work for ingredients and their recipes.	45 min		Online
<b>All Drinks:</b> A walkthrough on how to prepare the drinks and a visual guide for reading the recipes.	3 hours		Online
<b>Food/Operation Training:</b> Under corporate trainer supervision, you will prepare morning prep food items, learn to bake cakes, learn recipes, and how to clean stores.		8 hours	Corporate Store
<b>Drink Training:</b> Under corporate trainer supervision, you will learn how to prepare morning prep again and new drinks.		8 hours	Corporate Store
<b>Drink Training:</b> Without supervision, you will prepare morning preparation items. Under supervision, you will continue to learn drinks.		8 hours	Corporate Store
<b>Drink Training:</b> Without supervision, you will prepare morning preparation items. Under supervision, you will continue to learn drinks.		8 hours	Corporate Store
<b>Drink Training:</b> Without supervision, you will prepare morning preparation items. Under supervision, you will continue to learn drinks.		8 hours	Corporate Store
<b>Food/Operation Training:</b> Continued drink practice and store closing training.		8 hours	Corporate Store
<b>Food/Operation Training:</b> Continued drink practice and store closing training.		8 hours	Corporate Store
<b>Final:</b> First practice drinks and then take the final exam. Upon completion, a review session will be held over the results of the final.		4 hours	Corporate Store
<b>Total</b>	555mins	60 hours	




\* The Training Schedule may be amended.

The training will be conducted by employees of our company or of one of our affiliates with at least one year of experience giving training in the subjects they teach and at least one year of experience working in management with our company or one of our affiliates.

You must request to schedule a training session for you or the manager at least 6 weeks before the session is to start. Training is scheduled and held on an “as needed” basis depending on the number of franchisees requesting training in a particular time frame and the franchisor’s training personnel’s availability. The training session must be completed no later than 2 weeks before the scheduled date of the opening of the franchise. Training is deemed completed upon successful completion of the final training exam. In the event that you do not successfully complete the final training exam on your first attempt a reexamination fee of \$100 will apply for each trainee requiring additional examination.

At least one of you or any designated full-time manager must complete the initial mandatory training program to our satisfaction, or we may terminate the Franchise Agreement. You or any designated full-time manager may attend the initial training program (not to exceed 3 trainees). You are encouraged to attend the training session as soon as possible after executing the Franchise Agreement and before incurring any costs or expenses related to the opening of the Franchise. We will not be liable for your costs or expenses if we terminate the Franchise Agreement because you or the manager fails to complete the mandatory training to our satisfaction.

You are responsible for all expenses you and your employees incur to attend the initial training, including transportation, meals, accommodations and entertainment.

You, or one of your employees, must complete initial training at least one month prior to your franchised business opening for business.

If you desire to have more than three individuals receive initial training, these additional individuals may be accommodated, upon our receipt and approval of your request, and at your cost. We reserve the right to charge a reasonable fee for the provision of the training regardless of when and where the individuals participate in initial training.

We may at any time during initial training inform you that an individual attending training on your behalf is not suitable due to criminal activities, disruptive behavior, poor attendance or other reasons. Upon that notice, our obligations to train that individual will be deemed to have been discharged.

If the franchise is managed by any persons other than you, you must notify us of the identity of the managers. Each manager as hired must successfully complete the mandatory training program within one month after being hired. You will pay for this training at our then current fee.

Although not required by agreement, we may, at our discretion or upon your request, provide other supervision, assistance, and services before the opening of your business; such as literature, advertising materials, displays, flyers, additional training assistance and a selection of inventory and supplies.

**B. Our Obligations DURING the Operation of Your Franchise Business**

After you open your franchise, we will:

- 1) We amend and revise the Operations Manual periodically.
- 2) We provide refresher courses from time to time. We do not charge for refresher courses that we require your personnel to attend, but you must pay the travel and living expenses and the salaries of your personnel. We also provide training for additional and replacement managers and other employees who have not completed the initial training program, at your expense.
- 3) We conduct operational reviews and other quality control measures to ensure compliance with our standards and to recommend improvements.
- 4) We provide standards and lists of approved suppliers and distributors for your use in the acquisition of equipment, inventory, materials, supplies and furnishings for your franchised shop.
- 5) We create, develop, and place advertising and promotional programs designed to promote and enhance all FENG CHA shop businesses and, if we deem necessary, test marketing and market research activities, for the benefit of the FENG CHA shop franchise system. We will administer the marketing fund, and cooperatives if they are formed, as described below. We will review all advertising materials you submit to us for your use in local advertising.
- 6) We maintain a website to advertise and promote FENG CHA shop businesses. Your location will be included in a list of FENG CHA shop locations on the FENG CHA shop website.
- 7) Our representatives will be available at all reasonable times to you for consultation by telephone or email concerning all aspects of operating the franchised business, upon reasonable notice, including the institution of proper administrative, bookkeeping, accounting, inventory control, supervisory and general operating procedures for the effective operation of a franchised business. We may charge you a reasonable fee for providing on-site assistance at your request.
- 8) We provide such other assistance and support as we may deem necessary or desirable to assist you in connection with the operation of the franchised business. Operations assistance may consist of advice and guidance in the form of a franchisee newsletter or internet postings on our franchisee website and other updates and other written materials.

## **Advertising**

Currently we intend to promote our franchises through print, internet, and direct mail media. Advertising programs may be implemented locally and regionally through advertising cooperatives. We may use in-house advertising departments and may use regional advertising agencies. We may provide to you advertising materials and point of sales aids for you to use in your local advertising and promotional efforts.

We will provide you access to advertising and promotional materials as may be developed by us from time to time. We reserve the right to charge you a fee for these materials. All published advertising or sales material in any media must be approved in writing by us prior to release to the public. If you fail to obtain our prior written approval, then you must pay us \$500 per each unapproved advertising item, as liquidated damages and not as a penalty.

We have implemented and established a national advertising fund in 2023, and your national advertising fees are paid into this fund. We received \$37,661.60 in national advertising fees in 2023, which were used entirely on marketing fund activities, with total expenses of \$130,499, resulting in a deficit of \$92,837.40. These expenses were incurred 22.3% for marketing agency services, 3.8% for event sponsorships, and 73.9% for allocated time of corporate personnel to attend to marketing fund activities.

### **Local Advertising Expenditures**

You are not required to engage in local advertising or to spend a minimum amount of money on local advertising in your territory. If you operate in a region where multiple franchisees are located, we (or our agent) may determine that your advertising may be required (on notice to you), up to 10% of your gross revenues, in combination with all regionally related franchisees, for coordinated local advertising.

### **Promotional Materials**

You may develop local advertising materials for your own use, at your own cost, following advertising criteria that we establish. We must approve the advertising materials in advance. We will endeavor to approve or disapprove the advertising materials within 15 days after we receive it from you.

### **Computer Systems**

We will require you to have a computer system with accounting and business control capacities. You must purchase your point of sale system from our supply affiliate Aside from the point of sale system, we do not specify the brand or model of computer or printers you must use, but any computer you use must be industry-standard and meet our specifications, and we may specify brands or models in the future. Your printer or printers must have the ability to print customer receipts at the point of sale and stickers for use on cups to identify the beverages being served. You may obtain the computer equipment from any vendors so long as the vendors meet our requirements.

Your systems must be Internet-connected via broadband at all times and interfaced with our system to enable us to electronically access your daily receipts figures from our headquarters at any time. In other words, we will have independent access to the information generated and stored in your cash register or computer systems. There are no contractual limitations on our right to access this information.

We will have a designated point-of-sale provider we select for the system of Feng Cha shops nationally. Our current point-of-sale provider is CLOVER (<https://www.clover.com/>), subject to change upon reasonable notice to you. You will pay such provider its standard fee for such license, which is currently approximately \$60-80 per month. This monthly fee includes all required update and upgrades to the system. It's also mandatory to use our branded app, presently delivered through Hazlnut LLC, at a fee of \$129.99 per month, subject to change upon notice of such provider. Kiosk ordering services may additionally be obtained, at a separate fee structure to be agreed upon between you and the provider. Your Point-of-sale account's ownership will be maintained under Cannect LLC. You may receive the administration right for your daily operation, but we will retain the ownership of the account .

We do not require that you engage any other third-party vendor to maintain your computer system. But if you do, after obtaining our prior written approval, any updates or upgrades will be at your

expense. The cost of maintaining, updating or upgrading your computer system or its components in addition to the point-of-sale maintenance might range from nothing to as much as \$2,000 in any year. It will depend on local costs of computer maintenance services in your area and technological developments that we cannot predict. We may also require upgrades in accordance with the terms of the franchise agreement. There is no limitation on the frequency or cost of such upgrades.

The cost of the required computer point of sale system and printer is approximately \$1,000 to \$3,000.

We may require you to use an information processing and communication system that is fully compatible with any program or system which we, in our sole discretion, may employ. If we require, you must record and transmit all financial information using this system and our designated ISP or other communication vendors. We may at our discretion change standards for reporting to provide effective technology for the entire system. We will have full ability to poll your data, system, and related information by means of direct access whether in person or by telephone/modem. We will have independent access to the information that will be generated and stored in your information processing and communication system. We will have access to all of your data and there will be no contractual limitation on our right to access your information or data. We will not implement any electronic system that will disrupt or damage your electronic system, and our access will be read-only.

Other than our proprietary software referenced above, none of the hardware or software you are required to obtain is proprietary to us. Any hardware and software that is functionally equivalent and fully compatible to that listed may be used, except for your estimating software.

**E-Problem Disclaimer:** Computer systems are vulnerable in varying degrees to computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, the Year 2000 and similar date related problems, and attacks by hackers and other unauthorized intruders ("E-Problems"). We have taken reasonable steps so that E-Problems will not materially affect our business. We do not guarantee that information or communication systems that we or others supply will not be vulnerable to E-Problems. It is your responsibility to protect yourself from E-Problems. You should also take reasonable steps to verify that your suppliers, lenders, landlords, customers, and governmental agencies on which you rely have reasonable protection from E-problems. This may include taking reasonable steps to secure your systems including firewalls, password protection, and anti-virus systems, and to provide backup systems.

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## 12. TERRITORY

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### **Franchise Territory**

We will grant you a specific territory within which you will operate your franchised business (the "Franchise Territory" or "Territory"). A typical franchise territory consists of your approved location, as mutually selected and approved. The exact location of the Franchise Territory offered to you will depend upon our market analysis, market penetration plans, and franchise placement strategies. Your approval will also be considered in designating the Franchise Territory. Among the factors we consider to determine the feasibility of possible franchise territory locations are population demographics and other businesses in the area according to census and chamber of commerce information. To determine the size of franchisee's territory, Franchisor will use census data to identify ZIP

codes or other local municipal or county boundaries to identify population, and will determine territory boundaries making use of such boundaries and data. No minimum territory size is applicable.

The Franchise Territory is identified in Section 1.1 of the Franchise Agreement. You maintain rights to your location even though the population near your location may increase. You may deliver take-out orders and provide catering service to customers in your area as long as the product is fresh at the time of delivery. Such sales will be included in gross sales for all purposes, including your reports, royalties and advertising fund calculations. Except for take-out orders and catering service, you may not sell FENG CHA products or services in any manner other than from the shop premises. You may not market or sell outside of your territory in any manner or do any Internet advertising without our prior written approval, which we may withhold in our discretion. You may promote the business through social media and similar means as long as such promotion is consistent with guidelines we issue from time to time.

You may not establish or operate any other **FENG CHA** establishment without executing a separate franchise agreement for that facility. To establish additional franchise outlets, you must not be in default in any material provision of any and all agreements between you and us; your proposed location must meet our franchise placement and market penetration criteria; and you must sign our then-current franchise agreement.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

You agree not to conduct the business outside the Franchise Territory without our prior written consent.

We reserve the right to acquire the assets or ownership interests of one or more businesses providing services similar to those provided by the Franchised Business, and franchising, licensing or creating similar arrangements with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating (including within the Territory).

### **Relocation**

You must receive our written permission before you relocate your franchise. Any relocation will be at your sole expense. You must satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

### **Continuation of Your Franchise**

Your territory is not dependent upon achievement of a certain sales value, market penetration, or any other contingency. There are no other circumstances that permit us to modify or alter your territorial rights during the term in your Franchise Agreement.

### **First Right of Purchase and Right of First Refusal**

You do not receive the right to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories. Other than the first right of refusal outlined above, you have not been extended options, rights of first refusal, or similar rights to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories.

### **Minimum Sales Quota**

There are no minimum sales quotas required by your Franchise Agreement.

### **Our Use of the Service Marks and FENG CHA Products and Services**

We retain all rights not specifically granted to you in the Franchise Agreement. This includes our right to use or license the use of our service marks and trademarks to others. Neither we nor our affiliates are restricted from participating in other distribution methods, whether or not within the Franchise Territory, including Internet, other forms of media now or in the future developed, wholesale and mail order channels, whether under our principal marks or under marks and product configurations different than those offered through your franchise.

We retain the sole right to market on the Internet, including all use of web sites, domain names, URL's, linking, meta-tags, advertising, auction sites, e-commerce, and co-branding arrangements. We also retain the sole right to use the Service Marks on the Internet, including on web sites, as domain names, directory addresses, meta-tags, and in connection with linking, advertising, co-branding, and other arrangements. We retain the right to approve any linking or other use of our web site. You may not establish a presence on or market using the Internet except as we may specify, and only with our prior written consent. Subject to the terms of use on our web site, we may gather, develop and use in any lawful manner information about any visitor to the web site, including but not limited to your customers, franchisees or prospective franchisees regardless of whether they were referred to you via the web site or were otherwise in contact with you.

We retain the right, without payment to you, to sell products under the FENG CHA trademark to grocery shops, supermarkets, and other channels of distribution at any time, and to customers in any location, via our website.

We have not established other franchises or company-owned outlets selling similar products or services under a different method of operation, trade name, or trademark. We do intend to establish one or more company-owned outlets selling similar products or services in the future.

We may purchase or be purchased by, or merge or combine with, competing businesses, wherever located.

### **Your Use of the Service Marks and FENG CHA Products and Services**

Except with our prior written permission, you will not place under any circumstances advertisements using the Service Marks in or originating from any area other than the Franchise Territory.

Except as otherwise provided in the Franchise Agreement or the Operations Manual, you may not directly market to, solicit or service customers whose principal home address or place of business is outside the Franchise Territory. You may not advertise in any media whose primary circulation is outside the Franchise Territory, except with our prior written permission and the prior written consent of any of our franchisees whose territory is reached by that media. All Internet marketing is part of our marketing programs described in the Operations Manual and defined in the Franchise Agreement, and must be coordinated through us and approved by us. You may not market independently on the Internet or acquire an independent Internet domain name or web site. You may not solicit or accept orders outside your Franchise Territory under other channels of distribution (such as the Internet, other forms of media now or in the future developed, wholesale and mail order channels) without our prior written approval.

We may place national or regional advertising or we may delegate such authority to others in writing, with our approval required for any regional advertising prior to its implementation.

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## 13. TRADEMARKS

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We have applied to register the following marks on the Principal Register of the U.S. Patent and Trademark Office. Franchisor has registered two trademarks, with one pending application for a trademark. The trademarks are our exclusive property, and not the property of any one else.

**Mark:** FENG CHA  
**Serial Number:** 87233203  
**Application Date:** 11/10/2016  
**Registration No.:** 5514563  
**Registration Date:** July 10, 2018

| 奉茶 | FENG CHA

**Mark:** FENG CHA  
**Serial Number:** 87800265  
**Application Date:** February 16, 2018  
**Registration No.:** 5579214  
**Registration Date:** October 9, 2018

| 奉茶 | FENG CHA 

**Mark:** FENG CHA  
**Serial Number:** 88615703  
**Application Date:** 09/13/2019  
**Registration Number:** 6296253  
**Registration Date:** March 16, 2021



F E N G C H A

**Mark:** DIRTY BOBA

**Serial Number: 98131671**  
**Application Date: 08/14/2023**  
**Registration Number: Pending**  
**Registration Date: Pending**

We also claim common law rights to the “**FENG CHA**” name, marks, and logos, including the following logo, based on our exclusive use of the name, marks, and logos in interstate commerce:

We will allow you to use these and all other trade names, trademarks, service marks, and logos we now own or may in the future develop for our franchise system. We refer to all these commercial symbols as "trademarks." The use of such trademarks will be specifically regulated in the Operations Manual, including which trademarks be used at any time, and approved materials in which you may make such use. You may only use the trademarks in the manners already approved in the Operations Manual, and may not use any trademark not authorized there.

The trademarks are our exclusive property. You will immediately notify us of any infringement of, or challenge to, your use of the trademarks. We will have sole discretion to take or not to take action, as we deem appropriate. We are not required to protect your rights to use the trademarks or to protect you against claims for infringement or unfair competition arising out of your use of the trademarks. We have sole discretion as to whether to defend you against or indemnify you for expenses or damages incurred due to claims of infringement or unfair competition arising out of your use of the trademarks. The franchise agreement does not require us to take affirmative action when notified of such uses or claims or to participate in your defense or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the trademarks, or if the proceeding is resolved unfavorably to you. We have the sole right to control any administrative proceedings or litigation involving the trademarks.

You must follow our rules when you use the trademarks. You may not use the trademarks in any manner we have not authorized in writing.

All goodwill associated with the trademarks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our benefit, except as otherwise provided by applicable law.

You may not use or give others permission to use the trademarks, or any colorable imitation of them, combined with any other words or phrases.

We may change or modify any part of the trademarks at our sole discretion. You will accept, use and protect, for the purposes of the franchise, all changes and modifications as if they were a part of the trademarks at the time the franchise agreement is executed. You will bear all costs and expenses that may be reasonably necessary because of these changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to of these changes or modifications.

There are no presently effective determinations of the U.S. Patent and Trademark Office, the trademark administrator of any state or any court, any pending interference, opposition or cancellation proceeding and any pending material litigation involving the trademarks in any state.

There are no agreements that concern our rights to use or license the use of the trademarks. We know of no infringing uses that could materially affect your use of the trademarks.

We are not aware of other companies that use “FENG CHA” in their name.

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## 14.

# PATENTS, COPYRIGHT, AND PROPRIETARY INFORMATION

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We intend to affix a statutory notice of copyright to our FENG CHA Operating Manual, to most of our advertising products, and to our paper and service products, and to all modifications and additions to them. There are no determinations, agreements, infringements or obligations currently affecting these notices or copyrights. You have no rights to the copyrighted material. You are granted the right and are required to use the copyrighted items only with your operation of the franchise during the term of your franchise agreement.

The FENG CHA Operating Manual is described in Item 11. Although we have not filed applications for copyright registration, all copyrighted materials are our property. Item 11 describes limits on use of the copyrighted materials by you and your employees. We claim proprietary rights in our proprietary estimating software and reporting systems. We consider these proprietary systems as our trade secrets. You are only permitted to use our proprietary systems in accordance with the Franchise Agreement and only as long as you are a franchisee. You must contact us immediately if you learn of any unauthorized use of our proprietary information. You must also agree to not contest our rights to and interest in our copyrights and other proprietary information.

We have no patents and no pending patent applications material to your franchise. Your knowledge of the operation of the franchised business, including the courses and other specifications, standards and operating procedures, is derived from information that we disclose to you. This information, including the information contained in the manuals and the information presented during training, is confidential material owned by us. Our confidential information includes our product recipes; our methods of operation; our sales and marketing techniques; our planned marketing and advertising programs; the content of our training and assistance; the contents of the Manual; the operating results and financial performance of other Feng Cha shop franchisees; all customer lists and other information we receive from you; and user names and passwords allowing access to protected areas on our website or computer network.

We also claim ownership of all demographic data and customer lists generated by your activity as a franchisee. You must maintain the absolute confidentiality of this proprietary information during and after the term of the franchise agreement and you cannot disclose, sell or use any such information in any other business or in any manner not specifically authorized or approved in writing by us.

You may use such information only in furtherance of the franchised business. Each manager of your franchised business and each person who receives training from us or otherwise has access to our confidential information, and each owner of your business if you are a legal entity, must sign a written agreement that contains similar nondisclosure obligations.

You must notify us promptly in writing if you learn about any unauthorized use of our copyrights or proprietary information. We are not obligated to take any action but we will respond to this information as we think appropriate.

All improvements in the FENG CHA shop system that you develop will become our property. We will have the sole right to protect such improvements in our name or in the name of any of our affiliates by means of copyright, patent, trade secret or trademark law.

You must promptly disclose all such improvements to us.

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## 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

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We recommend that you or one of your owners if you are a corporation or partnership, participate fully in the actual day-to-day operation of the franchise business. However, you are not required to participate in the day-to-day operations of your franchise by the Franchise Agreement or any other contractual obligation with us. You may designate a Manager to assume responsibility for day-to-day operations. We do not impose any restrictions on who may serve as a Manager of your franchise; however you should exercise reasonable care in selecting your employees. Any Managers you employ to help you to operate the franchise must successfully complete the mandatory training program described in Item 11. Your manager is not required to have an equity interest in your franchise. The Manager and all of your owners must agree to be bound by the confidentiality and non-competition provisions of the Franchise Agreement in writing.

Each of your owners must assume and agree to discharge all of your obligations under the franchise agreement.

Our Step-In Rights. As outlined in Section 6.7 of the Franchise Agreement, to prevent any interruption of the franchised business that would cause harm to the franchise and to our franchise system and lessen their value, we may step in to operate the franchise when we deem necessary. Reasons may include our determination that: you are incapable of operating the franchise; you are absent or incapacitated because of illness or death; you have failed to pay when due any taxes or assessments against the franchise or property used in connection with the franchise; you have failed to pay when due any liens or encumbrances of every kind placed upon or against your business property; or we decide that operational problems require us to operate the franchise for a time.

All Revenue derived from our operation of the franchise will be revenue of your business. We have a right to pay from that Revenue all expenses, debts, and liabilities we incur during our operation of the franchise. We will keep in a separate account all Revenue generated by the operation of your business, less the expenses of the business, including reasonable compensation (no less than 60% of the net profits) and expenses for us and our representatives. You will remain responsible for amounts owed by the business, and will owe us reimbursement if we contribute any deficient amounts to satisfy your obligations.

### Development of your business:

You must devote continuous best efforts to the development, management and operation of your business. This means devoting sufficient time and resources to ensure full and complete compliance with your obligations to us, to your customers and to others. The business is a challenging one. It requires and responds to personal attention. It is most important that you personally be involved in all facets of the business. You must be able to organize the business so that our standards of service,

quality, and cleanliness are maintained, and you must set standards for your employees to follow. The business requires a firm, personal commitment and, at least initially, may require many long hours. In addition to production skills, you must also understand and be able to perform all of the sales, operations, management and maintenance functions required to ensure successful operation of the business. Because this is primarily a cash business, you must have effective, vigilant cash management procedures to avoid employee theft.

You can minimize these demands on you personally by attracting, motivating and retaining capable development, supervisory, production, transportation and sales personnel. We may provide you with certain suggested basic procedures and guidelines to use in recruiting, training and motivating your personnel. However, recruiting, training and motivating employees are your responsibility.

#### Operation of your Restaurant(s):

As a new franchisee of an individual Restaurant, you may expect to perform a substantial amount of manual labor, especially during the first year of operation. Depending on the sales volume of the Restaurant, you should expect to work a full shift in the Restaurant every day. If sales and profits are high, you may not be required to do this, but you should not enter into the business unless you are willing and able to meet this requirement. Your personal 'on premises' supervision is not required. Your on-premises manager must be trained in accordance with our training requirements. Your on-premises manager should have an ownership interest in your corporation, limited liability company (LLC) or partnership but it is not a requirement. Your on-premises manager cannot have an interest or business relationship with any of our competitors. You must keep confidential our Restaurant development and operations methods and all other information we deem to be confidential. You may share this information with your employees only to the extent necessary for them to conduct their job requirements and provided that they are under an obligation to maintain the information in confidence.

#### Personal Guarantees, Ownership Requirements:

If you choose to use a business entity (partnership, corporation or LLC) to operate the business at any Restaurant, you, and your officers, directors, shareholders, members and partners (as applicable) must personally guarantee such entity's performance of all of the franchisee's obligations under the franchise agreement and lease (if applicable). This personal guarantee applies to all money and other obligations, such as non-competition provisions of the franchise agreement.

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## **16.**

### **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

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We require that you use, offer, and sell only those products and services that we approve in writing. (See Item 9.) You must offer all products and services that we designate as required by our franchisees. You may not sell supplies, ingredients, or unauthorized products to anyone. We reserve the right, without limitation, to modify, delete, and add to the authorized products and services.

We require you to confine your business to the operation of a Feng Cha tea shop. You may not conduct any other business or activity at the Feng Cha tea shop without our prior written approval. You may only offer or sell products approved by us and you must offer for sale the full menu prescribed by us. We may add, delete or change approved products that you are required to offer from time to time. There are no limits on our right to do so.

In offering products for sale, you may only use products, materials, ingredients, supplies, paper goods, uniforms, fixtures, furnishings, signs, equipment approved by us and you must follow methods of product preparation and delivery that meet our requirements.

We impose no customer restrictions on the sale of products at your Feng Cha tea shop, however, your franchise is limited to one location and all sales must be made from that location. You are not permitted to sell or distribute goods or services through the use of the Internet or other electronic communications.

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## 17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

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### THE FRANCHISE RELATIONSHIP

**This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this disclosure document.**

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
a. Length of the franchise term	Section 1.1	10 years
b. Renewal or extension of term	Section 6.1	If you are in good standing, you may renew for periods of <b>5</b> years under the terms of our then current franchise agreement forms that may have materially different terms and conditions than your original contract.
c. Requirements for franchisee to renew or extend	Section 6.1	“Renewal” means that you, upon the expiration of the original term of the franchise agreement, have the right to enter into a new agreement according to our then-current franchise agreement forms that may have materially different terms and conditions than your original contract. You must give notice at least three and not more than 6 months before expiration of the initial term; faithfully perform under the initial agreement; refurbish the Franchise and replace

		obsolete equipment; sign general release; sign a new agreement; pay renewal fee of the greater of i) \$10,000 or ii) 25% of the then-current initial franchise fee; and go through re-training.
d. Termination by franchisee	Section 6.2	You may terminate the Franchise Agreement if you comply with the terms of the Franchise Agreement and if we substantially breach any material provision of the Agreement and fail to cure or reasonably to begin to cure that breach within <b>30</b> days after receipt of written notice specifying the breach. Termination will be effective <b>10</b> days after you deliver to us written notice of termination for our failure to cure within the allowed period.
e. Termination by franchisor without cause	Not applicable	We cannot terminate unless you are in default
f. Termination by franchisor with cause	Section 6.3	We can terminate only if you default.
g. "Cause" defined – curable defaults	Section 6.3(A)	You have 30 days to cure any default not listed in Section 6.3.
h. "Cause" defined – non-curable defaults	Section 6.3(B)	Bankruptcy and insolvency, abandonment, repeated default, misrepresentations, levy of execution, criminal conviction, non-compliance with laws, non-payment of fees, repeated under reporting of sales, disclosure of information, failure to commence operations within 270 days of the date of Franchise Agreement, failure to successfully complete training, receipt of more than three cure notices over twelve consecutive months or two consecutive cure notices.
i. Franchisee's obligations on termination/non-renewal	Section 6.5 & 6.8	De-identification, return of manuals, release of phone numbers and listings, de-identification of your franchise equipment and premises, payment of sums

		owed, confidentiality, and non-competition. Upon termination or non-renewal, we have the option to purchase the assets of your business at their fair market value.
j. Assignment of contract by franchisor	Section 7.1	There are no restrictions on our right to transfer.
k. "Transfer" by franchisee - defined	Section 7.1	Restrictions apply if you sell, transfer, assign, encumber, give, lease, or sublease (collectively called "transfer") the whole or any part of: the franchise agreement, substantial assets of the franchise, or ownership or control of you.
l. Franchisor approval of transfer by franchisee	Section 7.1	We have the right to approve all transfers.
m. Conditions for franchisor approval of transfer	Section 7.1	The transferee must qualify as a franchisee, he must assume your obligations, you may not be in default, the transferee must successfully complete the mandatory training, the current assignment fee is the greater of \$5,000 or 5 percent of the proposed purchase price for the Business, plus applicable taxes, the transferee must sign a new franchise agreement on our then current terms, and you must release us.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 7.3	If you receive an offer, we will have the right to purchase on the same terms and conditions as offered to you, <b>60</b> -day notice and right to decide.
o. Franchisor's option to purchase franchisee's business	Section 7.3	You will give us the right of first purchase before soliciting offers from a third party if you choose to sell your franchise business. You agree to notify us in writing if you desire to sell or transfer any interest in you or in your franchised business. We will elect to exercise our option to purchase within <b>60</b> business days after our receipt of your written notification. If we offer

		you an amount that you do not agree to, you may try to sell to a third party. You are obligated before any transfer to a third party to comply with all criteria outlined in the paragraphs related to First Right of Refusal.
p. Death or disability of franchisee	Section 7.2	Within 180 days, your heirs, beneficiaries, devisees or legal representatives may apply to continue to operate the franchise, or transfer Franchise interest.
q. Non-competition covenants during the term of the franchise	Sections 5.8 & 5.9	You may not disclose confidential information or compete.
r. Non-competition covenants after the franchise is terminated or expires	Sections 5.9 & 6.8	After termination of the Franchise Agreement, no competition is allowed for 720 days within the Territory, within a 100-mile radius of the Territory, within a 100-mile radius of any location where we operate or have granted the franchise to operate a FENG CHA business, and within the United States of America.
s. Modification of the agreement	Sections 5.5 and 9.7	We may modify the Operating Manual. Modifications to the language of the Franchise Agreement require the signed written agreement of the parties.
t. Integration/Merger clause	Sections 5.1, 5.5, & 9.7	Only the terms of the franchise agreement are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section 9.8	Except for certain claims, all disputes must be arbitrated in accordance with the provisions of the Arbitration Act of the State of Texas in Texas, except as stated in State Addenda to this Disclosure Document. The Franchise Agreement prohibits disputes from being arbitrated on a class or consolidated basis.

v. Choice of forum	Section 9.8	Subject to applicable state law, litigation must be in Richardson, Texas, or the closest state or federal located to such city, except as stated in State Addenda to this disclosure document and subject to applicable state law.
w. Choice of law	Section 9.8	Subject to applicable state law, Texas law applies except as otherwise provided in the Franchise Agreement and subject to state laws in those states whose laws require exclusive application and except to the extent governed by the United States Trademark Act.

See State Law Addendum for additional, state-specific disclosures.

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## 18. PUBLIC FIGURES

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No public figures are involved in our franchise program.

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## 19. FINANCIAL PERFORMANCE REPRESENTATIONS

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The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you

should report it to the franchisor's management by contacting Zhongming Gao, 412 N Bowser Rd, Richardson, TX 75081, (972) 762-1373, the Federal Trade Commission, and the appropriate state regulatory agencies.

## 20. OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1  
SYSTEMWIDE OUTLET SUMMARY  
As of December 31 for Years 2021, 2022 and 2023**

<u>Column 1</u> <u>Outlet Type</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Outlets at the</u> <u>Start of the</u> <u>Year</u>	<u>Column 4</u> <u>Outlets at the</u> <u>End of the</u> <u>Year</u>	<u>Column 5</u> <u>Net Change</u>
Franchised	2021	15	25	10
	2022	25	46	21
	2023	46	72	26
Company Owned	2021	1	0	-1
	2022	0	0	0
	2023	0	0	0
Total Outlets	2021	16	25	9
	2022	25	46	21
	2023	46	72	26

**Table No. 2  
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS  
(other than the Franchisor)  
As of December 31 for Years 2021, 2022 and 2023**

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Number of Trans-</u> <u>fers</u>
California	2021	0

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Number of Trans- fers</u>
	2022	0
	2023	2
Oklahoma	2021	0
	2022	1
	2023	0
Texas	2021	0
	2022	0
	2023	1
Total	2021	0
	2022	1
	2023	3

**Table No. 3**  
**STATUS OF FRANCHISED OUTLETS**  
**As of December 31st for Years 2021, 2023 and 2023**

State	Year	Outlets at the Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
California	2021	4	2	0	0	0	0	6
	2022	6	6	0	0	0	0	12
	2023	12	4	0	0	0	0	16
Georgia	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	1	0	0	0	0	2
Indiana	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
Kansas	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	1	0	0	0	0	2
Louisiana	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Michigan	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	1	0	0	0	0	2
Minnesota	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Missouri	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
Nevada	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
North Carolina	2021	0	0	0	0	0	0	0
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Oklahoma	2021	0	1	0	0	0	0	1
	2022	1	2	0	0	0	0	3
	2023	3	0	0	0	0	0	3
South Carolina	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1

State	Year	Outlets at the Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Texas	2021	9	6	0	0	0	0	15
	2022	15	8	0	0	0	0	23
	2023	23	15	0	0	0	0	38
Washington	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	1	0	0	0	0	1
<b>Total</b>	<b>2021</b>	<b>16</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25</b>
	<b>2022</b>	<b>25</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46</b>
	<b>2023</b>	<b>46</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72</b>

**Table No. 4**  
**STATUS OF COMPANY-OWNED OUTLETS**  
**As of December 31 for Years 2021, 2022 and 2023**

<u>Column 1</u> <u>State</u>	<u>Column 2</u> <u>Year</u>	<u>Column 3</u> <u>Outlets at the Start of the Year</u>	<u>Column 4</u> <u>Outlets Opened</u>	<u>Column 5</u> <u>Outlets Re-acquired from Franchisees</u>	<u>Column 6</u> <u>Outlets Closed</u>	<u>Column 7</u> <u>Outlets Sold to Franchisees</u>	<u>Column 8</u> <u>Outlets at End of Year</u>
Texas	2021	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0
<b>Total</b>	<b>2021</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>2022</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>2023</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Table No. 5**  
**PROJECTED OPENINGS AS OF December 31, 2023 through December 31, 2024**

<b>Column 1</b> <b>State</b>	<b>Column 2</b> <b>Franchise Agreements Signed But Outlet Not Opened</b>	<b>Column 3</b> <b>Projected New Franchised Outlets in the Next Fiscal Year</b>	<b>Column 4</b> <b>Projected New Company-Owned Outlets in the Current Fiscal Year</b>
Texas	0	0-5	0
California	0	0-3	0
Georgia	0	0-1	0
South Carolina	0	0-1	0
Colorado	0	0-1	0
North Carolina	0	0-2	0
Kansas	0	0-1	0
<b>TOTALS</b>	<b>0</b>	<b>0-14</b>	<b>0</b>

The following is a complete listing of all of our current franchisees and the addresses and telephone numbers of all of their operations as of **December 31, 2023**:

Territory	State	Name	Address	Postal Code	Phone
Newark	CA	Bill Truong	7372 Thornton Ave.	94560	(510) 896-8930

Berkeley	CA	Vinh Nguyen	2528A Durant Ave.	94704	(510) 647-8606
Burlingame	CA	Linda Lam	1199 Broadway, Ste 2	94010	(650) 781-3001
Milpitas	CA	Tung Luong	489 E Calaveras Blvd	95035	(669) 263-6350
Costa Mesa	CA	Theodore Vu	891 Baker St., Ste A18	92626	(714) 760-4836
San Diego	CA	Ngoc Le (Tiffany)	4340 Genesee Ave Ste #107	92117	(858) 737-9085
Sacramento	CA	Don Doan	1705 Iron Point Rd Suite 200	95630	(916) 538-4248
Monterrey Park	CA	Eric Chin	550 W. Garvey Ave., Unit C	91754	(626) 766-2306
San Jose	CA	Rebecca Pham	1992 Tully Rd	95122	(408) 824-5915
Garden Grove	CA	Julie Dao	12201 Brookhurst St #B	92841	(714) 591-5100
Buena Park	CA	Diana Tran	7941 Beach Blvd D	90620	(657) 255-4232
Dublin	CA	Thao Huynh	7660 Amador Valley Blvd ste F	94568	(925) 248-8865
Fullerton	CA	Nicholas Nguyen	729 N Placentia Ave	92831	(714) 646-9236
Chula Vista	CA	Ngoc Le (Tiffany)	1010 Broadway STE 5	91911	(619) 349-2283
San Jose	CA	Jaelyn	5353 Almaden Expy m26	95118	(408) 300-1256
Fountain Valley	CA	Hanh	9430 Warner Ave #J	92708	(714) 369-2586
Duluth	GA	Josh Nguyen	3675 Satellite Blvd Suite 1020	30096	(770) 837-0493
Morrow	GA	Uyen Tran	5312 Jonesboro Rd	30260	(470) 225-6247
West Lafayette	IN	Manqi Huang	100 Foundry Dr suite 14	47906	(765) 767-4820
Wichita	KS	Kevin Tuan	8007 E Kellogg Dr #18B	67207	(316) 977-9994
Wichita	KS	Kevin Tuan	2564 N Greenwich Rd Ste 300	67226	(316) 425-0009
New Orleans	LA	Jim Tran	2131 Magazine St	70130	(504) 510-2244
Lansing	MI	Tho Phan	3214 E Michigan Ave Suite E	48912	(517) 721-1031
Grand Rapids	MI	Tin Pham	6101 Kalamazoo Ave SE Unit C	49508	(616) 803-0482
Minneapolis	MN	Xinyao Liu	2929 University Ave SE Floor 1	55414	(612) 208-0782
Creve Coeur	MO	Hameedullah Mohammad	725 N New Ballas Rd	63141	(314) 942-8798
Morrisville	NC	Hannah Ninh	3037 Village Market Place	27560	(984) 333-0783

Las Vegas (1)	NV	Xiaofan Sun	5845 Spring Mountain Rd #8	89146	(702) 685-9969
Las Vegas (2)	NV	Xiaofan Sun	7445 S Durango Dr, Ste 101	89113	(702) 463-6268
Edmond	OK	Quang	900 Northwest 150th Street	73013	(405) 849-5536
Yukon	OK	Annie Lam	335 S Mustang Rd Suite H	73099	(405) 777-8844
OKC	OK	Michelle Ho	10600 S Pennsylvania Ave #6	73170	(405) 725-5033
Greenville	SC	Ashley Tran	12 N Spring St	29601	(864) 203-2263
Allen	TX	Aaron Huynh	945 W Stacy Rd Ste 150	75013	(469) 656-1883
Arlington	TX	Camtu Dang	3701 S Cooper St. #125	76015	(817) 200-6445
Austin	TX	Jonathan Tjahja	2525 W Anderson Ln #285	78757	(512) 291-6681
Fort Worth	TX	Huy Hoang	6235 Oakmont Blvd	76132	(682) 841-1188
N Fort Worth	TX	Phuc Minh Huynh	7451 N. Beach St., Ste 180	75013	(682) 703-2007
Houston	TX	Yuxin Jin	9889 Bellaire Blvd Ste C316	77036	(832) 426-4372
Sugar Land	TX	Yuxin Jin	13540 University Blvd #400	77479	(281) 207-6014
Garland	TX	Dave Nguyen	2645 Arapaho Rd Ste 125	75044	(469) 567-0244
Carrollton	TX	Vivian	2528 Old Denton Rd #150	75006	(682) 331-1955
Dallas	TX	Ryan	5225 Belt Line Road	75254	(972) 850-9082
Coppell	TX	Kay	240 North Denton Tap Road	75019	(469) 451-5015
Forney	TX	Lydia	325 Farm to Market 548	75126	(469) 602-5018
Austin	TX	Khoi	609 Clayton Ln # 110	78752	(512) 551-3386
Dallas	TX	Nam	1917 Greenville Avenue	75206	(469) 498-3711
Richardson	TX	Kenny	2701 Custer Parkway	75080	(972) 685-0202
Hurst	TX	Stephanie Li	1826 Precinct Line Rd	76054	(817) 849-2128
El Paso	TX	Khanh Vuong	7470 Cimarron Market Ave Building 8	79911	(915) 234-2714
Houston	TX	Yuxin Jin	7620 Katy Fwy Ste 310	77024	(832) 740-4098
Rowlett	TX	Vivian	3526 Lakeview Pkwy	75088	(972) 212-4295
Burleson	TX	Antony	1169 N Burleson Blvd #121	76028	(817) 883-1888

Lakeway	TX	Jonathan Tjahja	2011 Main St Suite B-300	78734	(512) 305-3205
Lewisville	TX	Christy	980 W Round Grove Rd #180	75067	(469) 464-4117
Humble	TX	Duc Phung	7036 FM 1960 Suite D	77346	(281) 913-5621
Amarillo	TX	Maivy	5611 Gem Lake Road	79106	(806) 615-2214
Houston	TX	Jack	625 W 19th St	77008	(832) 888-1863
Castle Hills	TX	Nam	8055 West Ave #100	78213	(210) 598-5986
Conroe	TX	Lijuan Qiu	449 S Loop 336 W	77304	(936) 267-2903
Prosper	TX	Trang Ho	1590 W Frontier Pkwy	75078	(469) 481-6145
Houston	TX	Carol Chen	19143 Katy Fwy Suite 400	77094	(281) 676-4208
Rockwall	TX	Levi Le	2930 Ridge Rd	75032	(469) 314-1436
Houston	TX	Jenny Lee	3210 Louisiana St #100	77006	(346) 628-7745
The Colony	TX	Dave Nguyen	4740 State Highway 121	75056	(469) 444-1243
Irving	TX	Kushal Bastakoti	2612 N Belt Line Rd	75062	(972) 600-8207
Austin	TX	Jonathan Tjahja	500 W Canyon Ridge Dr L150	78753	(512) 520-5777
Saginaw	TX	Phuc Minh Huynh	1029 N Saginaw Blvd E8	76179	(682) 224-3006
Round Rock	TX	Jonathan Tjahja	200 University Blvd Ste. 240	78665	(512) 467-4114
Terrell	TX	Sang	516 American Wy	75160	(972) 210-7261
Richmond	TX	Linh Tay	10310 W Grand Pkwy S #104	77406	(346) 696-8205
Renton	WA	Vi Dang	203 S 2nd St Suite C	98057	(425) 282-4087

The following is a list of the name, city and state, and the current telephone number or if unknown, the last known home telephone number of every franchisee who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our most recently completed fiscal year or who has not communicated with us or our affiliate within **10** weeks of the date of this Disclosure Document.

<b>Territory</b>	<b>State</b>	<b>Name</b>	<b>Business Address</b>	<b>Postal Code</b>	<b>Phone</b>
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[None]

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Our standard franchise agreement, all renewal and transfer agreements, and all agreements to settle disputes with franchisees, generally contain confidentiality clauses. Thus, all our franchisees have signed a confidentiality clause with us. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with **FENG CHA**. You may wish to speak with current and former franchisees but be aware that not all such franchisees will be able to communicate with you.

The following is a list, to the extent known to us, of the names, addresses, telephone numbers, email addresses, and web addresses of each trademark-specific franchise organization associated with the franchise system being offered which we have created, sponsored, or endorsed: **NONE**.

The following is a list of any independent franchisee organizations that have asked to be included in this disclosure document: **NONE**.

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## 21. FINANCIAL STATEMENTS

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Audited financial statements for 2021, 2022 and 2023 are attached as Exhibit A to this Disclosure Document. Our fiscal year-end is December 31.

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## 22. CONTRACTS

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Attached are copies of the Franchise Agreement, the State Law Addendum, and all other related agreements you may have to sign when you purchase your franchise. The standard form release agreement that you will be required to sign in certain instances, such as for a transfer or renewal, is found in section 9.9 of the Franchise Agreement.

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## **23. RECEIPTS**

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Attached to this Disclosure Document are two Receipt pages. They are duplicates that evidence your receipt of this Disclosure Document – the first is to be retained by you, the other by us (Exhibit F).

Exhibit A

CANNECT, LLC  
FINANCIAL STATEMENTS  
DECEMBER 31, 2023

CANNECT, LLC  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

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CANNECT, LLC  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2023

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**CANNECT, LLC**

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CANNECT, LLC as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Adam J. Baker**  
**Certified Public Accountant**  
**Underwood, Minnesota**

February 19, 2024

**CANNECT, LLC**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2023**

	<b>Dec 31, 23</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
Chase Checking 0707	\$ 53,389
Hancock Whitney 3037	79,314
Hancock Whitney 7413	1,058
Chase Saving Account - 2363	34,277
Petty Cash	857
<b>Total Checking/Savings</b>	168,895
Accounts Receivable	3,738
<b>Other Current Assets</b>	
Security Deposits	5,000
Note Receivable - Feng Cha Flagship Store Sale	9,000
<b>Total Current Assets</b>	186,633
<b>Fixed Assets</b>	
Accumulated Depreciation	(41,946)
Computer and Equipment	23,788
Furniture and Equipment	28,394
Vehicles	101,866
<b>Total Fixed Assets</b>	112,102
<b>Other Assets</b>	
Loan - Feng Cha USA, LLC	855,324
Loan - Catunnel	75,020
Loan - Offo	4,706
<b>Total Other Assets</b>	935,050
<b>TOTAL ASSETS</b>	<b>\$ 1,233,785</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Credit Cards</b>	
Hancock Whitney 1172	\$ 233
Chase Ink 0570	13,642
<b>Total Credit Cards</b>	13,875
<b>Other Current Liabilities</b>	
Payroll Liabilities	125,491
Retirement Payable	80,237
<b>Total Other Current Liabilities</b>	205,728
<b>Total Current Liabilities</b>	219,603
<b>Long Term Liabilities</b>	
Loans Payable	37,735
Unearned Revenue - Franchisee	1,761,500
<b>Total Long Term Liabilities</b>	1,799,235
<b>Total Liabilities</b>	2,018,838
<b>Equity</b>	
Member Draws - Yan Chen	(1,018,466)
Member Draws - Zhongming Gao	(402,564)
Partner Contribution	278,552
Retained Earnings	31,312
Net Income	326,114
<b>Total Equity</b>	(785,052)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 1,233,785</b>

**CANNECT, LLC**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	<b>Jan - Dec 23</b>
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
<b>Sales</b>	
App Fee (net of discounts and refunds)	76,481
Sales - Franchise	423,500
Sales - Location Identity	10,250
Sales - Royalty	457,137
Sales - Services	148,158
Other Income	24,266
<b>Total Sales</b>	1,139,792
<b>Total Income</b>	1,139,792
<b>Gross Profit</b>	1,139,792
<b>Expense</b>	
Advertising and Promotion	58,129
Automobile Expense	3,922
Bank Service Charges	2,465
Contractors	10,260
Depreciation Expense	24,153
Dues and Subscriptions	104,729
Employee Benefit	37,557
Employee Pension Expense	2,660
Insurance Expense	42,379
Job Supplies	2,385
<b>Meals and Entertainment</b>	
Entertainment	4,381
Meals and Entertainment - Other	6,435
<b>Total Meals and Entertainment</b>	10,816
Office Expense	21,093
Office Supplies	11,065
Parking and Toll	990
Payroll Expenses	336,534
Payroll Processing Fee	0
Payroll Tax	24,779
Pest Control	1,961
Postage and Delivery	1,296
<b>Professional and Legal Expense</b>	
Accounting Expense	11,834
Legal Expense	14,914
Professional Expense	6,528
<b>Total Professional and Legal Expense</b>	33,276
Reimbursements	15,019
Rent Expense	55,609
Repairs and Maintenance	3,049
Research and Development	639
Taxes and Licenses	225
Training	8,550
Travel Expense	6,830
Uniform	2,410
Utilities	6,432
<b>Total Expense</b>	829,212
<b>Net Ordinary Income</b>	310,580
<b>Other Income/Expense</b>	
<b>Other Income</b>	
Interest Income	2,005
Rebate	13,528
<b>Net Other Income</b>	15,534
<b>Net Income</b>	326,114

**CANNECT, LLC**  
**STATEMENT OF CASH FLOWS**  
**AS OF DECEMBER 31, 2023**

	<b>Jan - Dec 23</b>
<b>OPERATING ACTIVITIES</b>	
Net Income	\$ 326,114
<b>Adjustments to reconcile Net Income to net cash provided by operations:</b>	
Accounts Receivable	(6,432)
Depreciation	24,153
Credit Card	14,052
Payroll Liabilities	92,919
<b>Net cash provided by Operating Activities</b>	<b>450,806</b>
<b>INVESTING ACTIVITIES</b>	
Accumulated Depreciation	24,153
Computers & Equipment	(18,072)
Furniture & Fixtures	(540)
Vehicles	(7,304)
Loan - Catunnel	327
<b>Net cash provided by Investing Activities</b>	<b>(1,436)</b>
<b>FINANCING ACTIVITIES</b>	
Unearned Revenue - Franchise	(54,583)
Member Draws - Yan Chen	(491,260)
Member Draws - Zhongming Gao	(10,000)
Partner Contribution	60,580
<b>Net cash provided by Financing Activities</b>	<b>(495,263)</b>
<b>Net cash increase for period</b>	<b>(45,893)</b>
Cash at beginning of period	214,788
Cash at end of period	<b>\$ 168,895</b>

**CANNECT, LLC**  
**Notes to Financial Statements**

**I. General and Summary of Significant Accounting Policies:**

**Nature of operations:** As used herein, the terms "CANNECT, LLC," the "Company," or similar terms refer to CANNECT, LLC.

The Company is a franchisor management company that sells franchise (collecting franchise fee, manages franchise brand (monthly loyalty fee) and expands franchise.

**Basis of presentation:** The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Realized results could differ from those estimates and assumptions. Certain prior year amounts have been reclassified for consistency with the current year presentation.

**Cash and cash equivalents:** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Uninsured cash balances:** The Company has not, and does not, plan to have cash balances which exceed federally insured amounts at various financial institutions.

**Revenue recognition:** In May 2014, the FASB issued ASU 2014-09, which amends ASC Topic 606, "Revenue from Contracts with Customers." The amendments in the ASU provide a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for private entities. The Company has adopted the guidance as of January 1, 2019 using the modified retrospective transition method. However, because adoption of this guidance did not change the timing or amount of the Company's recognition of revenue, there was no adjustment to retained earnings needed as part of adoption of the new standard.

Revenue from franchise sale is recognized upon services and procedures that the Company need to perform, and the acceptance of the franchise contract by the Company's customers. Revenue from franchise management is recognized upon services performed monthly.

**Property and equipment:** Property and equipment, including improvements that significantly add to the productive capacity or extend useful life, are recorded at cost. Maintenance and repairs are expensed currently. Property and equipment are depreciated over their useful lives using the straight-line method of depreciation. Software and computer equipment are amortized or depreciated over three to five years. Furniture and fixtures are depreciated over five to ten years. Equipment is depreciated over five to seven years. Leasehold improvements are depreciated over the lesser of the useful life, which ranges from three to ten years, or the remaining term of the lease. Building improvements are depreciated straight-line over ten to thirty-nine years. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the income statement.

**Investment in other entities:** The Company has majority of ownership and controlling interest in other entities and the other entities' net income or loss were consolidated to the Company's net loss.

**Advertising costs:** Advertising costs are expensed when incurred.

**CANNECT, LLC**  
**Notes to Financial Statements**

**1. General and Summary of Significant Accounting Policies (Continued):**

**Income Taxes:** The Company, with the consent of its members, has elected under the Internal Revenue Code to be treated as a partnership. Under the election, the Company does not pay federal corporate income taxes on its taxable income. Instead, the members are liable for individual income taxes on their respective shares of corporate income. Accordingly, no provision has been made for federal income tax in the accompanying financial statements. Current state income tax will be provided for at applicable rates.

Deferred state income taxes are provided for the temporary differences between the carrying values of the Company's assets and liabilities for financial reporting purposes and their corresponding income tax basis.

The temporary differences reflected are attributable to unrealized holding gains derived from the difference of the fair value over amortized cost of marketable securities available for sale, as well as utilizing different depreciation methods for income tax purposes. The temporary difference is computed by applying current statutory rates to the taxable temporary difference of the asset in the financial statements.

**Use of estimates:** The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with respect to the timing and amount of future cash collections of the Company's finance receivables portfolios. Actual results could differ from these estimates making it reasonably possible that a change in these estimates could occur within one year.

**2. Property and Equipment, net:**

Property and Equipment at December 31, 2023, are as follows:

Computer and Equipment	\$23,788
Vehicles	\$101,866
Other	\$28,394
Less: Accumulated Depreciation	(\$41,946)
Net Property and Equipment	\$112,102

**3. Evaluation of Subsequent Events:**

The Company has evaluated subsequent events through February 19, 2024, the date which the financial statements were available to be issued. It has been determined that no events have occurred that would require adjustments to our disclosures in these financial statements.

CANNECT, LLC  
FINANCIAL STATEMENTS  
DECEMBER 31, 2022

CANNECT, LLC  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2022

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**ADAM J. BAKER**  
*Certified Public Accountant*

Independent Auditor's Report

To whom it may concern:

We have audited the accompanying financial statements of CANNECT, LLC (the Company), a nonprofit organization, which comprise the Balance Sheet as of December 31, 2022, and the related Income Statements, and Statement of Cash Flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CANNECT, LLC

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CANNECT, LLC as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Adam J Baker, CPA*

Adam J. Baker  
Certified Public Accountant  
Underwood, Minnesota

March 15, 2023

**CANNECT, LLC**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2022**

	<b>Dec 31, 22</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
Chase Checking 0707	\$ 113,312
Hanook Whitney 9037	64,367
Hanook Whitney 4418	30,001
Chase Saving Account - 2383	6,251
Petty Cash	857
<b>Total Checking/Savings</b>	214,788
Accounts Receivable	10,170
<b>Other Current Assets</b>	
Security Deposits	5,000
Note Receivable - Feng Cha Flagship Store Sale	9,000
<b>Total Current Assets</b>	238,958
<b>Fixed Assets</b>	
Accumulated Depreciation	(17,793)
Computer and Equipment	5,716
Furniture and Equipment	27,854
Vehicles	94,558
<b>Total Fixed Assets</b>	110,335
<b>Other Assets</b>	
Loan - Feng Cha USA, LLC	855,324
Loan - Cafunnel	75,347
Loan - Offo	4,706
<b>Total Other Assets</b>	935,377
<b>TOTAL ASSETS</b>	<b>\$ 1,284,870</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Credit Cards</b>	
Hanook Whitney 1172	\$ 233
Chase Ink 0570	(410)
<b>Total Credit Cards</b>	(177)
<b>Other Current Liabilities</b>	
Payroll Liabilities	62,189
Retirement Payable	80,237
Unearned Revenue - Royalty	2,917
<b>Total Other Current Liabilities</b>	145,343
<b>Total Current Liabilities</b>	145,166
<b>Long Term Liabilities</b>	
Loans Payable	37,735
Unearned Revenue - Franchise	1,704,000
<b>Total Long Term Liabilities</b>	1,741,735
<b>Total Liabilities</b>	1,886,901
<b>Equity</b>	
Member Draws - Yan Chen	(527,206)
Member Draws - Zhongming Gao	(392,564)
Partner Contribution	217,972
Retained Earnings	(118,651)
Net Income	218,218
<b>Total Equity</b>	(602,231)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 1,284,870</b>

CANNECT, LLC  
INCOME STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Jan - Dec 22
Ordinary Income/Expense	
Income	
Sales	
App Fee (net of discounts and refunds)	55,418
Sales - Franchise	299,500
Sales - Location Identity	233,500
Sales - Royalty	270,968
Sales - Services	36,749
Other Income	4,595
Total Sales	900,730
Total Income	900,730
Gross Profit	900,730
Expense	
Advertising and Promotion	36,345
Automobile Expense	13,517
Bank Service Charges	954
Contractors	33,775
Depreciation Expense	9,724
Donations	300
Dues and Subscriptions	41,813
Employee Benefit	32,402
Insurance Expense	30,441
Meals and Entertainment	
Entertainment	241
Meals and Entertainment - Other	7,530
Total Meals and Entertainment	7,771
Office Supplies	11,734
Parking and Toll	735
Payroll Expenses	236,131
Payroll Processing Fee	76
Payroll Tax	17,047
Postage and Delivery	3,848
Professional and Legal Expense	
Accounting Expense	10,312
Legal Expense	15,494
Professional Expense	9,180
Total Professional and Legal Expense	34,986
Rent Expense	73,963
Repairs and Maintenance	32,512
Taxes and Licenses	4,946
Training	11,486
Travel Expense	33,594
Utilities	10,366
Total Expense	678,466
Net Ordinary Income	222,264
Other Income/Expense	
Other Income	
Interest Income	49
Rebate	220
Total Other Income	269
Other Expense	
Interest Expense	4,315
Total Other Expense	4,315
Net Other Income	-4,046
Net Income	218,218

CANNECT, LLC  
STATEMENT OF CASH FLOWS  
AS OF DECEMBER 31, 2022

	<u>Jan - Dec 22</u>
<b>OPERATING ACTIVITIES</b>	
Net Income	\$ 218,218
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	(10,170)
Note Receivable - Feng Cha Flagship Store Sale	12,000
Security Deposits	(5,000)
Credit Card	(10,139)
Payroll Liabilities	93,015
Net cash provided by Operating Activities	<u>297,924</u>
<b>INVESTING ACTIVITIES</b>	
Accumulated Depreciation	9,724
Computers & Equipment	(918)
Furniture & Fixtures	(2,032)
Vehicles	(94,558)
Loan - Offo	(4,706)
Loan - Catunnel	(11,645)
Net cash provided by Investing Activities	<u>(104,135)</u>
<b>FINANCING ACTIVITIES</b>	
Unearned Revenue - Franchise	380,500
Loans Payable - Tesla	37,735
Member Draws - Yan Chen	(411,120)
Member Draws - Zhongming Gao	(100,000)
Partner Contribution	26,505
Net cash provided by Financing Activities	<u>(66,380)</u>
Net cash increase for period	127,409
Cash at beginning of period	87,379
Cash at end of period	<u>\$ 214,788</u>

CANNECT, LLC  
Notes to Financial Statements

**1. General and Summary of Significant Accounting Policies:**

**Nature of operations:** As used herein, the terms "CANNECT, LLC.," the "Company," or similar terms refer to CANNECT, LLC.

The Company is a franchisor management company that sells franchise (collecting franchise fee, manages franchise brand (monthly loyalty fee) and expands franchise.

**Basis of presentation:** The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Realized results could differ from those estimates and assumptions. Certain prior year amounts have been reclassified for consistency with the current year presentation.

**Cash and cash equivalents:** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Uninsured cash balances:** The Company has not, and does not, plan to have cash balances which exceed federally insured amounts at various financial institutions.

**Revenue recognition:** In May 2014, the FASB issued ASU 2014-09, which amends ASC Topic 606, "Revenue from Contracts with Customers." The amendments in the ASU provide a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for private entities. The Company has adopted the guidance as of January 1, 2019 using the modified retrospective transition method. However, because adoption of this guidance did not change the timing or amount of the Company's recognition of revenue, there was no adjustment to retained earnings needed as part of adoption of the new standard.

Revenue from franchise sale is recognized upon services and procedures that the Company need to perform, and the acceptance of the franchise contract by the Company's customers. Revenue from franchise management is recognized upon services performed monthly.

**Property and equipment:** Property and equipment, including improvements that significantly add to the productive capacity or extend useful life, are recorded at cost. Maintenance and repairs are expensed currently. Property and equipment are depreciated over their useful lives using the straight-line method of depreciation. Software and computer equipment are amortized or depreciated over three to five years. Furniture and fixtures are depreciated over five to ten years. Equipment is depreciated over five to seven years. Leasehold improvements are depreciated over the lesser of the useful life, which ranges from three to ten years, or the remaining term of the lease. Building improvements are depreciated straight-line over ten to thirty-nine years. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the income statement.

**Investment in other entities:** The Company has majority of ownership and controlling interest in other entities and the other entities' net income or loss were consolidated to the Company's net loss.

**Advertising costs:** Advertising costs are expensed when incurred.

CANNECT, LLC  
Notes to Financial Statements

**1. General and Summary of Significant Accounting Policies (Continued):**

**Income Taxes:** The Company, with the consent of its members, has elected under the Internal Revenue Code to be treated as a partnership. Under the election, the Company does not pay federal corporate income taxes on its taxable income. Instead, the members are liable for individual income taxes on their respective shares of corporate income. Accordingly, no provision has been made for federal income tax in the accompanying financial statements. Current state income tax will be provided for at applicable rates.

Deferred state income taxes are provided for the temporary differences between the carrying values of the Company's assets and liabilities for financial reporting purposes and their corresponding income tax basis.

The temporary differences reflected are attributable to unrealized holding gains derived from the difference of the fair value over amortized cost of marketable securities available for sale, as well as utilizing different depreciation methods for income tax purposes. The temporary difference is computed by applying current statutory rates to the taxable temporary difference of the asset in the financial statements.

**Use of estimates:** The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with respect to the timing and amount of future cash collections of the Company's finance receivables portfolios. Actual results could differ from these estimates making it reasonably possible that a change in these estimates could occur within one year.

**2. Property and Equipment, net:**

Property and Equipment at December 31, 2022, are as follows:

Computer and Equipment	\$5,716
Vehicles	\$94,558
Other	\$27,854
Less: Accumulated Depreciation	(\$17,793)
Net Property and Equipment	\$110,335

**3. Evaluation of Subsequent Events:**

The Company has evaluated subsequent events through March 15, 2023, the date which the financial statements were available to be issued. It has been determined that no events have occurred that would require adjustments to our disclosures in these financial statements.

CANNECT, LLC  
FINANCIAL STATEMENTS  
DECEMBER 31, 2021

CANNECT, LLC  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2021

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**ADAM J. BAKER**  
*Certified Public Accountant*

Independent Auditor's Report

To whom it may concern:

We have audited the accompanying financial statements of CANNECT, LLC (the Company), a nonprofit organization, which comprise the Balance Sheet as of December 31, 2021, and the related Income Statements, and Statement of Cash Flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CANNECT, LLC

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CANNECT, LLC as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Adam J Baker, CPA*

Adam J. Baker  
Certified Public Accountant  
Underwood, Minnesota

March 8, 2022

**CANNECT, LLC  
BALANCE SHEET  
AS OF DECEMBER 31, 2021**

	<b>Dec 31, 21</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
Chase Checking 0707	\$ 30,976
Hancock Whitney 3037	20,100
Chase Saving Account - 2363	35,203
Petty Cash	1,100
<b>Total Checking/Savings</b>	87,379
<b>Other Current Assets</b>	
Note Receivable - Feng Cha Flagship Store Sale	21,000
<b>Total Current Assets</b>	108,379
<b>Fixed Assets</b>	
Accumulated Depreciation	(8,069)
Computer and Equipment	4,798
Furniture and Equipment	25,822
<b>Total Fixed Assets</b>	22,551
<b>Other Assets</b>	
Loan - Feng Cha USA, LLC	855,324
Loan - Catunnel	63,702
<b>Total Other Assets</b>	919,026
<b>TOTAL ASSETS</b>	<b>\$ 1,049,956</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Credit Cards</b>	
Chase Ink 0570	\$ 9,092
<b>Total Credit Cards</b>	9,092
<b>Other Current Liabilities</b>	
Payroll Liabilities	49,410
Unearned Revenue - Royalty	2,917
<b>Total Other Current Liabilities</b>	52,327
<b>Total Current Liabilities</b>	61,419
<b>Long Term Liabilities</b>	
Unearned Revenue - Franchise	1,323,500
<b>Total Long Term Liabilities</b>	1,323,500
<b>Total Liabilities</b>	1,384,919
<b>Equity</b>	
Member Draws - Yan Chen	(116,086)
Member Draws - Zhongming Gao	(292,564)
Partner Contribution	191,467
Retained Earnings	(144,655)
Net Income	26,875
<b>Total Equity</b>	(334,963)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 1,049,956</b>

**CANNECT, LLC**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Jan - Dec 21
Ordinary Income/Expense	
Income	
Sales	
App Fee (net of discounts and refunds)	\$ 21,567
Sales - Franchise	271,000
Sales - Royalty	128,109
Sales - Services	7,104
Total Sales	\$ 427,780
Total Income	\$ 427,780
Gross Profit	427,780
Expense	
Advertising and Promotion	8,450
Automobile Expense	8,091
Bank Service Charges	938
Contractors	1,745
Depreciation Expense	4,918
Dues and Subscriptions	21,973
Employee Benefit	2,920
Insurance Expense	19,840
Meals and Entertainment	
Entertainment	148
Meals and Entertainment - Other	4,481
Total Meals and Entertainment	4,629
Office Supplies	14,583
Parking and Toll	2,140
Payroll Expenses	175,067
Payroll Processing Fee	163
Payroll Tax	13,380
Postage and Delivery	415
Professional and Legal Expense	
Accounting Expense	7,231
Legal Expense	13,842
Professional Expense	8,445
Total Professional and Legal Expense	29,518
Rent Expense	45,214
Repairs and Maintenance	3,782
Security	50
Taxes and Licenses	474
Training	2,250
Travel Expense	8,990
Uniform	567
Utilities	7,989
Total Expense	\$ 378,086
Net Ordinary Income	\$ 49,694
Other Income/Expense	
Other Income	
Interest Income	194
PPP Loan Forgiveness	32,375
Total Other Income	\$ 32,569
Other Expense	
Loss on Investment	
loss on Investment - Feng Cha F	55,388
Total Loss on Investment	55,388
Total Other Expense	\$ 55,388
Net Other Income	\$ -22,819
Net Income	\$ 26,875

**CANNECT, LLC**  
**STATEMENT OF CASH FLOWS**  
**AS OF DECEMBER 31, 2021**

	<b>Jan - Dec 21</b>
<b>OPERATING ACTIVITIES</b>	
Net Income	\$ 26,875
Adjustments to reconcile Net Income	
to net cash provided by operations:	
Note Receivable - Feng Cha Flagship Store Sale	(21,000)
Chase Ink 0570	2,274
Payroll Liabilities	15,422
Unearned Revenue - Royalty	2,917
Net cash provided by Operating Activities	26,488
<b>INVESTING ACTIVITIES</b>	
Accumulated Depreciation	4,918
Computers & Equipment	(3,944)
Furniture & Fixtures	(16,476)
Loan - Feng Cha USA, LLC	(765,018)
Loan - Catunnel	(218)
Net cash provided by Investing Activities	(780,738)
<b>FINANCING ACTIVITIES</b>	
Unearned Revenue - Franchise	729,000
Member Draws - Yan Chen	(7,059)
Member Draws - Zhongming Gao	(100,000)
Partner Contribution	(100)
Net cash provided by Financing Activities	621,841
Net cash increase for period	(132,409)
Cash at beginning of period	219,788
Cash at end of period	\$ 87,379

**CANNECT, LLC**  
**Notes to Financial Statements**

**1. General and Summary of Significant Accounting Policies:**

**Nature of operations:** As used herein, the terms "CANNECT, LLC," the "Company," or similar terms refer to CANNECT, LLC.

The Company is a franchisor management company that sells franchise (collecting franchise fee, manages franchise brand (monthly loyalty fee) and expands franchise.

**Basis of presentation:** The consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Realized results could differ from those estimates and assumptions. Certain prior year amounts have been reclassified for consistency with the current year presentation.

**Cash and cash equivalents:** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Uninsured cash balances:** The Company has not, and does not, plan to have cash balances which exceed federally insured amounts at various financial institutions.

**Revenue recognition:** In May 2014, the FASB issued ASU 2014-09, which amends ASC Topic 606, "Revenue from Contracts with Customers." The amendments in the ASU provide a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018 for private entities. The Company has adopted the guidance as of January 1, 2019 using the modified retrospective transition method. However, because adoption of this guidance did not change the timing or amount of the Company's recognition of revenue, there was no adjustment to retained earnings needed as part of adoption of the new standard.

Revenue from franchise sale is recognized upon services and procedures that the Company need to perform, and the acceptance of the franchise contract by the Company's customers. Revenue from franchise management is recognized upon services performed monthly.

**Property and equipment:** Property and equipment, including improvements that significantly add to the productive capacity or extend useful life, are recorded at cost. Maintenance and repairs are expensed currently. Property and equipment are depreciated over their useful lives using the straight-line method of depreciation. Software and computer equipment are amortized or depreciated over three to five years. Furniture and fixtures are depreciated over five to ten years. Equipment is depreciated over five to seven years. Leasehold improvements are depreciated over the lesser of the useful life, which ranges from three to ten years, or the remaining term of the lease. Building improvements are depreciated straight-line over ten to thirty-nine years. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the income statement.

**Investment in other entities:** The Company has majority of ownership and controlling interest in other entities and the other entities' net income or loss were consolidated to the Company's net loss.

**Advertising costs:** Advertising costs are expensed when incurred.

**CANNECT, LLC**  
**Notes to Financial Statements**

**1. General and Summary of Significant Accounting Policies (Continued):**

**Income Taxes:** The Company, with the consent of its members, has elected under the Internal Revenue Code to be treated as a partnership. Under the election, the Company does not pay federal corporate income taxes on its taxable income. Instead, the members are liable for individual income taxes on their respective shares of corporate income. Accordingly, no provision has been made for federal income tax in the accompanying financial statements. Current state income tax will be provided for at applicable rates.

Deferred state income taxes are provided for the temporary differences between the carrying values of the Company's assets and liabilities for financial reporting purposes and their corresponding income tax basis.

The temporary differences reflected are attributable to unrealized holding gains derived from the difference of the fair value over amortized cost of marketable securities available for sale, as well as utilizing different depreciation methods for income tax purposes. The temporary difference is computed by applying current statutory rates to the taxable temporary difference of the asset in the financial statements.

**Use of estimates:** The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with respect to the timing and amount of future cash collections of the Company's finance receivables portfolios. Actual results could differ from these estimates making it reasonably possible that a change in these estimates could occur within one year.

**2. Property and Equipment, net:**

Property and Equipment at December 31, 2021, are as follows:

Computer and Equipment	\$4,798
Other	\$25,822
Less: Accumulated Depreciation	(\$8,069)
Net Property and Equipment	\$22,551

**3. Evaluation of Subsequent Events:**

The Company has evaluated subsequent events through March 8, 2022, the date which the financial statements were available to be issued. It has been determined that no events have occurred that would require adjustments to our disclosures in these financial statements.

**CONSENT**

Adam J. Baker, CPA consents to the use in the Franchise Disclosure Document issued by CANNECT, LLC. ("Franchisor") on April 1, 2021, as it may be amended, of our report dated March 10, 2021, relating to the financial statements of Franchisor for the period ending December 31, 2020.

*Adam J Baker, CPA*

Adam J. Baker, CPA

Exhibit B

**CANNECT LLC**

**FRANCHISE AGREEMENT**



**FENG CHA**

\_\_\_\_\_  
[Print name of individual]  
[Jointly and Severally, "You"]

**and**

\_\_\_\_\_  
[Print name of proprietorship, partnership, and company]  
[Jointly and Severally, "You"]

**and**

**CANNECT LLC**  
["We" or "Us"]

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# **FRANCHISE AGREEMENT**

THIS AGREEMENT has been entered this \_\_\_/\_\_\_/\_\_\_ (MM/DD/YYYY). It is by and between **CANNECT LLC.**, a Texas limited liability company, ("we", "us", "Feng Cha") and \_\_\_\_\_ and \_\_\_\_\_ and \_\_\_\_\_ (jointly and severally "you").

For purposes of this Agreement "you" may include an individual, corporation, partnership, limited liability company or other legal entity. "You" includes any corporation, partnership, limited liability company, individual, combination of individuals, or other legal entity that owns a majority interest of you, or in which you own a majority interest. The term "you" will include all persons who succeed to your interest by transfer or by operation of law.

We have certain rights to, have registered in various jurisdictions, and intend to continue to develop names, trademarks, service marks, logos, commercial symbols, and styles. These include, but are not limited to, "**FENG CHA**" (the "Service Marks"). We own valuable goodwill and have valuable expertise, confidential information, methods, procedures, techniques, uniform standards, operations manuals, inventory control guidelines, systems, layouts, merchandise, and materials. These are connected with the operation, promotion, and advertising of businesses that offer quality desserts and beverages to the public under the Service Marks (the "FENG CHA System").

You desire us to train you and authorize you to operate a high-caliber franchise to offer and sell the FENG CHA System to the public and to use the FENG CHA System and Service Marks. We are willing to grant you such a franchise on the terms and conditions set forth in this Agreement.

You acknowledge that this Agreement was accompanied by a Franchise Disclosure Document, which you received at the earlier of:

- the first personal meeting with us (in New York and Rhode Island); or
- 14 calendar days before signing any franchise or related agreement or making any payment with the franchisor or an affiliate in connection with the franchise sale (10 business days in Michigan, New York, Oregon, Rhode Island, and Wisconsin).

In addition, you acknowledge either:

- receipt of this Agreement containing all substantive terms at the time of delivery of the Franchise Disclosure Document; or
- if we unilaterally or materially altered the terms and conditions of our standard franchise agreement or any related agreements attached to the Franchise Disclosure Document, you acknowledge that you received a complete and final copy of this Agreement and its exhibits not less than 7 calendar days before you signed this Agreement.

You have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the FENG CHA System.

You realize that entering into this Agreement will obligate you to operate your franchised business in strict accordance and conformity with the standards, specifications and procedures as set forth in the Operations Manual that we will loan to you. You furthermore realize that there is a risk in owning any business venture including this one and that running a business can be very hard work. If you operate your FENG CHA Franchise below the standards we require, customers who patronize that FENG CHA franchise location will be less likely to patronize other FENG CHA locations. This would damage the business of others. It will be difficult for us to obtain new franchisees if a prospective purchaser observes that you do not maintain the required standards.

We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Franchise Agreement, except those representations specifically disclosed in our Franchise Disclosure Document.

Document. You acknowledge that you have read this Agreement and our Franchise Disclosure Document and that you have no knowledge of any representations by us, or our officers, directors, shareholders, employees, or agents that are contrary to the statements made in our Franchise Disclosure Document or to the terms of this Agreement. We do not furnish, nor do we authorize our salespersons to furnish, any oral or written information concerning the actual or potential sales, costs, income or profits of any FENG CHA operation that is inconsistent with disclosures in our Franchise Disclosure Document. Actual results vary from unit to unit, and we cannot estimate the results of any particular franchise.

THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties agree as follows:

## **1 GRANT OF FRANCHISE AND FRANCHISE TERRITORY**

### **1.1 Grant of Franchise and Franchise Territory.**

We grant to you, and you accept from us, the franchise, license, and privilege to use the Service Marks, the FENG CHA System, and merchandise bearing the Service Marks, for 10 years from the date of this Agreement (the "Franchise"). This grant solely is for the operation by you of one FENG CHA franchise in the geographical territory and at the location identified in the attached Exhibit A ("the Franchise Territory").

You may deliver take-out orders and provide catering service to customers in your area as long as the product is fresh at the time of delivery. Such sales will be included in gross sales for all purposes, including your reports, royalties and advertising fund calculations. Except for take-out orders and catering service, you may not sell FENG CHA products or services in any manner other than from the shop premises. You may not market or sell outside of your territory in any manner or do any Internet advertising without our prior written approval, which we may withhold in our discretion. You may promote the business through social media and similar means as long as such promotion is consistent with guidelines we issue from time to time.

During the term of this Agreement, we agree not to establish, or license anyone else to establish, any other franchise using the Service Marks or the FENG CHA System within the Franchise Territory, without your prior written consent. You may not use the Service Marks in your business's legal or entity name. Instead, after you have been approved as a franchisee and a territory is approved, you must use the adopted business name (DBA) of "Feng Cha of \_\_\_\_\_" with the territory name filling in the blank.

We retain the right, without payment to you, to sell products under the FENG CHA trademark to grocery shops, supermarkets and other channels of distribution at any time, and to customers anywhere through our website.

If either the Franchise Territory or the location for your franchised operations has not been determined when this Agreement is executed, you are responsible for selecting the site for your franchise within the area designated in Exhibit A. The Franchise Territory and your franchise site must be in the United States of America, legally available pursuant to state, provincial, and federal franchise and business opportunity disclosure and registration laws and pursuant to our contractual commitments (including those with our other franchisees) and in compliance with our franchise placement, market development and demographic criteria.

### **1.2 Location for Franchise.**

You will operate the Franchise only within the Franchise Territory. You may have one or more locations in the Franchise Territory from which the following are performed (collectively the "Franchise Premises"):

- A. The storage of any equipment and inventory used in association with your Franchise.
- B. Customers may be served for dine-in or carry-out food service of Feng Cha products.
- C. Maintenance of telephone, fax, email or postal address for the Franchise.

- D. Advertisement of the address, telephone, fax, email or any other contact information for your location.
- E. Generation of revenues for the Franchise.

If not determined when this Agreement is executed, you are responsible for selecting the site for the Franchise Premises within the area designated in Exhibit A and in accordance with this Agreement.

### 1.3 **Franchise Development.**

You are responsible to furnish and equip the Franchise.

- A. We will furnish to you a schedule of equipment packages, supplies, vendors, and related items for the Franchise. Any modifications you propose must be approved in writing by us. All approvals will be solely within our discretion to maintain a uniform image consistent with FENG CHA franchise system concepts.
- B. You will comply with the standards and specifications we establish for vehicles and equipment, among other things.
- C. You will comply within a time we deem reasonable with any requirement we impose to modify the vehicles and equipment.
- D. We provide you with a design package, including a sample layout for the interior of a typical Feng Cha shop with a set of typical preliminary plans and equipment and décor specifications. We then review, comment on and approve your final plans and specifications when they are satisfactory to us, and we consult with you on the construction and equipping of the franchised shop. You are responsible for construction and conforming the premises to local ordinances and building codes, and for obtaining required permits. We make a final inspection of the franchised shop after you complete its construction. We may require any corrections and modifications we deem necessary to bring the franchised shop into compliance with accepted plans, equipment, designs and specifications.
- E. We require you to confine your business to the operation of a Restaurant. You may not conduct any other business or activity at the Restaurant without our prior written approval. You may only offer or sell products approved by us and you must offer for sale the full menu prescribed by us. We may add, delete or change approved products that you are required to offer from time to time. There are no limits on our right to do so. In offering products for sale, you may only use products, materials, ingredients, supplies, paper goods, uniforms, fixtures, furnishings, signs, equipment approved by us and you must follow methods of product preparation and delivery that meet our requirements. We impose no customer restrictions on the sale of products at your Restaurant, however your franchise is limited to one location and all sales must be made from that location. You are not permitted to sell or distribute goods or services through the use of the Internet or other electronic communications.

### 1.4 **Relocation of the Franchise.**

You will not relocate the Franchise without our prior written approval. Any relocation will be at your sole expense. This Agreement will govern your operations at any replacement Franchise location. You may decide to relocate the Franchise for the following reasons:

- in your and our judgment there is a change in character of the location of the Franchise sufficiently detrimental to your business potential to warrant its relocation, or
- you reasonably decide to relocate the Franchise for cause.

If so, you may relocate the Franchise to another available location, if:

- A. you are not in breach of this Agreement;

- B. you evidence to our satisfaction your ability to obtain and commence operations at the new location within a time we deem reasonable after you vacate the original location;
- C. you develop and equip, at your sole expense, the new location according to our current specifications and standards;
- D. you pay all reasonable out-of-pocket expenses we incur because of the relocation plus a relocation fee of \$5,000. The terms "Franchise Territory" and "Franchise Premises" will include the relocated business site; and
- E. you satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

**1.5 You Will Not Advertise Outside Territory.**

Except with our prior written permission, you will not place under any circumstances advertisements using the Service Marks in or originating from any area other than the Franchise Territory.

**1.6 Existence of Divergent Forms of Franchise Contracts.**

You acknowledge that we have offered franchises to others in the past the terms of which may have varied materially from those set forth in this Agreement.

**1.7 Rights We Reserve.**

We retain all rights not specifically granted to you under this Agreement. Except as otherwise provided in this Agreement, we retain the right, in our sole discretion and without granting any right to you:

- A. to use or license the use of the Service Marks or any other trademarks, service marks, logos or commercial symbols in connection with the sale of any services or products other than those directly contemplated being used, offered, or sold by you under this Agreement. We expressly reserve the right to sell, or earn rebates and fees from the sale by others licensed or authorized by us to sell, proprietary products on a wholesale basis for use in preparing products that will not carry a FENG CHA brand.
- B. to operate and grant to others the right to operate FENG CHA businesses outside the Franchise Territory on such terms and conditions as we deem appropriate.
- C. to sell products or services anywhere, including within the Franchise Territory through channels of distribution other than the FENG CHA business currently reserved to you in the Franchise Territory, including Internet, other forms of media now or in the future developed, wholesale and mail order channels. The Internet is a channel of distribution reserved exclusively to us, and you may not independently market on the Internet or conduct e-commerce except as otherwise allowed by us in the Operations Manual.
- D. to establish, operate, own or franchise any business, including competitive businesses, outside of the Franchise Territory.

**1.8 Nonexclusive.**

We reserve the right to market, solicit sales, and sell, lease, rent or otherwise dispose of franchise products to any person or customer we want. These include national accounts, commercial customers, franchisees, end users or any other customer we may select. We may exercise our right directly or indirectly by or through independent contractors that may include franchisees and dealers.

**1.9 Maximum Pricing.**

We will be permitted, to the extent permitted by relevant law, to establish price ceilings or minimum or maximum allowable prices on the products and services you offer and sell. Except as so specified by us or as otherwise required in this Agreement and in the Operations Manual, you may determine the prices at which you sell products and services, as well as the terms and conditions of sale.

## 2 **PAYMENT OF FEES AND OTHER FINANCIAL REQUIREMENTS**

### 2.1 **Initial Franchise Fee and Initial Purchases.**

The Initial Franchise Fee is **\$35,000**. Contemporaneously with the execution of this Agreement, you have paid to us the Initial Franchise Fee. There will be an additional \$10,000 training fee for initial training and onsite support which is to be paid by you on the confirmation of your training request.

The Initial Franchise Fee is paid in consideration of our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of this Agreement and the opening of the Franchise and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others.

Except as provided in Sections 3.1 and 4.1 below, none of the Initial Franchise Fee is refundable.

### 2.2 **Licensing Fee.**

Beginning on the 5<sup>th</sup> day of the month following the month in which you commence business operations through the Franchise and prorated from the date the Franchise opens for business, you will pay to us a licensing fee or royalty of five per cent (5%) of your gross sales.

The Licensing Fee and monthly minimum of \$1,000.00 are due and payable in the manner specified from time to time in the Operations Manual described in Section 5, below.

We may require these Licensing Fee payments to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as automatic pre-authorized payment plan, electronic funds transfer or the Internet.

### 2.3 **National Advertising Fee.**

You will pay to us a National Advertising Fee of **1.0%** of the total Gross Revenue derived from the Franchise. This fee is payable on the 5<sup>th</sup> of each month, for all Gross Revenue in the preceding month. We reserve the right to temporarily lower or suspend this monthly fee at any time, upon prior written notice to you and to our other franchisees. We also may make a portion of this refundable upon satisfactory compliance with conditions that will be disclosed in our Operations Manual or other communications to you and to our other franchisees.

This payment may be required to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as automatic pre-authorized payment plan, electronic funds transfer or the Internet.

We may use all National Advertising Fees we receive from you in local, regional, national, Internet, or international advertising for:

- maintaining, administering, researching, directing and preparing advertising and promotional activities (including, among other things, the costs of preparing and conducting television, radio, magazine and newspaper advertising campaigns, public relations programs and press releases);
- direct mail and outdoor billboard advertising;
- marketing research and development;

- marketing surveys and public relations activities;
- development and maintenance of any Internet or e-commerce programs;
- marketing materials;
- decor and promotional materials;
- artwork; advertising services;
- training and conventions related to marketing, customer service and sales augmentation;
- production and distribution of periodic newsletters to provide you with industry news, suggestions, and advice on franchise operations; and
- our reasonable salaries, accounting, collection, legal and other costs related to all of the above.

Our internal artwork, advertising, promotion and newsletter production costs and associated administrative costs are paid from the National Advertising Fees. These will be calculated at our cost as established from time to time.

We will place your National Advertising Fees together with contributions from our other franchisees in a common fund (the "Fund") to place advertising in geographic areas, in media, at times and using products and services we deem to be in the best interest of our franchisees and the FENG CHA franchise system.

You recognize the value of advertising and the importance of the standardization of advertising and promotion to the furtherance of the goodwill and the public image of the FENG CHA System.

The Fund will be administered by us. We will direct all regional and national advertising programs. We will have sole discretion over the creative concepts, materials, endorsements, placement, and allocation of moneys from the Fund. The Fund will be used to maintain, administer, direct, prepare, and review national, regional, or local advertising materials and programs as we will in our sole discretion deem proper. It also will be used to cover our costs of collecting and administering the advertising fees we collect from our franchisees, including incurred legal fees. The Fund will be used to pay for joint marketing programs, including programs with our suppliers, sister corporations and co-branding partners. We are under no obligation to administer the Fund to ensure that expenditures are proportionate to contributions of franchisees for any given market area or that any franchise benefits directly or proportionately from the development or placement of advertising. We will not be obligated to expend all or any part of the Fund during any specific period of time. Upon your written request, we will provide to you the most recent annual accounting of the Fund.

The Fund may be used for marketing, advertising, public relations, production and media expenses related to promotion of the Service Marks, our franchise system and our products and services. The Fund may also be used for operational, administrative, office, rent, automobile, and collection expenses. We will not use any part of the Fund for franchise sales, but may include references to the availability of franchises in materials produced and placed in media by the Fund.

We may create an advertising advisory board made up of FENG CHA franchisees. These franchisees will make recommendations on your behalf as to types of advertising, promotion and public relations. We will use these and other recommendations which we feel are appropriate when drafting a budget and program each year for the Fund.

We anticipate that all contributions and earnings of the Fund will be expended for the advertising and promotional purposes during the taxable year within which the contributions and earnings are received. If, however, excess amounts remain in the Fund at the end of such taxable year, all expenditures in the following taxable

year(s) will come first from earnings and contributions from the prior year and next out of earnings in the current year.

A. We Will Administratively Segregate Advertising Contributions.

The Fund will be administered as follows:

1. We will administratively segregate all Fund contributions paid to us by our franchisees. All payments will be deposited in our general operating account; will be commingled with our general operating funds; and will be deemed to be our asset, subject however to our obligation to expend it in accordance with the terms of this Agreement.
2. Upon request, we will furnish to you annual financial statements of the Fund. Our books and records relating to the Fund will be available for your inspection during our normal business hours, upon reasonable notice and reasonably relevant requests.
3. Although we intend the Fund to be of perpetual duration, we maintain the right to terminate the Fund. The Fund will not be terminated, however, until all monies in the Fund have been expended.
4. An accounting of Fund contribution and expenditures will be prepared annually and will be made available to you upon request. Such accounting may include an audit of the contributions to and expenditures of the Fund prepared by an independent certified public accountant selected by us, at the Fund's expense.

B. You are Not a Third-Party Beneficiary of the Fund.

We will have the sole right to enforce the obligations of you and all our other franchisees, who contribute to the Fund. Neither you nor any other of our franchisees who are obligated to contribute to the Fund will be deemed a third-party beneficiary with respect to the Fund or have any right to enforce any obligation to contribute to the Fund.

C. We May Return Funds to You or Use Funds for Regional Co-op Programs.

We will have the right to expend all, or any portion of, the Fund for the following purposes:

1. for regional or local co-op advertising or promotional programs provided, however, that such programs will be available to all similarly situated franchisees; and,
2. if in our sole judgment, you or any other franchisee is located in a geographic territory not adequately serviced by our national or regional advertising programs, we may rebate all or a portion of the Fund Payment paid by that franchisee for use by that franchisee for local advertising. Expenditures by that franchisee will be in addition to the local advertising requirements set forth in this Agreement.

D. Establishment of Advertising Programs.

You will deliver to us current price lists of all goods and services you sell in, at or through the Franchise. We will have the right to rely upon the accuracy of the price lists, and may use the information to advertise, market and promote the Franchise, and the goods and services you sell. At any time, you may request to amend, modify or change the price list but may only make any proposed changes after first obtaining our written approval. Price changes will not be effective for a period of 30 days after the notification, to enable us to modify advertising or promotional materials we use to advertise your goods or services. You will adhere to the price lists while they are effective. We may establish the prices at which you sell goods and services.

E. We May Advertise "Suggested Prices".

In national or regional advertising programs, we may include "suggested prices" for the goods or services sold by you and our other franchisees. We will include within all our advertising the phrase "available at participating locations only" or other cautionary language to advise the consumer that the suggested prices may not be adhered to by all our franchisees. We may compel you to charge "suggested prices" to the extent permitted by state and federal laws and regulations.

F. Discount Programs.

From time to time we may develop and market special discount or free coupon programs. Some discount programs will be designated as mandatory, and your participation is required. Others will be designated optional.

For optional discount programs which we create, you will have the right, but not the obligation, to participate in these programs. We will notify you of the creation and provisions of a discount or coupon program. Within 5 days after receipt of the notice, you will advise us whether or not you wish to participate in that program. If you notify us that you wish to participate, you will adhere to all provisions of the program. If you elect to be excluded from a program, we will have the right to advise consumers, by advertising, sales solicitation or otherwise, that you are not a participant. You will not be entitled to the benefits of that program. We will establish the discount or coupon programs in our sole discretion, and will not have any obligation to consult or confer with you or any other of our franchisees with respect to the nature, content or amount of any discount or coupon established pursuant to any program.

We may develop and market special promotional items which will be made available to you at our cost plus a reasonable mark up. You will maintain a representative inventory of such promotional items to meet public demand. You will have the right to purchase alternative promotional items provided that alternative goods conform to our specifications and quality standards. You must fully and accurately participate in, honor, accept and redeem all promotional and marketing materials that we authorize.

When required by relevant law, you will have the right, but not the obligation, to participate in these programs. We will notify you of the creation and provisions of each program. Within 5 days after receipt of the notice, you will advise us whether or not you wish to participate in that program. If you notify us that you wish to participate, you will adhere to all provisions of the program. If you elect to be excluded from a program, we will have the right to advise consumers, by advertising, sales solicitation or otherwise, that you are not a participant. You will not be entitled to the benefits of that program. We may establish the programs in our sole discretion, and will have no obligation to consult or confer with you or any other of our franchisees with respect to the nature, content or price of any promotional item established pursuant to any program.

There may be times when you create or desire to implement a discount program of your own designation. For such programs, you may submit a proposal to us, and you will be deemed to have our permission to implement your program unless we submit to you a notice of disallowance within 5 business days of your submission to us. Such programs that you create will be at your own cost, and the intellectual property associated with such programs remains ours, for possible future use in any or all franchise territories.

G. Your Obligation to Advertise Locally.

In addition to your obligation to pay the above National Advertising Fees, you are encouraged, but not required, to incur expenses for local marketing. If you operate in a region where multiple franchisees are located, we (or our agent) may determine that your advertising may be required (on notice to you), up to 10% of your gross revenues, in combination with all regionally related franchisees, for coordinated local advertising.

You may develop local advertising materials for your own use, at your own cost, following advertising criteria that we establish. We must approve the advertising materials in advance. We will endeavor to approve or disapprove the advertising materials within 15 days after we receive it from you.

H. Telephone, Cellular Phone and Yellow Pages.

You will not publish, promote or advertise any cell phone or landline telephone number except for the landline telephone number that we own or approve in the areas where you conduct your Franchise. We may furnish you with one or more telephone numbers that will be used in your franchised business or forwarded to a call center, the use of which can be required under the Operating Manual. During and after customary business hours, you shall use only the type of telephone answering service or other means of telephone answering approved by Franchisor (us). To facilitate your compliance with this condition, Franchisor may provide negotiated preferred relationships with telephone answering service providers or sales and support providers, and Franchisor may also, in its discretion, provide use of a toll-free telephone number for the FENG CHA franchise system. You will not use any other telephone number(s) in relation to Franchise. You will advertise your franchise, in the Yellow Pages telephone directories that service your franchise area. This advertisement will be in the form and have the content specified from time to time in the Operations Manual. When more than one FENG CHA facility serves a metropolitan area, classified advertisements will list all FENG CHA units operating within the distribution area of the classified directory, and you will contribute your equal share in the cost of the advertisement. The expenditures for this advertising generally will be in addition to the minimum monthly local advertising requirements of this Agreement. From time to time, in our sole discretion, the Fund may be used for some or all of such advertising.

You will buy your own cellular phones for use in the Franchise. All costs associated with using and maintaining your cellular phones will be your sole responsibility. Your cellular phone numbers may be printed on your FENG CHA business cards only. You will not print or use your cellular numbers on any type of publication, advertisement, signs, invoices, quotes, or any other printed matter except for your business cards. Upon termination or expiration of this Agreement, we reserve the right to acquire your cellular phones or their associated telephone numbers, and you agree to sell the phones and transfer the associated telephone numbers to us (the phones shall be valued at the phones' current market value less 20%) if we elect to acquire them. You will pay any costs or penalties due to cancellation of your cellular phones.

I. You Are to Use Local Advertising Materials We Supply.

Upon its creation and issuance by us, or its update and reissuance, we may supply to you an Advertising Manual which will contain samples of local advertisements we approve. You will use only the advertising materials contained in the Advertising Manual, and may not, without our prior written consent, place any advertisement, in any media, which materially varies from the form and content of the approved advertisements in the Advertising Manual.

J. Approval of Your Local Advertising and Website and E-Commerce.

You will submit to us all advertising copy and other advertising and promotional materials, public relations programs and press releases, radio and television advertising, specialty and novelty items and signs before you use them in your local advertising program. You will not use any advertising copy, public relations program, press release or other promotional material until we approve it. Your failure to conform to our provisions or requirements and subsequent non-action by us to require you to cure or remedy your failures and defaults will not be deemed a waiver of future or additional failures and defaults by you under this provision or any other provision of this Agreement.

You specifically acknowledge and agree that any web site will be deemed "advertising" under this Agreement and will be subject to (among other things) our approval. (As used in this Agreement, the term "web site" means an interactive electronic document, contained in a network of computers linked

by communications software that you operate or authorize others to operate and that refers to the franchised business, proprietary marks, us or the FENG CHA System. The term web site includes, but is not limited to, Internet and World Wide Web home pages.) In connection to any web site, you agree to the following:

1. You will not establish or use any web page apart from the one we prepare and provide.
2. In addition to any other applicable requirements, you will comply with our standards and specifications for web sites as prescribed by us from time to time in the Operations Manual or otherwise in writing or on a franchisee forum intranet system.
3. We retain the sole right to market on the Internet, including all use of web sites, domain names, URL's, linking, meta-tags, advertising, auction sites, e-commerce, and co-branding arrangements. You will provide us content for our Internet marketing, and follow our Intranet and Internet usage requirements. We also retain the sole right to use the Service Marks on the Internet, including on web sites, as domain names, directory addresses, meta-tags, and in connection with linking, advertising, co-branding, and other arrangements. We retain the right to approve any linking or other use of our web site. You may not establish a presence on or market using the Internet except as we may specify, and only with our prior written consent.
4. If you want to independently advertise or promote in any media (including the Internet), you must obtain our prior written approval, except when using materials and media previously approved by us.

Subject to the terms of use on our web site, we may gather, develop and use in any lawful manner information about any visitor to the web site, including but not limited to your customers, franchisees or prospective franchisees regardless of whether they were referred to you via the web site or were otherwise in contact with you.

We have established or may establish in the future an intranet or comparable on-line facility. You must use it in the manner we require. You understand and agree that we may elect to provide certain assistance, deliver information and materials or otherwise communicate with you via the Internet or the intranet. At your sole expense, you will maintain and update as needed all computer system requirements and services necessary to access the Internet and the intranet in the manner we require. You are required to have DSL or other high speed Internet service to your business or home office where you will be able to access downloads from us of advertising materials, operations manual revisions, training materials and corporate news.

#### 2.4 **"Revenue" Defined.**

"Revenue" means all receipts generated by the Franchise from any source, including, but not limited to, sales, rentals, vending, exchanges, repairs, services, labor, service charges, service contracts (including catering contracts), any other type of remuneration, gift, contra-deal, barter of products or services, charity, payment in kind, or any other benefit or value that is received or deferred to be received, and excludes discounts, refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Revenue" means the total Revenue for any calendar period as relevant.

#### 2.5 **You Will Pay Taxes and Indebtedness.**

You will pay all taxes, assessments, liens, encumbrances, accounts, and other debts, regardless of their nature, assessed against you, the Franchise, or inventory, materials, and equipment used in the Franchise. Payment

will be made when due and before delinquent except when being contested in good faith by appropriate proceedings. If we are charged with any tax by the authorized taxing authority of any state or political subdivision, including taxes on sales made to or licenses granted to you, or sales made by you through the Franchise you will pay these taxes. You will pay to us promptly and when due the amount of all sales taxes, personal property taxes and similar taxes imposed upon, required to be collected, or on account of collection by us of the Initial Franchise Fee, the Licensing Fee, or any other payments you make to us pursuant to this Agreement.

You acknowledge that one of the benefits accruing to you and all of our other franchisees is the economy of mass purchasing power made available through us. Your failure to pay or repeated delay in making prompt payment in accordance with the terms of the invoice or statements rendered to you for payments due, or misdirection of supplies or other abuses will result in a loss of credit standing and goodwill and a loss of benefits derived to us and other franchisees using the FENG CHA System. You expressly agree to promptly make all product purchase payments on invoices and statements rendered to you in accordance with the terms of the invoices and statements and to make timely remittances of rent as required on your lease.

## **2.6 License Fees and Other Sums to Be Paid Promptly.**

All fees owed or incurred under this Agreement during any calendar month shall be due, and must be paid on the 5<sup>th</sup> day of the following calendar month.

You will not set off any claim for damages or money due to you from us against any payments to be paid by you to us under this Agreement or any related agreement between the parties. No endorsement or statement on any check or payment of any sum less than the full sum due from you to us will be construed as an acknowledgment of payment in full or as an accord and satisfaction. We will have the right to accept any check or payment without prejudice to our rights to recover the balance due or to pursue any other remedy available to us.

Upon your failure to pay us as and when due, we may, at our election, deduct the unpaid sums from any monies or credit we hold for your account. You agree that you will not withhold payment of any amounts due to us on the grounds of any alleged non-performance by us, or in the event of any dispute or a claim by you, or for any other reason whatsoever.

A late charge will be added to any sums to be paid under this Agreement that remain unpaid after the date due. The late charge payable shall be the greater of 1.5% per month or the maximum amount allowed by applicable law. In addition, late payments and late reports will be subject to a late payment penalty of \$100 per day. These late charges and late payment penalties will not exceed any limits placed upon late charges and late payment penalties by applicable local laws.

Our acceptance of late charges will not constitute a waiver of the breach created by your non-payment of any amount when due. Notwithstanding the payment of any late charges, we may exercise any rights or remedies granted by this Agreement upon your breach or any rights or remedies otherwise granted by law.

Nothing contained in this Agreement obligates us to accept any payments after due or to commit to extend credit to or otherwise finance your operation of the Franchise. You acknowledge that failure to pay all amounts when due will constitute grounds for termination of this Agreement.

## **2.7 Records.**

You will keep a complete and accurate set of books and records of the operation of the Franchise, produce monthly financial statements in accordance with generally accepted accounting principles and practices for each calendar month and furnish copies of these statements to us within **30** days after the end of each quarter.

You will furnish to us as outlined in the Operations Manual, an itemized report of the Gross Revenue and of your profit and loss for the prior month. This report must be certified by you to be true and correct. The report will be in the form and will include such supporting documentation as we may reasonably demand from time to time. All Licensing and National Advertising Fees due based upon the Gross Revenue for the preceding month will accompany the report.

You will keep records of all business done and Revenue received through the Franchise. These records will include, but are not limited to, order sheets, cash register tapes, sales and rental agreement forms, daily sales summaries, tax returns, financial statements, and invoices. You will date, file in consecutive order, retain for a period of 5 years, and make available to us for inspection and audit all your records.

Our right to inspect will include the right to examine your books, tax returns and records of other businesses owned, in whole or in part, or operated by you to determine whether all revenue to be reported by you has been properly reported and that appropriate fees and contributions have been paid. We may establish a uniform list of accounts and a uniform bookkeeping system for all our franchisees. You agree to maintain your books and records in the manner we require.

You will submit to us a list of all shareholders, members, partners or other owners of the franchise business and the respective interests held by each as of the end of each fiscal year. Provided, however, if your shares are publicly traded, the list of shareholders required will include only those owning 5% or more of the shares outstanding. The required report will be submitted to us within 90 days after the end of your fiscal year.

## 2.8 **Audits.**

We may audit your reports, books, statements, business records, cash control devices, and tax returns at any time during normal business hours. Audits will be conducted at our expense unless you understate the Gross Revenue for any reported period or periods by more than 2% or unless you fail to deliver any required report of Gross Revenue or any required financial statement in a timely manner. In the event of an understatement or failure to deliver, you will reimburse us for all audit costs. These will include, among other things, the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit. You will immediately pay all Licensing Fees, National Advertising Fees, Local Advertising expenditures and late payment charges that the audit determines are owed. These payments will not prejudice any other remedies we may have under this Agreement or by law. Our right to audit will include the right to examine the books, tax returns and records of other businesses that you own or operate, in whole or in part, to determine whether all revenue to be reported by you has been properly reported and that appropriate fees and contributions have been paid.

## 2.9 **You are to Pay all Franchise Costs.**

All the costs of the Franchise, including opening and operating costs, will be your sole obligation. We will have no costs, liability or expense whatsoever with respect to your opening and operation of the Franchise. You will not use or employ the Service Marks in performing any activity or incurring any obligation or indebtedness in a manner that could result in making us liable for them. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits. You will control your own employees and contractors. You will take all steps necessary to maintain a safe and healthy environment for your workers and customers.

## 2.10 **Attendance at Conventions.**

We may hold conventions for the franchisees that make up our franchise system. These conventions may be held at a different location each time. They include programs on sales and marketing techniques, performance specifications, advertising programs, training suggestions, and committee elections, among other things. **Your attendance at each convention that is held is required.** You will bear all expenses of attending, including travel, lodging, meals and entertainment. For any annual convention that you do not attend, we will deliver to you and you will pay us for all training materials, documentation, handouts, training videos, and video recordings of the activities of the convention. The price for the training materials, documentation, handouts, training videos, and video cassettes for each annual convention will be established by us from time to time.

## 2.11 **Application of Payments.**

We have the right, in our sole discretion, to apply any payment from you to any past due indebtedness you owe to us or our affiliates, whether from monthly fee payments, purchases, late payment charges, or for any other reason. This section will apply regardless of how you may designate a particular payment is to be applied.

For the purposes of this Agreement, and all other instruments and agreements relating to it, we will have the right to treat any payment received from you as payment on account. We may apply any monies received from you in the following priority:

- a) to the payment of any sales or use taxes required to be paid in connection with any dealings between you and us pursuant to this Agreement;
- b) to the payment of interest on overdue amounts;
- c) to the payment of accrued late charges;
- d) to the payment of overdue or outstanding amounts;
- e) to the payment of current Licensing Fees;
- f) to the payment of current National Advertising Fees;
- g) to the payment of the purchase price for all or any items you purchase from us or FENG CHA Suppliers, and
- h) to the payment of rent and any other amounts payable by you to us,

in any order that we, in our discretion, decide and notwithstanding any contrary designations by you as to the application of your payments.

### 3 **TRAINING**

#### 3.1 **Mandatory Training.**

You will be required to participate in basic training, presently delivered through an online platform. Upon successful completion (with a 90%+ passing grade), you will be required to attend a 6-day in-person training at a location of our designation. Associated with this in-person training, you will pay us a \$10,000 Initial Training Fee, to cover our costs in delivering in-person training as well as the follow-up on-site support (estimated at 7 days) when your franchised business is under its soft opening. This training course will cover all aspects of the operation of the Franchise, including food preparation training, industry and products training, customer service and daily operations management and training, point-of-sale system maintenance and usage training, equipment training, and financial management and human resources instruction. You or the manager will complete the course no later than **2 weeks before opening the Franchise for business and within six months of the date of this Agreement.**

You must ask us to schedule a training session for you or the manager at least **35** days before the session is to start. You or the manager must complete this mandatory training program to our exclusive satisfaction and You will be charged \$500 per day for the extra training provided by us in case you fail to satisfactorily complete the mandatory training course. You are encouraged to begin training before incurring any costs or expenses related to the planned opening of the Franchise. We will not be liable for any costs or expenses you incur if we terminate this Agreement because you or your manager fails to satisfactorily complete the mandatory training course. The mandatory initial training course shall be deemed complete as to any participant upon such participant obtaining a passing score on the final training examination. In the event that any participant fails to receive a passing score on the final training examination upon their first attempt, each subsequent attempt shall incur a \$100 Reexamination Fee, per exam, per trainee.

You will pay the transportation, board, and lodging expenses you or the manager incur related to this training, including transportation, meals, accommodations and entertainment. The training course will be not less than

five days at our training center. Training and training materials may be delivered in the formats or media we choose. This may include course books or training exercises on paper, video, CD-ROM or another electronic format, via web cast or an intranet. You will participate in and pay for the training, including costs of computer equipment and internet services needed to participate.

If the Franchise is managed by any persons other than you, you will notify us of these managers. Each manager you hire must successfully complete the mandatory training program within one month after being hired. You will bear all costs of the training, including a reasonable training fee at our then current rates. Each of your employees will complete a training program as prescribed in the Operations Manual. All training programs for your employees will be conducted under the direction of you or your designated manager who has successfully completed the mandatory training course.

#### Individuals:

If you will be operating your franchised business as an individual, we strongly recommend that you devote your full time and best efforts to the day to day operation of your franchised business with no operational or management commitments in other businesses except other franchises offered by us. You may however, continue to operate such other businesses, (if any), in which you are engaged as of the date of this Agreement that are family owned. If you continue to operate other businesses, you must employ separate personnel for the businesses, market services under one or more trading designations separate from the Service Marks, maintain separate offices and customer reception space and have the personnel related to such other businesses wear apparel that does not feature any of the Service Marks.

#### Partnerships:

If you will be operating your franchised business as a partnership, one or more partners must participate in the actual day to day operation of your franchised business or you must have in your employ a manager who runs your day to day operations. The partner or partners who are in charge of running your franchised business or your manager must have successfully completed our training course.

#### Corporations, Limited Liability Companies:

If you will be operating your franchised business as a corporation, limited liability company, or other legal entity, you must have in your employ a general manager. This general manager can be you, any member of your board, an officer of your corporation or member of your limited liability company. The general manager who is in charge of running your franchised business must have successfully completed our training course.

#### Managers/Training:

No matter what form of business you decide to use, the person assigned to running the day to day operations of the business must have completed our training course. Anyone in your employ who is a manager or crew leader of your franchise operations must also have completed our required training course.

### 3.2 **Supplemental Training.**

At your option and upon not less than **35** days' prior written notice to us, you may receive additional training at our training center or at other agreed upon locations. The cost for additional training shall be \$500 for each day, or an additional amount as may be established within the Operating Manual.

This additional training consists of visits to our franchises, work experience, and observation of franchise operations. The duration of training is negotiable depending upon your needs. You will not receive any compensation for services rendered by the trainee during this or any other training. We may designate qualified franchisees or master franchisees to conduct some or all of your training.

From time to time we may provide refresher training programs or seminars and may require that you or your managers attend and complete them to our satisfaction. These programs and seminars will be held at locations we designate which may include being held in the form of an online course and will be provided without charge to you. You will be exclusively responsible for paying all travel, living and other expenses and compensation of attending these programs and seminars. Each year, you or the designated managers of your Franchise will be required to attend up to **40** hours of programs and seminars, depending upon program and seminar availability. In addition, we may deem it appropriate or necessary to provide additional training and supervision to you and your managers and employees at your franchise location. If so, you will fully participate in and complete this additional training and supervision, including additional or revised training programs and processes that may be added to the Operations Manual in the future. We may charge a reasonable Training Fee for these additional training sessions not less than \$500 per day. You must also reimburse our actual expenses associated with delivery of such additional training sessions.

#### **4 COMMENCEMENT OF OPERATIONS**

##### **4.1 Time to Complete Training and Commence Operation.**

You will find a site location that is acceptable to you and approved by us, and thereafter, You or your manager will complete to our exclusive satisfaction the mandatory training defined above and commence full and continuous operation of the Franchise within **270** days after execution of this Agreement. Prior to commencing operation, you will procure all necessary licenses, permits and improvements and purchase initial inventory. By such time, you must complete the remodel, redesign, or construction work to adhere to the Feng Cha design elements and requirements then-current in the Operations Manual. Any failure to commence operation caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages or other events beyond your reasonable control will be excused for a period of time that is reasonable under the circumstances.

If this training, site location and commencement of operation obligation is not fulfilled, we may, in our discretion, terminate this Agreement.

##### **4.2 You Are to Obtain Permits and Licenses.**

Prior to commencing business operations, you will obtain all local permits and licenses necessary to operate the Franchise, including relevant contractor licenses. You will comply with all of the provisions of all other applicable federal, state or local statutes, rules or ordinances.

#### **5 FRANCHISE STANDARDS OF OPERATION**

##### **5.1 Operations Manual, Minimum Inventory, Supplies, Plans and Specifications, and Public Relations.**

Our industry is highly competitive. Continuous efforts to maintain, update and improve the FENG CHA System are essential. The developments we will make for the benefit of our franchise system as a whole are contemplated throughout the term of this Agreement. The continuous development of the FENG CHA System in this manner is an important and beneficial aspect of the relationship you want to have with us. We agree to lend to you a copy of or otherwise provide online access to the **FENG CHA** Operations Manual once you have paid to us the Initial Franchise Fee, in full. The Operations Manual describes the FENG CHA System, including specifications, standards, operating procedures, accounting and bookkeeping methods, marketing ideas, inventory requirements and control techniques, plans and specifications, service requirements, co-branding requirements, public relations, and other rules that we may prescribe from time to time and identify as part of the Operations Manual. Among other things, the Operations Manual may contain information, requirements and standards related to:

- Planning and consulting
- Site selection assistance
- Permitting assistance
- Personnel management techniques
- Equipment standards and assistance

- Proprietary computer programs for estimating, point of sale, marketing, accounting, scheduling and reporting
- Inventory management assistance and training
- Use of designated or approved vendors for marketing/advertising, equipment, supplies, software, kiosks, architecture/design plans, insurance, real estate agency services, and payroll services
- Written operations standards and assistance
- Initial and ongoing operational training
- Marketing and advertising
- Standards, ongoing training and ongoing support
- Insurance guidance and standards

The Operations Manual includes materials in whatever form (including electronic) we provide to you that describe the guidelines, advice, and requirements regarding the operation of your franchise, including user manuals and related instruction materials. It includes amendments, supplements, and new documents made and identified by us as part of the Operations Manual. The Operations Manual may be delivered to you by hard paper copy, computer diskette, CD-ROM, via an intranet or other downloading mechanism to your computer or via another medium chosen at our discretion.

For avoidance of confusion, the Parties state and agree that Franchisee's compliance with the Operations Manual is a continuing condition of the franchise license from Franchisor; however, the terms of the Operations Manual are not terms of this Agreement. The terms of the Operations Manual comprise a condition to the continued license of the franchise, and include such terms as may be contained in the aforesaid manual as of the date of the Franchise Agreement, together with updates thereto as may, from time to time, be provided by Franchisor to Franchisee.

The Operations Manual is and will remain confidential and our exclusive property. You will not disclose, copy or duplicate any part of the Operations Manual for any reason. Nothing in this Agreement may be construed as an incorporation of the terms of the Operations Manual or as making the Operations Manual part of this Agreement. The Operations Manual, in part, may consist of confidential:

- A. manual or manuals, and
- B. any Intranet or password protected portion of an Internet site, and
- C. any other embodiment of the Methods of Operation, including notices of new standards and techniques including all media identified by us as part of the Operations Manual, and
- D. any amendments, supplements, derivative works, and replacements; whether embodied in electronic or other media.

We develop minimum requirements for service, estimating, products, supplies, stationery, business forms, advertising, plans and specifications, materials and signs, among other things. These requirements are outlined in the Operations Manual. You will purchase all initial inventory items and additional items specified from time to time in the Operations Manual. We may amend the Operations Manual, including changes which may affect minimum requirements for your franchise operations. You will strictly adhere to the requirements of the Operations Manual as we amend it from time to time. You will implement immediately all changes at your cost, unless we otherwise specify. We reasonably may restrict you from producing, stocking, and selling certain services and goods, from time to time, as specified in the Operations Manual.

You must purchase items that bear the Service Marks from us or suppliers we approve from time to time. Proprietary items and supplies may be private labeled by us.

We retain the right to make a reasonable profit on any items, supplies and materials you buy from us. We may also make a reasonable profit on supplies we purchase in bulk quantities and sell to you.

We may obtain money, goods, services, or other benefits from persons and entities with which you do business, on account of that business with you. These may include rebates, refunds, commissions, co-operative payments, or discounts. Such benefits or funds will be received and used for purposes as may be deemed desirable in

the discretion of. The uses to which may put such funds may include such uses as providing supplemental training or offering promotional services to franchisees.

There are no required quotas as to quantity of purchases you must make from us or from approved vendors. You must only have enough supplies on hand to meet customer demand. When You will purchase equipment, inventory, and supply items from us at our then current prices, payment must be made when you place your order with the approved supplier or vendor. The items we offer may include among other things equipment, merchandise, and supplies that bear the Service Marks. You may offer these Trademark bearing items only through the Franchise.

Any products and goods sold, licensed, or leased by or through us to you will be sold, licensed, or leased in accordance with the terms expressly set forth in the Operations Manual or as otherwise provided for in writing by us or the manufacturer of the products and goods. **EXCEPT AS EXCLUSIVELY SET FORTH IN WRITING AND SIGNED BY US, WE MAKE NO EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE PRODUCTS AND GOODS, AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT RESTRICTED TO, THE IMPLIED WARRANTY OF TITLE AND THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE EXPRESSLY DISCLAIMED. UNDER NO CIRCUMSTANCES WILL OUR LIABILITY IN CONNECTION WITH ANY PRODUCTS OR GOODS EXCEED THE DOLLAR AMOUNT OF THE PURCHASE PRICE OR LICENSE FEE PAID BY YOU FOR THE PRODUCTS OR GOODS. IN NO EVENT WILL WE BE LIABLE TO ANY PARTY, INCLUDING BUT NOT LIMITED TO, YOU AND YOUR CUSTOMERS, FOR ANY TORT DAMAGES OR INDIRECT, SPECIAL, GENERAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS OR ANTICIPATED PROFITS AND LOSS OF GOODWILL, ARISING IN CONNECTION WITH THE USE (OR INABILITY TO USE) THE PRODUCTS OR GOODS FOR ANY PURPOSE WHATSOEVER, EVEN IF WE ARE AWARE OR HAVE BEEN ADVISED OF THE POSSIBILITY OF POTENTIAL LOSS OR DAMAGES.**

We will not be liable to you if we are unable to deliver equipment, inventory or supply items to you because of any loss, damage, or delay caused by strikes, riots, fire, insurrection, war, elements, embargoes, failure of carriers, inability to obtain transportation facilities, forces majeure, acts of God or of the public enemy, or any other cause beyond our control.

You will purchase all products, supplies and materials required for the operation of the Franchise from manufacturers, suppliers or distributors approved by us. All specifications that we require of you and lists of approved suppliers will be included in the Operations Manual. We will use our best judgment to set and modify specifications in order to maintain the integrity and quality of the franchise system. You specifically agree that as a condition to your continued use of the license granted to you pursuant to this Franchise Agreement, during and after customary business hours you will use only the type of telephone answering service or other means of telephone answering approved by us as the Franchisor. Preferred vendor rates and relationships may be negotiated by us from time to time, and you agree to enter into such agreements as may be necessary to avail yourself of such approved and preferred telephone answering services and to satisfy the condition to use an approved telephone answering service.

You must sell, offer for sale, distribute or deliver only such services or products that meet the specifications and standards of quality and quantity in the Operations Manual. You must sell or offer to sell all approved items and services. You must refrain from deviating from our standards and specifications and must discontinue selling or offering for sale any such items as we may, in our discretion, disapprove in writing at any time.

With advance written notice, you may request our approval to obtain products, supplies or materials from sources that we have not previously approved. We may require you to give us sufficient information, photographs, drawings, samples, and other data to allow us to determine whether the items from these other sources meet our specifications and standards, as established from time to time. These specifications and standards will relate to quality, taste, texture, composition, absorbency, strength, finish and appearance, and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered to a designated independent testing laboratory for testing prior to approval and use. You will reimburse us for the actual cost of the tests. We will license any supplier that can meet or exceed our quality control and confidential formula requirements and standards, for a reasonable

license fee, to produce and deliver products to you but to no other person. Our confidential manufacturing requirements, equipment, designs, systems and formulas will be disclosed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently adhere to our standards, requirements and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We may require a Confidentiality and Non-Disclosure Agreement signed by the proposed supplier prior to release of any confidential information. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose within 30 days of our receipt from you of your written notice of request for approval.

From time to time we or our agents may inspect any proposed or approved manufacturer's, supplier's, or distributor's facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier, or distributor. Should we determine from any inspection that a manufacturer, supplier or distributor fails to meet our specifications and standards, we will give written notice describing this failure to you and to the manufacturer, supplier or distributor, together with a notice that unless the failure or deficiency is corrected within **30** days, the manufacturer, supplier or distributor will no longer be approved.

One of the benefits accruing to you and all our other franchisees is the economy of mass purchasing power made available through us. Your failure to pay or repeated delay to make prompt payment in accordance with the terms of the invoices and statements for payments due on your purchases of signs, equipment, products, supplies and other inventory items, or you misdirection of supplies or other abuse of our approved suppliers, distributors and manufacturers, will result in a loss of credit standing and goodwill and benefits otherwise available to us and our other franchisees. You expressly agree to promptly pay all such invoices and statements in accordance with their terms.

## 5.2 **Standards to Be Maintained.**

You will follow the FENG CHA System and maintain standards for products and service that we prescribe.

- A. You will operate the Franchise in a clean, orderly, and respectable manner in strict compliance with this Agreement and the Operations Manual. You will only use signs, equipment, materials, products, inventory, plans and services that conform to our specifications to conduct the franchise.

You may only use approved vehicles which are free of any rust and dents. You will wash your vehicles at least once every two weeks. Your vehicles will only be used for Franchise purposes including positive advertising and will not be used for any other reason that could harm FENG CHA system, brand, or Marks. We must approve the vehicles you use for your Franchise. You will maintain your vehicles in good repair and operating condition. You will adhere to our vehicle requirements and standards, including our requirements for the purchase of new vehicles.

- B. You will maintain signs approved by us on the Franchise Premises (if at an office site or commercial location) and on vehicles you use in your franchise operations and to identify locations where you are conducting franchise services. These signs must comply with local sign ordinances, regulations and laws. The signs will describe you only as a franchisee operating pursuant to this Agreement. You will apply only decals and logos approved by us on your vehicles, signs and equipment. You will keep your signs clean and legible and free of tears, paint problems, punctures, cuts, and graffiti.

- C. We may inspect the Franchise at reasonable times to verify your compliance with the terms of this Agreement. To do so, we may:

1. Inspect the Franchise;
2. Observe your operation of the franchise business for any consecutive or intermittent periods we deem necessary;

3. Select items, products and other materials, services, equipment and materials, operations and supplies for test of content and evaluation purposes to make certain that they are satisfactory and meet our quality control provisions and performance standards;
4. Interview your personnel, customers, vendors and co-branded partners; and
5. Inspect and copy any books, records and documents related to the operation of the franchise and any other franchise information we may require.
6. Hire a third party "secret shopper" or present ourselves as a customer without disclosing our identity for the purpose of evaluating the quality of products, services, and experience you offer. We may do this no more than three times a calendar year and for a total cost of no more than \$125.00 per evaluation event.

You and anyone acting as your agent will cooperate fully with us and our agents in connection with these inspections, observations, and interviews. You expressly waive any rights of privacy or confidentiality you have with your personnel, customers, vendors and co-branded partners in reference to these inspections, observations and interviews.

If you fail any inspection, a reinspection will be required, and you will pay the \$1,000 reinspection fee. Additionally, if you are found (whether through inspection or otherwise) to be non-compliant with the systems, methods, or other required matters set forth in this Agreement or in the operations manuals and related content, you will incur a \$100 per day non-compliance fee, until such non-compliance is cured by delivery to us of satisfactory evidence of the cure.

- D. You will comply with all applicable ordinances, regulations, bylaws, laws, and statutes. You will not permit unlawful activities through the Franchise and will not sell, exchange, offer, hold, show, rent, or permit to be sold, exchanged, offered, held, shown, or rented any material or service you know or reasonably suspect to have been obtained in violation of law or to be otherwise illegal.

You will secure and maintain in force all required licenses, permits and certificates relating to the operation of the Franchised Business and will operate the Franchised Business in full compliance with all applicable ordinances and regulations, including without limitation, all government laws and regulations relating to occupational hazards and health, EEOC laws, Americans with Disabilities Act, copyright laws protecting owners of artistic works, consumer protection, trade regulations, workers compensation, unemployment insurance and withholding, and payment of federal and state income taxes, social security taxes and sales, use and property taxes.

- E. You will not sell or dispense any products or services or activities other than those we specifically recognize and approve in writing.
- F. After we have delivered to you written notice of default or violation of this Agreement or notice of specific actions, omissions, or instances of neglect or misguidance, we may employ professional shopping services to monitor your compliance with this Agreement. You will repurchase merchandise and otherwise fully reimburse these shopping services for goods, services, and other items they receive, lease, or buy from you in the process of verifying compliance, including reasonable travel and time costs (currently \$35 per hour). You will hold us harmless from any such charges incurred by any shopping service.
- G. You, at your expense, will maintain the Franchise and your vehicles, equipment and furnishings in good repair, attractive appearance, and sound operating condition in compliance with the Operations Manual. At our request, you will make necessary repairs in order to maintain uniform appearance and to protect the reputation of the Service Marks. You will commence all repairs and changes within a reasonable time after notice from us, and you will proceed with due diligence until completion.

If you do not maintain the Franchise or your vehicles as required, after notice to you, we at our option, may make the necessary maintenance and repairs and charge the cost to you. If we make or direct the making of repairs, we will not incur any liability to you, including but not limited to, liability for interruption of your business during the course of making the maintenance and repairs.

- H. You will keep your franchise open for business every business day of the year, except holidays we designate, during the hours specified or approved in writing by us. For clarification, we currently consider operating during all established business days and hours as satisfying this “open for business” requirement. We may define and change these requirements from time to time as designated in the Operations Manual.
- I. At all times you will insure that your copy of the Operations Manual and any other manuals given to you are kept current and up to date with the amendments and updates we provide to you. In the event of any dispute as to the contents of the Operations Manual, the terms of our master copies maintained at our principal place of business will be controlling.
- J. If you fail to complete or repair a job up to the quoted estimate and job description, we may, at our sole discretion and in order to protect our brand and system reputation, complete or repair the job to the quoted estimate and description. You will bear 100% of the expense and cost of any and all remedial action we take to complete or repair the job, which costs and expenses may exceed the quoted estimate.

### 5.3 **Service Marks, Operations Manual, and FENG CHA System Are Our Exclusive Property.**

You agree that the Service Marks, Operations Manual, and FENG CHA System are our sole and exclusive property. Except for the Franchise granted to you by this Agreement, nothing in this Agreement or any other agreement will give you or others any right, title, or interest whatsoever in or to the Service Marks, Operations Manual, or FENG CHA System. Your license to use the Service Marks is non-exclusive. We, in our sole discretion, may operate under the Service Marks and may grant licenses to others to use the Service Marks on any terms and conditions we deem appropriate. In those states and nations where applicable, you agree to execute on request all documents necessary to record you as a registered user of the Service Marks. You will not use the Service Marks as part of any electronic mail address or in any electronic mail message except in accordance with the Operations Manual and only for purposes of the franchise.

You will immediately notify us of any infringement of, or challenge to, your use of the Service Marks or any marks identical to or confusingly similar to the Service Marks, including any claims of infringement or unfair competition. While we will make reasonable efforts to protect your rights to use the Service Marks, we will have sole discretion to take or not to take action, as we deem appropriate. If we undertake the defense or prosecution of any litigation or administrative action involving you or any litigation or administrative action involving the Service Marks or the FENG CHA System, you agree to execute any and all documents and to do all acts and things that in the opinion of our counsel are necessary or advisable to carry out the defense or prosecution. This may be done either in our name or in your name, as we will elect. We will not be required to participate in your defense or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the Service Marks or if the proceeding is resolved unfavorably to you. Instead, at any time, you will modify or discontinue use of any franchise names or Service Marks, or will use one or more substitute names or marks, if we so direct in writing at any time. Our sole obligation in this event will be to reimburse you for your tangible costs in complying with our direction (i.e., cost of changing signs, stationery, etc.). Under no circumstances will we be liable to you for any other damages, costs, losses, rights, or detriments related to any modification, discontinuance, or substitution. All obligations or requirements imposed upon you relating to the Service Marks will apply with equal force to any modified or substituted names or marks.

You will not contest, directly or indirectly: our ownership, title, right, or interest in the Service Marks, the Operations Manual, or the FENG CHA System; or our exclusive right to register, use, or license others to use the Service Marks, Operations Manual, and FENG CHA System. You will not advertise or use the Service Marks without following our then current guidelines and requirements. These may include, but will not be limited to, the placement of appropriate © or ® copyright and registration marks, or the designations ™ or SM, where applicable.

Any and all goodwill associated with the Service Marks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our benefit, except as otherwise provided by applicable law. You appoint us as your agent and attorney-in-fact to amend or cancel any registered user or business name filings obtained by you or on your behalf that involve or pertain to the Service Marks.

We claim all rights and interests, including all copyrights, to the information contained in the manuals, computer programs, advertising materials, the Feng Cha website and all our communications to you in writing or otherwise setting forth our standards, requirements, operating procedures or policies relating to the operation of a Feng Cha shop franchise, as well as any revisions and additions to these materials. We have not registered the copyrights in any of these materials.

Your knowledge of the operation of the franchised business, including the courses and other specifications, standards and operating procedures, is derived from information that we disclose to you. This information, including the information contained in the manuals and the information presented during training, is confidential material owned by us. Our confidential information includes our product recipes; our methods of operation; our sales and marketing techniques; our planned marketing and advertising programs; the content of our training and assistance; the contents of the Manual; the operating results and financial performance of other Feng Cha shop franchisees; all customer lists and other information we receive from you; and user names and passwords allowing access to protected areas on our website or computer network.

We also claim ownership of all demographic data and customer lists generated by your activity as a franchisee. You must maintain the absolute confidentiality of this proprietary information during and after the term of the franchise agreement and you cannot disclose, sell or use any such information in any other business or in any manner not specifically authorized or approved in writing by us.

You may use such information only in furtherance of the franchised business. Each manager of your franchised business and each person who receives training from us or otherwise has access to our confidential information, and each owner of your business if you are a legal entity, must sign a written agreement that contains similar nondisclosure obligations.

You must notify us promptly in writing if you learn about any unauthorized use of our copyrights or proprietary information. We are not obligated to take any action but we will respond to this information as we think appropriate.

All improvements in the FENG CHA shop system that you develop will become our property. We will have the sole right to protect such improvements in our name or in the name of any of our affiliates by means of copyright, patent, trade secret or trademark law.

You must promptly disclose all such improvements to us.

You will not use the Service Marks on products or services that come from any source other than us or sources we approve in writing except for products you prepare or produce pursuant to the Operations Manual and the FENG CHA System.

We make no representation or warranty, express or implied, as to the use, exclusive ownership, validity or enforceability of the Service Marks.

We and you will use reasonable best efforts to continuously improve the products, processes and services used in the FENG CHA System and to develop new products, processes and services for use as part of the FENG CHA System. All the improvements, inventions and developments you make, develop or create for use in the FENG CHA System will be our property and we alone will hold any patent, trademark registration or other form of protection for those improvements, inventions, developments, processes, methods and practices.

#### 5.4 **You Will Not Use Names or Marks in Combination.**

Except as provided in this Agreement, you will not use or give others permission to use the Service Marks, or any colorable imitation of them, combined with any other words or phrases. You and your owners, officers, and

agents will not form or participate in the formation of any company, firm, corporation, or other entity having a name containing the words of the Service Marks. You may not combine or associate any name or symbol of the Service Marks with any other name or word in any advertising or sign. The Service Marks must be used in exact conformity with specifications we set in the Operations Manual.

#### 5.5 **Service Marks, Operations Manual, and FENG CHA System May Be Changed.**

You acknowledge that the Service Marks, Operations Manual, and FENG CHA System, including any future amendments or modifications to them, have substantial value, and that the conditions, restrictions, covenants not to compete, and other limitations imposed by this Agreement are necessary, equitable, and reasonable for the general benefit of you, us, and others enjoying any lawful economic interest in the Service Marks, Operations Manual, and FENG CHA System.

We may change or modify any part of the Service Marks, Operations Manual, or FENG CHA System from time to time at our sole discretion. You will accept, use, and protect, for the purposes of this Agreement, all changes and modifications as if they were a part of the Service Marks, Operations Manual, and FENG CHA System at the time this Agreement is executed. You will bear all costs and expenses which may be reasonably necessary as a result of such changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to of these changes or modifications.

Complete and detailed uniformity of the Service Marks, Operations Manual, and FENG CHA System under the varying conditions to be experienced by our franchisees may not be possible or practicable. Therefore, we reserve the right, at our discretion, to accommodate your special needs, or those of any other of our franchisees. These needs may result from the peculiarities of a particular site or location, density of population, business potential, population of trade area, existing business practices, requirements of local law or local customers, landlord requirements, or any other condition which we deem to be important to the successful operation of the franchisee's business. From time to time, we may allow certain franchisees to depart from normal system standards and routines to experiment with or test new products, equipment, designs, and procedures. In no event will any variance or testing be deemed a waiver of any of our rights, or an excuse for you to not perform any of your duties under this Agreement. We may require you at any time to commence full compliance with the Operations Manual and the FENG CHA System. We will not be required to grant any variance to you under any circumstances. You will not require us to disclose or grant to you a like or similar variation.

#### 5.6 **Standard Uniform.**

You will require that all of your employees wear a standard uniform as described in the Operations Manual. All uniforms will be properly laundered regularly and replaced when worn. We may change the standard uniform from time to time. You agree to adopt new uniforms and replace worn uniforms when necessary and bear the purchase price of them.

#### 5.7 **Employees.**

You will ensure that your employees present a neat and clean appearance and render friendly, efficient, sober and courteous service to your patrons in accordance with the grooming and training requirements of the Operations Manual, which may include background checks and drug testing standards. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits. You will in no way obligate us for expenses incurred in the operation of your franchise including labor costs. You are required to hire and maintain sufficient staff in order to handle customer volume at all times.

You are responsible for making sure your employees meet the standards, specifications and procedures outlined in the Operations Manual. You will hire only efficient, competent, sober and courteous employees for the conduct of the franchise business. You may not hire any employees who have been found guilty of any charges of fiduciary misconduct, any form of unlawful sexual conduct, any felony of any kind, or any similar charges that reflect negatively on the person's moral turpitude and character. All revenues generated under this Agreement from all business activities of the Franchise must be paid directly to you. Your Employees and Associates are not permitted to receive or request payment directly from your customers or clients to them in their personal names or capacities.

## 5.8 **You Will Not Communicate Confidential Information.**

You specifically acknowledge that you will receive valuable specialized and confidential information, including information regarding our operational, sales, promotional and marketing methods and techniques, operating procedures, processes, practices, lists of suppliers, customer lists, manuals, marketing and sales techniques and strategies, and the FENG CHA System. Unless required by court order or applicable law, you agree not to copy, download to internet, intranet, modem, fax, e-mail, mail or send any confidential material or divulge any material directly or indirectly to any other person or enterprise outside of the FENG CHA system. During the term of this Agreement and after it expires or is terminated, you will never communicate, fax, e-mail, post on an internet electronic bulletin board, divulge or use in any other manner, either for your benefit or the benefit of any other person, persons, partnerships, associations, companies or corporations any confidential or proprietary information, knowledge or know-how concerning the FENG CHA System or any information we have communicated to you in written, verbal or electronic form, including intranet passwords, for the operation of your franchised business.

The FENG CHA System includes valuable proprietary and confidential information. Unless required by court order or applicable law, you agree to not communicate or divulge the contents of our Operations Manuals or any other information related to the FENG CHA System or to the operation of the Franchise or our franchise system to any person or entity except those we authorize in writing to receive the information. The confidential information will be deemed to include customer lists and potential customer lists. You agree that these contents and information are confidential. They include information that is our exclusive property, and you may only use them in the Franchise subject to the provisions and duration of this Agreement. You agree to fully and strictly adhere to all security procedures we prescribe for maintaining the confidentiality of the information. You agree to disclose information to your employees only to the extent necessary to perform the franchise business. You will not reverse engineer, decompile or disassemble any items embodying the FENG CHA System or our confidential information.

The FENG CHA System is a program of accounting, identification procedures, management systems, techniques and business operations and systems that would, if used by other persons, firms or entities, give a substantial competitive advantage which we presently enjoy. Any and all information, knowledge and know how, not generally known about the FENG CHA System and our products, services, standards, specifications, systems, procedures and techniques, including information, manuals, contracts, customer data, supplier data, financial data, price lists, methods, techniques, processes, compilations, formulas, programs or patterns related to the operation of a FENG CHA franchise and its products and services and any other information or material that we may designate as confidential, will be deemed confidential for purposes of this Agreement. This will not apply to information which you can demonstrate came to your attention prior to disclosure by us, or which is or has become a part of the public domain through publication or communication by others. Our confidential information is licensed, not sold, to you. You will not reverse engineer, decompile or disassemble any item that embodies confidential information. The Operations Manual may contain guidelines to protect confidential information [and trade secrets], including limited access to the information on a need to know basis, locking of offices and computer files, placement of appropriate legends on materials, limited access for copying and scanning, pass-word protection, and encryption. You will conduct periodic meetings with your managers and employees to instruct them on their responsibilities to maintain the confidentiality of our information, including severance interviews with terminated employees in which they acknowledge in writing their post-employment confidentiality obligations.

You will require as a condition of the employment of your employees and anyone else providing services to you that they maintain and protect our confidential and proprietary information, including the signing of a confidentiality agreement. You must follow our security procedures, which may include the execution of approved nondisclosure agreements, and Intranet and Internet usage agreements. You will be responsible to use your best efforts to enforce these covenants and agreements by your employees. These covenants are for the benefit of us and the FENG CHA franchise system and are enforceable by us. If you become aware of any actual or threatened violations of these covenants by any of your employees and anyone else providing services to you, you will promptly and fully advise us in writing of all related facts known to you. You will cooperate with us in all ways we reasonably request to prevent or stop any violation. This may include institution or permitting to be instituted in your name any demand, suit or action that we determine is advisable. The demand, suit or action may be maintained and prosecuted by us and you at your expense.

You will use your best efforts to assure that you and all your agents, employees, consultants, partners, owners, members, officers, directors, and shareholders and other persons in your control, to whom any information is communicated, will keep, preserve, and protect all confidential information.

This section contains prohibitions based upon an understanding that you, your key employees, your officers, your partners, your employees, members and stockholders (as applicable) will possess knowledge of business and operating methods and confidential information, disclosure of which would prejudice our interests and our other franchisees.

If you engage in any food or beverage business or operations within 2 years of the expiration, termination or transfer of this Agreement, you will prove to us that you have not used our confidential information in that business. This 2-year period is not intended to limit the duration of your obligation to preserve the confidentiality of the information and to not use the information after expiration, termination or transfer of this Agreement.

#### 5.9 **Conflicting or Competing Interests.**

You will diligently, faithfully, and honestly perform your obligations pursuant to this Agreement. You will use your best efforts to develop, promote, and enhance your franchise. You will not engage in any activity or business enterprise that conflicts with these obligations. We require that you, or your majority owner if you are a corporation, limited liability company or partnership, participate fully in the actual day to day operation of the franchise business. You will not sell any unauthorized items in your Feng Cha store, without prior written approval from us.

At all times the Franchise must be under your direct supervision. You will devote a substantial enough amount of time and energy to properly operate the Franchise. What constitutes proper operation will be in our sole reasonable discretion. In your absence, the Franchise must be under the direct supervision of a manager who has successfully completed the required training programs and who devotes the necessary time during business hours to the management of the Franchise.

In express consideration for and during the term of this Agreement, neither you nor your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, or agents, nor the members of your or their immediate families or households (who have access to or knowledge of the Operations Manual or FENG CHA System), will directly or indirectly participate as an owner, shareholder, member, partner, director, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business (including business in formation) engaged or to be engaged in the sale or rental at wholesale or retail or on the Internet of food or beverage services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the FENG CHA System. We may waive this covenant only in writing. During all of these periods, you agree to promptly and fully disclose to our Chief Executive Officer any business opportunity coming to your attention, or conceived or developed in whole or in part by you, which relates to our business.

You will use your best efforts to assure that you and your owners, directors, officers, partners, shareholders, members, employees, consultants, and agents, during the term of this Agreement and for a period of 2 years after expiration or termination of this Agreement do not:

- A. divert or directly or indirectly attempt to divert any of our business or any of our customers to any competing establishment;
- B. employ or seek to employ any person we employ or any other person who is at that time operating or employed by or at any of our franchises or otherwise directly or indirectly induce these persons to leave their employment; nor
- C. do or perform, directly or indirectly, any other act injurious or prejudicial to our goodwill associated with the Service Marks and FENG CHA System

If, for any reason, any provision set forth in this Subsection is determined to exceed any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage and scope allowable by law or court of law shall apply to this Agreement.

The provisions relating to interests in any other business will not apply to your ownership of outstanding securities of any corporation whose securities are publicly held and traded. Provided that you hold these securities for investment purposes only and that your total holdings do not constitute more than 5% of the outstanding securities of the corporation.

You will use your best efforts to obtain written covenants from your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, and agents in a form satisfactory to us that these persons will comply with the provisions of this Section.

You and we stipulate that, in light of all of the facts and circumstances of the relationship between you and us, the covenants, restrictions and agreements referred to in this Section (including without limitation their scope, duration and geographic extent) are fair and reasonably necessary for the protection of our confidential information, goodwill and other protectable interests. If a court of competent jurisdiction should decline to enforce any of those covenants and agreements, you and we request the court to reform these provisions to restrict your use of confidential information, non-solicitation, ability to compete with us, and any other covered topics to the maximum extent, in time, scope of activities, and geography, the court finds enforceable under applicable law.

#### 5.10 **Computer Systems.**

You will install and use accounting and inventory control computer systems approved by us. You will purchase, lease, or otherwise acquire, from sources of your choice and at your expense, computer hardware and software (including but not limited to programs, computer terminals, Internet and other network access providers, web site vendors and video conferencing) that are totally compatible with and strictly conform to all requirements, standards, and specifications we may set from time to time, including coordination with consolidated systems used at co-branded locations. You must have these systems in operation prior to opening for business. You must comply with any separate software or other license agreement that we or our designee uses in connection with providing these services to you.

Use of the operations software, as required by the Operating Manual, will also incur a monthly hosting and software support fee, presently set at \$170-330 per month but which may be adjusted upon our delivering to you a thirty-day written notice of price adjustment, which you agree to pay monthly, on or before the 5<sup>th</sup> day of each calendar month. This fee offsets the cost to us of maintaining the software in working order and performing maintenance and updates as appropriate.

You are required to have DSL or other high speed Internet service to your business or home office where you will be able to access downloads from us of advertising materials, operations manual revisions, training materials and corporate news and through which we may have access to your computer systems and records. You must also have a laptop computer and cell phone. You must have a wireless card or similar technology for your laptop computer to remotely connect to the internet to assist you in making on-site bids and proposals to customers.

You must purchase your point of sale system from our supply affiliate or designated provider, as that supply affiliate or designated provider is identified in the Operations Manual. Aside from the point of sale system, we do not specify the brand or model of computer or printers you must use, but any computer you use must be industry-standard and meet our specifications, and we may specify brands or models in the future. Your printer or printers must have the ability to print customer receipts at the point of sale and stickers for use on cups to identify the beverages being served. You may obtain the computer equipment from any vendors so long as the vendors meet our requirements.

Your systems must be Internet-connected via broadband at all times and interfaced with our system to enable us to electronically access your daily receipts figures from our headquarters at any time. In other words, we

will have independent access to the information generated and stored in your cash register or computer systems. There are no contractual limitations on our right to access this information.

We will have a designated point-of-sale provider for the system of Feng Cha shops nationally. Our current point-of-sale provider is CLOVER (<https://www.clover.com/>), subject to change upon reasonable notice to you. You will pay such provider its standard fee for such services, which is currently approximately \$35-\$70 per month. This monthly fee includes all required updates and upgrades to the system. It's also mandatory to use our branded online ordering tool, mobile app, and loyalty system, which is anticipated to cost approximately \$120-\$180 per month, presently delivered through Hazlnut LLC, at a fee of \$129.99 per month, subject to change upon notice of such provider. Kiosk ordering services may additionally be obtained, at a separate fee structure to be agreed upon between you and the provider. Your Point-of-sale account's ownership will be maintained under Cannect LLC. You will receive the administration right for your daily operation, but we will retain the ownership of the account.

We do not require that you engage any other third-party vendor to maintain your computer system. But if you do, any updates or upgrades will be at your expense. The cost of maintaining, updating or upgrading your computer system or its components in addition to the point-of-sale maintenance might range from nothing to as much as \$2,000 in any year. It will depend on local costs of computer maintenance services in your area and technological developments that we cannot predict. We may also require upgrades in accordance with the terms of the franchise agreement. There is no limitation on the frequency or cost of such upgrades.

**E-PROBLEM DISCLAIMER:** Computer systems are vulnerable in varying degrees to computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, the Year 2000 problem and similar date-related problems, and attacks by hackers and other unauthorized intruders ("E-Problems"). We do not guarantee that information or communication systems that we or others supply will not be vulnerable to E-Problems. It is your responsibility to protect yourself from E-Problems. You should also take reasonable steps to verify that your suppliers, lenders, landlords, customers, and governmental agencies on which you rely, have reasonable protection from E-problems. This may include taking reasonable steps to secure your systems (including firewalls, password protection, and anti-virus systems), and to provide backup systems.

#### 5.11 **Terms of Product Sales.**

- A. To receive products, you must deliver to us a purchase order that specifies the products. All orders you submit are subject to acceptance at our corporate headquarters. We reserve the right to reject any order that is not credit approved or does not conform to the provisions of this Agreement. All orders accepted for delivery will be governed exclusively by the terms and conditions of this Agreement. Unless we agree in writing, no additional or different terms and conditions appearing on the face or reverse side of any order you issue will become part of that order. Our acknowledgment of your purchase order will not be acceptance of any additional or different terms and conditions.
- B. Shipments are subject to availability. Upon notice to you, we may schedule and reschedule any order, at our discretion. We may decline any order for credit reasons or because the order specifies an unreasonably large quantity or makes an unreasonable shipment request.
- C. We will use commercially reasonable efforts to meet any scheduled shipment date. However, we will not be liable for delays in meeting a scheduled shipment date for any reason. If products are scarce, we will allocate them equitably, at our discretion, among our customers.
- D. Unless otherwise agreed, the products will be shipped only to your approved facility and only after receipt of an order from you.
- E. We may refuse to ship or delay the shipment of any products on order if you become delinquent in payment of your obligations, exceed established credit lines, fail to meet our other credit or financial requirements or fail to provide financial information when we request. No cancellation, refusal or delay will terminate this Agreement.
- F. All products will be delivered to you F.O.B. origin upon transfer to a common carrier. You will pay all transportation, insurance, rigging and drayage charges.

- G. On delivery of products to carrier, title (or with respect to Licensed Programs licensed, not sold, title only to the media on which the Licensed Program is delivered) will pass to you and you will assume responsibility for promptly advising the carrier and insurer of the loss, for filing a claim and for recovery of any sums owed by them to you. Upon request, we will cooperate with you to establish a claim.
- H. You grant to us a security interest in the products and proceeds as security for your obligations under this Agreement. Upon request, you will execute and file all instruments or documents necessary to perfect any security interest. You acknowledge that we may file a copy of this Agreement as a financing statement for that purpose.
- I. You will maintain sufficient inventories of products and employ sufficient help to operate your business at a level of capacity and market penetration commensurate with the reasonable demands of the marketplace.
- J. You will represent fairly all products you purchase from us.
- K. You will comply with all of the obligations and requirements imposed upon you by the manufacturers or distributors of the products.
- L. You will use commercially reasonable efforts and good faith to promote, demonstrate and sell the products and services.
- M. You will provide to us forecasts of your projected purchases of products.
- N. You acknowledge that we are not the manufacturer of the products. The products are subject to the manufacturer's standard warranty. We disclaim all warranties, including the implied warranties of merchantability and fitness for a particular purpose. No representation, affirmation of fact, or statement regarding capacity or suitability, which is not in this Agreement, will be a warranty by us for any purpose.
- O. We will not be liable for any loss or damage claimed to have resulted from the use, operation or performance of the products, whatever the form of action. Our maximum liability to you, whether based upon contract, warranty, tort or otherwise, will not exceed the actual amount you pay to us for the specific product that causes the damages. These limitations of liability will not apply to claims for personal injury caused by our negligence. We will not be liable to you for special, indirect, incidental or consequential damages or from any damages resulting from loss of use, data or profits.

## 6 **RENEWAL, TERMINATION AND STEP-IN RIGHTS**

### 6.1 **Renewal of Franchise.**

- A. If you are not in breach, you may renew the Franchise for periods of the smaller of **10** years or until the end date of your lease, under the terms of our then-current Franchise Agreement forms. "Then-current" as used in this Agreement and applied to our Franchise Disclosure Document and Area Development Agreement will mean the form then currently provided to prospective franchisees or area developers, or if not then being provided, then the form we select in our sole discretion which previously has been delivered to and executed by a franchisee of ours. You will exercise your renewal option by giving written notice to us. The notice must be given at least three months, but no earlier than six months, before the end of the franchise term established by this Agreement. To be eligible for renewal, you must be in good standing under your agreement, and pay a renewal fee of the greater of \$10,000 or 25% of the then-current initial franchise fee. You will additionally be obligated to undertake any remodeling or other decorative or architectural changes to comply with our then-current design package.

You will reimburse up to **\$2,500**, plus applicable taxes, to cover the costs of closing, processing paperwork, training, upgrading and the continued use of FENG CHA System during the term of the new agreement of the Franchise. The renewed Franchise Agreement will be evidenced by you signing the

Franchise Agreement forms we then are using (with appropriate modifications to reflect the fact that the agreement relates to the grant of a renewal franchise). These forms may vary materially from this Agreement. Licensing Fees, National Advertising Fees, Local Advertising expenditures and other fees will be set at the then prevailing rates and terms. Your failure or refusal to execute the Renewal Franchise Agreement forms within **30** days after delivery to you may be regarded as an election by you not to renew. Upon renewal, the Franchise must remain located in the geographical territory designated in this Agreement. The Franchise Territory and its geographic area may be modified to meet our then current franchise market penetration and demographic standards and co-branding requirements.

You will refurbish the Franchise and its vehicles and equipment to conform to the then current Operations Manual and FENG CHA System. You must make all capital expenditures reasonably required to renovate and modernize the Franchise and its vehicles, signs and equipment to reflect the design and decor image of FENG CHA franchises we then are requiring of new or renewing FENG CHA franchises. These expenditures will be in the amount necessary to make the Franchise modern and fresh and to resolve wear and tear.

You must execute a general release, in a form we prescribe, following applicable law, to release us from any claims you may have against us.

Before renewal, you or your designated manager will attend and successfully complete any retraining program we prescribe in writing. This will be done at your expense, including travel, meals and lodging. The renewal fee will cover our training fees and costs.

- B. We may refuse to renew this Agreement if you fail to satisfactorily comply with this Agreement. The determination of satisfactory compliance will be within our exclusive discretion in good faith. If we refuse to renew, you must continue to perform under this Agreement until its expiration.
- C. You have no automatic right to continue operation of the Franchise following expiration or termination of this Agreement. If you continue to operate the Franchise with our express or implied consent, following the expiration or termination of this Agreement, the continuation will be a month-to-month extension of this Agreement. This Agreement will then be terminable by either party upon **30** days written notice. Otherwise, all provisions of this Agreement will apply while operations continue. Upon termination of this Agreement under this section, all post-termination covenants and obligations in this Agreement will apply.

#### 6.2 **Termination by You.**

You may terminate this Agreement if you comply with the terms of this Agreement and if we substantially breach any material provision of this Agreement and fail to cure or reasonably to begin to cure that breach within **30** days after receipt of written notice specifying the breach. Termination will be effective **10** days after you deliver to us written notice of termination for our failure to cure within the allowed period.

#### 6.3 **Termination by Us.**

- A. The following provisions are in addition to all other remedies available to us at law or in equity. We will have the option to cure your breaches at your expense.

If your agreement is terminated by us pursuant to this Section 6.3, we have the right to make an offer to purchase the assets of your business within 90 days ("Qualifying Offer"). Upon the exercise of our Qualifying Offer, you will be understood and deemed to have accepted the offer if no response is delivered to us within 30 days. If you do not accept, you must deliver to us within 30 days of your receipt of a Qualifying Offer a Request for Appraisal, under which, at your expense, the assets of your business will be appraised by a qualified business appraiser. The determination of that appraiser shall set the fair market value of your business's assets, and we will have 30 days following receipt of the same to make a Revised Qualifying Offer, which shall be treated as a Qualifying Offer thereafter. In no event shall we forfeit this right to make a Qualifying Offer until 30 days shall have expired with no response following our most recent Qualifying Offer or until 30 days have expired since we received an Appraisal under this provision, with no Revised Qualifying Offer made by us in response to the Appraisal.

You agree that if a default by you or other material breach results in termination by us, pursuant to this Section 6.3, that liquidated damages shall result from the termination. The liquidated damages shall be calculated by determining your average monthly revenue over the most recently complete twelve months of reported revenues. That twelve month average shall then be multiplied by the number of months remaining in your agreement. The resulting product shall then be further multiplied by 4% to yield the total liquidated damages.

If you breach or default in any of the terms of this Agreement, we have the right to appoint a receiver to take possession, manage and control assets, collect profits, and pay the net income for the operation of the Franchise as ordered by a court of jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists, and without the necessity of notice to you.

1. You irrevocably nominate, constitute and appoint the person serving from time to time as our President to be your attorney-in-fact so to act in your name and on your behalf.
2. At our election and without waiving any claims for default or breach and without prior notice to you or resort to legal process, we may enter upon any premises using the reasonable force as is necessary in the circumstances, without being guilty of trespass or liable to you or the property owner for the entry, for the purposes of securing the return of our property, the performance of your obligations of discontinuance and the protection of our rights upon expiration or termination of this Agreement.

If any payments to us, our affiliates or approved vendors are late by more than 15 business days, we may order all product deliveries withheld from you until the payments are received.

You agree that it will be a default constituting a substantial breach of a material provision of this Agreement pursuant to relevant law, thus establishing good cause for termination of this Agreement and any other franchise and related agreements between the parties if you (or your owners, officers, or key employees) breach any term or provision of this Agreement and do not cure the breach (or reasonably begin to cure and diligently pursue the cure until the breach is remedied) within **30** days after receipt of our written "Notice to Cure." Included among the grounds for such Notice to Cure are, without limitation, nonpayment of financial obligations, failure to adhere to the Franchise Agreement or Operation Manual, improper use of Trademarks, payments seven or more days past due, failure to commence operations as required, failure to complete training, unauthorized use of confidential information, attempt to transfer the Franchise Agreement without authorization, default under your lease, failure to carry required insurance, or default by your guarantor. Termination will occur immediately upon delivery to you of our written declaration of termination for failure to cure within the allowed time frame.

You further acknowledge and agree that we may limit or completely shut down your access to our software, services, systems, and related services and technologies if you fail to make timely payment of service, licensing, or other fees or otherwise breach this Agreement.

B. You agree that it will be a default constituting a substantial breach of a material provision of this Agreement pursuant to relevant law, thus establishing good cause for us to immediately terminate this Agreement and any other franchise and related agreements between the parties without other cause, and without giving you an opportunity to cure, if you (or your owners, officers, or key employees):

1. Become insolvent, make a general assignment for the benefit of creditors, have a receiver appointed to administer or take possession of any part of the franchised business or your assets, or admit to not being able to meet your obligations as they become due or become bankrupt, or become subject to any chapter of the United States Bankruptcy Code, unless you:
  - a. timely undertake to reaffirm the obligations under this Agreement;
  - b. timely comply with all conditions as legally may be imposed by us upon such an undertaking to reaffirm this Agreement; and
  - c. timely comply with such other conditions and provide such assurances as may be required in relevant provisions of the United States Bankruptcy Code provided;

however, that we and you acknowledge that this Agreement constitutes a personal service contract and that we have relied to a degree and in a manner material to this Agreement upon the personal promises of you and/or your directors, officers, shareholders or partners, as the case may be, to participate personally on a full-time basis in the management and operation of the franchised business, and, consequently, we and you agree that any attempt by any other party, including the trustee in bankruptcy or any third party, to assume or to accept an assignment of this Agreement will be void.

2. Fail to operate the Franchise continuously and actively for **5** consecutive days or for any shorter period after which it is reasonable under the facts and circumstances to conclude that you do not intend to continue the Franchise or maintain a suitable Franchise location.
3. Fail to comply with any requirement of this Agreement or of any related agreement between the parties within twelve months after having received the most recent of three or more **30**-day or **5**-day Notices to Cure deficiencies in performance of the same or any other requirement pursuant to Subsection (A) above or this Subsection (B), whether or not you had corrected your earlier failures to comply after we delivered notice to you.
4. On more than two occasions fail to report monthly Revenue on time, understate monthly Revenue by more than **2%**, or distort other material information.
- Make or have made any material misrepresentation or misstatement on the franchise application or with respect to ownership of the Franchise. If you misrepresented yourself and are a competitor of ours or a competitor of an affiliate of ours, we may keep your entire initial franchise fee, cancel training and terminate this Agreement.
5. Allow the Franchise or Franchise Premises to be seized, taken over, or foreclosed by a creditor, lien holder, or lessor; let a final judgment against you to remain unsatisfied for **30** days (unless a supersedeas or other appeal bond is filed); or allow a levy of execution upon the Franchise or upon any property used in the Franchise, that is not discharged by means other than levy within **5** days of the levy.
6. Are convicted of a felony, or are convicted of any criminal misconduct relevant to the operation of the Franchise.
7. Within a period of **10** days after notification of noncompliance, fail to comply with any federal, state or local law or regulation applicable to the operation of the Franchise.

8. Fail to pay any Franchise, Licensing, or National Advertising Fees or other amounts owed pursuant to this Agreement within 5 days after receipt of written notice that the fees or amounts are overdue.
9. Operate the Franchise in a manner that creates an imminent danger to public health or safety.
10. Do not keep confidential information related to the Franchise confidential except to employees or persons authorized to know.
11. Fail to obtain agreements from your employees to keep confidential information confidential.
12. Attempt to unilaterally repudiate this Agreement or the performance or observance of any of its terms, conditions, covenants, provisions or obligations by any conduct evidencing your intention to no longer comply with or be bound by this Agreement.

6.4 **Time Frames Subject to Applicable Laws.**

The provisions of this Agreement may state periods of notice less than those required by applicable law. They may provide for termination, cancellation, non-renewal or the like other than according to applicable law. They will be extended or modified to comply with applicable law.

6.5 **You Will Discontinue Use of Service Marks, Operations Manual, and FENG CHA System on Termination of Agreement.**

Substantial damages that are difficult to determine at the date of execution of this Agreement will accrue to us if you do not comply with any of the following requirements upon expiration or termination of this Agreement. Upon expiration or termination of this Agreement, you will:

- A. Immediately cease using the Service Marks (or any names or marks deceptively similar to them), the Operations Manual and the FENG CHA System.
- B. Return to us all copies of the Operations Manual and customer lists. Return to us all records, files, instructions, correspondence, and materials in your possession or control related to the FENG CHA System. You will give us a complete and accurate summary of your advertisers, customers and leads, including their names, addresses, telephone numbers and related file records. You will assist us in every way possible to bring about a complete and effective transfer of your franchise business to us or to our designated franchisee.
- C. Authorize telephone, Internet, email, electronic network, directory and listing entities to transfer all numbers, addresses, domain names, locators, directories and listings to us or our designee. Notify them of the termination of your right to use the Franchise names and Service Marks. You authorize the transfer of your telephone numbers and directory listings and Internet addresses, domain names and locators to us or our designated franchisees. You appoint us as your agent and attorney-in-fact to effect the transfer of these telephone numbers and directory listings and domain names and Internet directory listings to us. You agree that we will be treated as the subscriber for the telephone numbers and directory listings. We will have full authority to instruct the applicable telephone, directory and listing companies on the use and disposition of the telephone listings and numbers. You release and indemnify these companies from any damage or loss because they follow our instructions.
- D. Make reasonable modifications to the interior and exterior of any retained premises and vehicles to reduce your identification as a part of our franchise system. These modifications will include but will not be limited to removal of reasonable alterations to eliminate any possibility of confusion with any other FENG CHA operation.

- E. Pay to us within **five** days all Licensing Fees, National Advertising Fees, and other sums you owe. These sums will include all damages, costs and expenses, including reasonable attorneys fees and collection costs, we incur because of your breach. These sums will include all costs and expenses, including reasonable attorney fees, we incur in obtaining injunctive, appellate, or other relief to enforce the provisions of this Agreement.
- F. Abide by all provisions of the restriction upon communication of confidential information set forth above and the post-termination Covenant Not to Compete set forth below. You will immediately return to us all of our confidential information you have received, including any items that embody the confidential information. You acknowledge that you have no continuing ownership interest in the confidential information.
- G. At our option, do some or all of the following:
- H. Remove all Franchise-related equipment, furnishings, and inventory from the Franchise Premises;
- I. Sell the equipment, furnishings, and inventory to us or our affiliate, at the following purchase prices, in our sole discretion:
  - a. For new and unused items, your cost as originally invoiced to you less a restocking charge equal to 15 percent of your cost.
  - b. For used items, products, equipment, supplies, materials and inventory, the current fair market value less 20 percent of the value.
  - c. For leasehold improvements, machinery, equipment, fixtures, furnishings and signage - the lesser of:
    - I. the current fair market value less 20 percent of the value,
    - II. your cost as originally invoiced to you less 20 percent of your cost.
  - d. Damaged, obsolete or discontinued items will be transferred to us at no cost.
  - e. We will not be liable for payment to you for intangibles, including, without limitation, goodwill.
  - f. In each the instance we may deduct from any monies payable to you all sums due by you to us or your suppliers, whether under this Agreement or any other agreement or instrument.
- J. If the Franchise Premises is at a commercial location, you will assign to us the lease for the Franchise Premises and ownership and control of any web site you own or control;
- K. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within **5** business days after termination of this Agreement. If not, a fair value and fair terms will be determined in Richardson, Texas by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase. The appraisers must exclude from their decision any amount or factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option we may purchase the Franchise and your assets at the price and upon the terms determined by the appraisers.
- L. Upon termination for any reason, you will return to us all proprietary and confidential materials, including client lists, keys, codes, signage, advertising and marketing materials, uniforms, service agreements and other forms, printed files, clients lists and account information, security codes, cards and passes, picture identification badges and the like as described in the Operations Manual. If you fail to return or cease use of any of these items, we may enter your business premises without being guilty of trespass or any other tort to remove and retain the items. You will pay to us, on demand, any expenses we incur in trying to remove or collect such items or in attempting to have you cease use of them. Your failure to immediately return all keys and security codes or passes to us may result in us changing locks, keys and codes at client premises at your expense.

- M. You agree to continue to provide warranty coverage as necessary to your past customers or compensate FENG CHA for such warranty coverage if necessary. Warranty coverage will not automatically transfer to FENG CHA upon termination.
- N. **Liquidated Damages:** Subject to applicable law, upon the expiration, termination or transfer of this Agreement, it is understood and agreed that we will suffer damages if you do not immediately comply with the requirements of this Agreement. In addition to any other remedy provided for or available to us at law or equity, we will have the right to claim and recover damages from you for your failure to comply. You agree that for each day subsequent to the expiration, termination or transfer of this Agreement that you operate the Franchise without having complied with the requirements this Agreement, you will pay to us the non-refundable sum of **\$500 per day** as and for liquidated damages in respect of your failure. You agree that this sum represents a genuine attempt by the parties to pre-estimate the magnitude of the damages caused by your failure.

#### 6.6 **We May Assign Territory Upon Termination.**

Upon expiration or termination of this Agreement, we may immediately license or franchise the Franchise Territory to another person or may operate FENG CHA businesses within the Franchise Territory.

#### 6.7 **Our Step-In Rights.**

The parties want to prevent any operation or interruption of the Franchise that would cause harm to the Franchise and to our franchise system and lessen their value. Therefore, you authorize us to step in to operate the Franchise for as long as we believe necessary and practical in our exclusive judgment. We may do so without waiving any other rights or remedies that we may have. Cause for stepping-in may include our reasonable determination that: you are incapable of operating the Franchise; you are absent or incapacitated because of illness or death; you have failed to pay when due any real property, equipment rent or lease payments, suppliers, or inventory payments; you have failed to pay to us when due any franchise, licensing, advertising, or other fee; you have failed to pay when due any taxes or assessments against the Franchise or property used in the Franchise; you have failed to pay when due any liens or encumbrances placed upon or against your business property; your business activities are having a negative impact upon the value of our franchise system, or we decide that significant operational problems require us to operate the Franchise for a time. We may exercise our step-in rights if you are ill or disabled, you, your lender, or the SBA requests our assistance or agrees to our proffered support and supervision, directly or indirectly or through contract agents. If you have a loan for the franchise that is guaranteed by the Small Business Administration, our right to step-in will be limited to a **60** day period unless otherwise requested or agreed with the lending bank at that time. Thirty days after exercising our step-in rights, we will re-evaluate your then-current status. At our discretion, we will either operate for an additional 30-day period or turn the operation back over to you. In turning the operation back over to you, we do not waive our rights to step back in the future.

All Revenue derived from our operation of the franchise will be for your account. We may pay from that Revenue all expenses, debts, and liabilities we incur during our operation of the franchise. We will keep in a separate account all Revenue generated by the operation of your business, less the expenses of the business, including reasonable compensation (no less than 60% of the net profits) and expenses for us and our representatives. You will remain responsible for amounts owed by the business, and will owe us reimbursement if we contribute any deficient amounts to satisfy your obligations.

We will keep in a separate account all Revenue generated by the operation of the Franchise, less the expenses of operation.

We will have no obligation to retain any employee of the Franchise, nor to honor any contractual employment commitments you previously made. If we elect to retain any employee, employment will be pursuant to a new employment agreement between us and the employee. Employment will commence on the first business day on which we carry on business through the Franchise. Any claim by an employee for unpaid salary, vacation pay, or other benefits will be your responsibility.

Upon our exercise of these Step-In Rights, you agree to hold us harmless for all acts, omissions, damages, or liabilities arising during our operation of the franchise.

Our operation of the Franchise will not operate as an assignment to us of any lease or sublease of franchise property. We will have no responsibility for payment of any rent or other charges owing on any lease for franchise property, except as the charges relate to the period of our operation of the Franchise.

You agree to pay our reasonable legal and accounting fees and costs we incur because of our exercise of these Step-In Rights.

#### **6.8 You and Your Owners Not to Compete on Expiration, Termination or Transfer of Agreement**

This covenant will apply for **720** days after termination, expiration or transfer of this Agreement. In express consideration for this Agreement, you will assure that you and your owners, shareholders, partners, directors, officers, employees, and agents, and the members of their immediate families or households (who have actual knowledge of or access to the Operations Manual or FENG CHA System), will not directly or indirectly participate as an owner, shareholder, director, partner, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business engaged directly or indirectly in the offer, sale, rental, Internet dissemination, or promotion of food or beverages or services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the FENG CHA System. This covenant applies within the Franchise Territory, within a **100**-mile radius of the Franchise Territory, within a **100**-mile radius of any location where we operate or have granted the franchise to operate a FENG CHA business, and within the United States of America.

You acknowledge and confirm that the time, content and geographical restrictions contained in this Section are fair and reasonable. They are not the result of overreaching, duress, or coercion of any kind by us. You further acknowledge and confirm that your observance of the covenants contained in this Agreement will not cause you any undue hardship, financial or otherwise, and that enforcement of each of the covenants contained in this Agreement will not impair your ability to obtain employment commensurate with your abilities and on terms fully acceptable to you, or otherwise to obtain income required for the comfortable support of your family and the satisfaction of your creditors. Your knowledge of the FENG CHA System would cause our franchise system serious injury and loss if you use the knowledge to the benefit of a competitor or to compete with us or our franchisees.

If, for any reason, any provision set forth in this Subsection exceeds any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage and scope allowable by law or court of law shall apply to this Agreement.

### **7 TRANSFER**

#### **7.1 Sale or Assignment**

- A. Your rights and obligations under this Agreement are exclusive to you. Whether voluntarily or involuntarily, neither you, your owners, partners nor others claiming an interest in the Franchise will sell, transfer, assign, encumber, give, lease, or sublease, or allow any other person to conduct business in or through (collectively called "transfer") the whole or any part of: this Agreement, the Franchise Premises (if at a commercial location), substantial assets of the Franchise business, or ownership or control of you or to fractionalize any of the rights granted to you pursuant to this Agreement. Any attempted transfer without our prior written consent will be a breach of this Agreement. Our consent will not be unreasonably withheld. We need not consent to any transfer before the date the Franchise opens for business.

Because we will have a strong and vested interest in the financial viability and ongoing management abilities of the transferee, we need not consent to any transfer if we reasonably believe the purchase price is excessive or if we believe based upon a review of the transferee's operational and business plans that the transferee's business operations might not be beneficial on a cash flow or financial basis.

We enter this Agreement, in part, in reliance upon the individual or collective character, skill, attitude, business ability and financial capacity of you (or your shareholders, members or partners, if you are a corporation, limited liability company, partnership or other entity).

You recognize that there are many subjective factors that comprise the process by which we select a suitable franchise owner. Our consent to a transfer by you will remain a subjective determination and will include, but not be limited to the following conditions. Before the effective date of a transfer we approve:

1. The transferee must assume your Franchise obligations. You will remain bound by your covenants in this Agreement to not disclose confidential information and to not compete with us or our franchisees.
2. You will pay all ascertained or liquidated debts concerning the Franchise.
3. You may not be in breach of this Agreement or any other agreement between the parties. Our consent to the transfer will not constitute a waiver of any claims we may have against you.
4. The transferee will complete to our exclusive satisfaction the training programs we then require of new franchisees or otherwise show to our satisfaction sufficient ability to successfully operate the Franchise. The cost of this training and our related evaluations are included in the Transfer Fee described below.
5. You or the transferee will pay a Transfer Fee according to our then current Transfer Fee Schedule. This fee will reimburse us for our reasonable legal, accounting, credit check, and investigation expenses that result from the transfer. The Transfer Fee will be equal to the greater of **\$5,000** or **five** percent of the proposed purchase price for the Franchise, plus applicable taxes, not to exceed fifty per cent (50%) of the then-current franchise fee. The Transfer Fee will be paid by delivering: i) a non-refundable deposit of \$1,000 with the written request for our approval of the proposed purchaser, and ii) the balance on the closing date of the transfer.
6. You will pay us a **10%** commission on the gross transfer price (excluding the price of real property), if we obtain the transferee for you.
7. You agree that up to 5% of the gross transfer price will be held by us in escrow for the twelve (12) calendar months following the date of the sale to cover any warranty or service agreement claims by your customers. The exact percentage held in escrow will be determined by the number and value of projects completed by you in the twelve (12) calendar months preceding the sale. If a warranty or service agreement claim is made, we will charge the escrow fund our then-current hourly service fee (a minimum of \$100 per hour) for labor plus the actual cost of materials and supplies plus a \$50 processing fee for each claim. At the conclusion of the twelve (12) months, we will release any remaining escrowed funds to you. If there are no claims, a one-time processing fee of \$150 will be charged, with the remaining funds released to you.
8. The transferee will execute all documents we then require of new franchisees. This includes a new franchise agreement in the form we then are using. The new franchise agreement may contain economic and general terms that are materially different from those contained in this Agreement. The term of the new agreement will be for the unexpired term of this Agreement or for a new full term as we will elect. You must ask us to provide the prospective purchaser with our current form of disclosure document required by the applicable federal or provincial/state registration and disclosure laws, and a receipt for this document will be delivered to us; provided however, we will not be liable for any representations you make apart from those contained in our disclosure document.

9. The transferee will meet our standards for quality of character, financial capacity, and experience required of a new or renewing franchisee. You will provide information we require to prove the transferee meets our standards.
10. If permitted by applicable law, you and your owners, members, partners, officers, and directors will execute a general release in our favor. The release must be in a form we prescribe, following applicable law, to release any claims you may have against us and our representatives, subsidiaries and affiliates and our officers, directors, attorneys, shareholders and employees in their corporate and individual capacities. This will include claims arising under federal, state and local laws, rules and ordinances arising out of, or connected with, the offer, sell and performance of this Agreement or any other agreement between the parties.
11. If the Initial Franchise Fee has not yet been paid in full, it must be paid in full despite the due date for payment established by this Agreement.
12. If you have lease or sublease for the Franchise Premise and such document requires, the lessor or sublessor must have consented to the assignment or sublease of the Franchise Premises to the transferee. All equipment must be inspected and certified by a qualified professional inspector to be in good working order and free of operational defects. It will be your responsibility to bring all equipment to proper working order before the transfer takes place.
13. You will enter into an agreement to subordinate, to the transferee's obligations to us (including the payment of all franchise fees), any obligations of the transferee to make installment payments of the purchase price to you. The form of this subordination is subject to our approval.
14. The transferee will refurbish the Franchise, and its equipment and signage to conform to the current Operations Manual and FENG CHA System within 90 days of transfer.
15. Upon our granting of approval for the transfer, you will:
  - a. ensure that the transfer is affected in compliance with the requirements of all federal, state, and local laws, including applicable tax and bulk sales legislation;
  - b. deliver to the purchaser the Operations Manual and all other manuals and materials we provided to you for use in the Franchise, including all materials bearing the Trademarks and our advertising, promotional and training materials, order books and bookkeeping and reporting forms.

- B. With our prior written consent, you may transfer your rights and obligations under this Agreement to a corporation or other entity in which you continuously own a majority of the issued and outstanding shares of each class of stock or other evidence of ownership. The entity must be newly organized with its activities confined exclusively to act as the franchisee under this Agreement. The entity must contemporaneously agree in writing to be bound by the terms of this Agreement. You must contemporaneously agree in writing to guarantee the obligations of the entity and to remain personally liable in all respects under this Agreement. (You and all other owners will personally and unconditionally guarantee the obligations of the new entity and you will remain personally subject to and bound by all terms, conditions, restrictions and prohibitions contained in this Agreement. You as an owner of the entity agree to separately and personally, for you and for your successors, heirs and personal representatives, will act as surety for the full and faithful performance of all of the obligations, commitments and payments required of the entity. In that capacity, you agree that we do not have to pursue any remedies we may have against the entity, but rather, may proceed directly and primarily against you with or without joining the entity as principal or as a named party in any proceeding.)

You will be in breach of this Agreement if you at any time dispose of any interest sufficient to reduce your ownership in the entity to less than a majority of any class of stock or other evidence of ownership. From time to time, at our request, you will provide to us a current list of all your owners, shareholders, members, directors, officers, partners, and employees, with a summary of their respective interests in you.

- C. We may transfer this Agreement. If we do, it will be binding upon and inure to the benefit of our successors and assigns. Specifically, you agree that we may sell our assets, the Service Marks, or the FENG CHA System outright to a third party, may go public, may engage in a placement of some or all of our securities, may merge, acquire other entities or be acquired by other entities, or may undertake a re-financing, recapitalization, re-organization, leveraged buyout or other economic or financial restructuring. As for any or all of these sales, assignments and dispositions, you waive any claims, demands or damages arising from or related to the loss of the Service Marks (or any variation of them) or the loss of association with or identification as part of our franchise system.

We will not be required to remain in any particular form of business or to offer to you products, whether or not bearing our Service Marks.

- D. You may offer your securities or partnership interests to the public, by private offering, or otherwise, only with our prior written consent. Consent may not be unreasonably withheld. All materials required for the offering by federal or state law will be submitted to us for review before filing with any government agency. Any materials to be used in any exempt offering will be submitted to us for review prior to their use. No offering by you will imply (by use of the Service Marks or otherwise) that we are participating in an underwriting, issuance, or offering of your securities. You and all other participants in the offering must fully indemnify us concerning the offering. For each proposed offering, you will pay to us the amount necessary to reimburse us for our reasonable costs and expenses associated with reviewing the proposed offering, including, legal and accounting fees. You will give us at least **60** days written notice before the effective date of any offering or other transaction covered by this subsection.
- E. You may not grant a sub-franchise or transfer less than all of your rights under this Agreement.
- F. Our consent to a proposed transfer will not be a waiver of any claims we may have against you (or your owners), nor will it be a waiver of our right to demand exact compliance with this Agreement. Our consent to a transfer will not constitute or be interpreted as consent for any future or other transfer.
- G. You will comply with and help us to comply with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

## 7.2 **Your Death or Disability.**

- A. Besides the Step-In Rights described above, the following will apply in case of your death or incapacity if you are an individual, or of any general partner of you if you are a partnership, or of any member or shareholder owning **50%** or more of you if you are a limited liability company or corporation or other entity. Within **180** days of the event, the heirs, beneficiaries, devisees or legal representatives of that individual, partner, member or shareholder will:
1. Apply to us for the right to continue to operate the Franchise for the duration of the term of this Agreement. The right to continue will be granted upon the fulfillment of all the conditions set forth in Subsection (A) of the section entitled "Sale or Assignment," above (except that no transfer fee will be required). Or;
  2. Transfer your interest according to the provisions of that Subsection. If a proper and timely application for the right to continue to operate has been made and rejected, the 180 days within which to transfer will be computed from the date of rejection. For purposes of this Subsection, on an application for the right to continue to operate, our silence through the **180** days following the event of death or incapacity will be deemed an acceptance made on the last day of the period.
  3. If a suitable transferee purchaser is not found within **180** days from the date of death or permanent incapacity, we may at our sole option enter into a contract to purchase the Franchise. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within twenty business days after notice from us. If not, a fair value and fair terms will be determined in Richardson, Texas by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase. The appraisers may include in their decision a factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option, we may purchase the Franchise and your assets at the price and upon the terms determined by the appraisers. Terms of payment will be **10%** of the purchase price payable upon contract signing, the balance payable in **60** equal monthly payments of principal payments with interest calculated at the prime rate, published by your principal bank at time of each monthly principal payment.
- B. If the provisions of this Subsection have not been fulfilled within the time provided, at our option, all rights licensed to you under this Agreement will immediately terminate and revert to us.

### 7.3 **First Right of Purchase.**

You will give us the right of first purchase before soliciting offers from a third party if you choose to sell your franchise business. You agree to notify us in writing if you desire to sell or transfer any interest in you or in your franchised business. You will give us sufficient information and documentation to allow us to analyze the status and value of your business. We will elect to exercise our option to purchase within **60** business days after our receipt of your written notification and due diligence information. If we offer you an amount that you do not agree to, you may try to sell to a third party but on no better terms for the purchaser than we offered to you. If you later receive an offer from a third-party purchaser on better terms than we offered to you, you are obligated to re-offer to us pursuant to the subsection entitled "First Right of Refusal". You are obligated before any transfer to a third party to comply with all criteria set forth in the subsections entitled "Sale or Assignment" and "First Right of Refusal." If you do not complete a transaction with a third party within six months, you agree we will again have the right of first purchase before any subsequent contemplated transaction.

We may elect to purchase all of the franchise business regardless of your intent to sell, assign or transfer a lesser interest. We can pay the purchase price in cash up front or by industry-standard monthly payments that amortize the principal amount with interest calculated at prime plus 1% as of the date of purchase. The choice of payment type is in our sole discretion.

#### 7.4 **First Right of Refusal.**

If you receive a bona fide offer from a third party acting at arm's length to purchase the Franchise, a majority interest in ownership of you, or substantially all of the assets of the Franchise, which offer is acceptable to you or to your owners, we will have the right to purchase at the bona fide price on the same terms and conditions as offered to you. We may substitute cash for any other form of consideration contained in the offer. Our credit will be deemed to be equal to the credit of any proposed purchaser. At our option, we may pay the entire purchase price at closing. Within **6** days after receipt by you of an acceptable bona fide offer, you will notify us in writing of the terms and conditions of the offer. You will give us sufficient information and documentation to allow us to analyze the status and value of your business. We may exercise this right to purchase within **30** days after receipt of notice from you and due diligence information. If the interest which is the subject of the offer involves less than all of the ownership interest, then in our sole option, our right of first refusal will apply to the entire ownership interest. In such case, the consideration to be received, as set forth in the offer shall be divided by the percentage interest subject to the offer and the resulting quotient shall be the price to be paid for the entire ownership interest. Terms and conditions for the purchase of the entire ownership interest shall be as similar to the terms and conditions set forth in the offer as practicable, except for the substitute provisions noted above in this section.

If we do not exercise our right to purchase within the **30** days, you may make the proposed transfer to a third party. The transfer will not be at a lower price or on more favorable terms than disclosed to us. Any transfer will be subject to our prior written permission described in the section entitled "Sale or Assignment," above. If the Franchise is not transferred by you within **6** months from the date it is offered to us, or if any material change is made in the terms of the proposed sale, then you must re-offer to transfer to us before a transfer to a third party.

### 8 **INDEMNITY AND INSURANCE**

#### 8.1 **Indemnity.**

You will indemnify and hold us harmless from all fines, suits, proceedings, claims, demands, actions, losses, attorney fees and damages arising out of or connected with the Franchise and the business activities, acts or omissions of you and your employees and agents, including those brought against you and us jointly alleging that you and we were negligent or otherwise liable. We will not be liable to you or to any other person because of your act, omission, neglect, or breach. If it is established that both you and we were negligent or otherwise liable, you and we will contribute to the relevant award, and the obligation to indemnify and hold harmless shall be determined, based upon the adjudicated and assigned respective degree of fault. In the event of a settlement prior to adjudication, you and we will agree to degrees of fault. You and we will contribute to the relevant settlement, and the obligation to indemnify and hold harmless shall be determined, based upon the agreed degree of fault. All provisions of this Section will be subject to these contribution and allocation of indemnification provisions.

You will indemnify us for any loss, cost or expense, including attorneys' fees that may be sustained by us because of the acts or omissions of your vendors or suppliers.

This indemnification will include use, condition, equipping, maintenance or operation of the Franchise, including the sale of any products, service or merchandise sold through the Franchise. Any loss, claims, costs, expenses, damages and liabilities shall include, without limitation, those arising from latent or other defects in the Franchise, whether or not discoverable by us, and those arising from the death or injury to any person or arising from damage to the property of you or us, and our respective agents or employees, or any third person, firm or legal entity.

You will defend us at your own expense in any legal or administrative proceeding subject to this Subsection. The defense will be conducted by attorneys we approve. Our approval will not be unreasonably withheld. You will immediately pay and discharge any liability rendered against us in any proceeding, including any settlement that we approve in writing. You will not settle any claim against us without our prior written approval. In our sole discretion and upon prior written notice to you, we may settle or defend any claims against us at your expense, including attorney fees that we pay or incur in settling or defending. Promptly upon demand, you will reimburse us for

any and all legal and other expenses we reasonably incur in investigating, preparing, defending, settling, compromising or paying any settlement or claim, including monies that we pay or incur in settling or defending such proceeding.

All references in this Agreement that provide that you will indemnify or defend us or that you will name us under any insurance policy will also mean that our affiliates, directors, officers, and employees will be also and equally indemnified, defended or named.

## 8.2 **Insurance.**

Upon commencement of franchise operations, and during the term of this Agreement, you will obtain and keep in force by advance payment of premium appropriate fire and extended coverage, vandalism, malicious mischief, general liability and products liability insurance. This insurance will be in an amount sufficient to replace your personal property upon loss or damage. This insurance will be written by a financially responsible insurance company satisfactory to us in accordance with our standards and specifications in the Operations Manual. The insurance will include, at a minimum, the following:

- A. Comprehensive general liability insurance, including completed operations, property damage, contractual liability, independent contractors liability, owned and non-owned and hired automobile coverage, and personal injury coverage with a combined single limit of at least **\$1,000,000** per occurrence and **\$2,000,000** aggregate.
- B. Workers' compensation and employer's liability insurance, and other insurance required by statute or rule of the state in which the franchise is located and operated.

The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, products liability, personal injury, death or property damage that may accrue due to your operation of the Franchise. Your policies of insurance, will contain a separate endorsement naming us as an additional named insured. The insurance will not be limited in any way because of any insurance we maintain. The insurance will not be subject to cancellation except upon **20** days' written notice to us. Certificates of your insurance policies will be kept on deposit with us. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement. The policy or policies will insure against our vicarious liability for actual and (unless prohibited by applicable law) punitive damages assessed against you.

All insurance policies you obtain will contain a blanket waiver of the insurer's rights of subrogation in respect of or against us and our officers, agents, employees and representatives; and will not contain any insured vs. insured exclusion clause, but will contain a severability clause providing that each the policy will be treated as though a separate insurance policy had been issued to each named insured.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom.

If you fail to comply with any of the requirements of this Subsection, we may, but are not obligated to, purchase insurance at your expense to protect our interests. This insurance may, but need not, also protect your interest. The coverage we obtain might not pay any claim you make or any claim made against you. You may later cancel the insurance we obtain by providing evidence that you have obtained proper coverage elsewhere. You are responsible for the cost of any insurance purchased by us pursuant to this paragraph. This coverage may be considerably more expensive than insurance you can obtain on your own and might not satisfy your needs. You will pay us upon demand the premium cost of this insurance with a late payment charge on the unpaid balance at the rate established in this Agreement.

You will promptly report all claims or potential claims against you, the Business or us in writing when you become aware of them. You will give immediate written notice to us of any claims or potential claims you make to your insurers.

We may, at our sole discretion, upon not less than 90 days prior written notice to you, secure a policy of insurance which will provide defined insurance coverage to all or any part of the FENG CHA system. This policy may replace or supplement the insurance coverage you are required to maintain. You will pay the relevant insurance premium to us or the designated insurance provider, as we direct.

Nothing contained in this Agreement will be construed as a representation or warranty by us that the insurance coverage we specify will insure you against all insurable risks or amounts of loss which may or can arise out of or in connection with the operation of your franchise business. It is your sole responsibility to ensure that adequate insurance coverage is obtained for your business.

Your procurement and maintenance of the insurance specified above will not relieve you of any liability to us under any indemnity requirement of this Agreement.

## 9 **NOTICE AND MISCELLANEOUS**

### 9.1 **Notices.**

All notices required by this Agreement will be in writing. They may be sent by certified or registered mail, postage prepaid and return receipt requested. They may be delivered by Federal Express, or other reputable air courier service, requesting delivery with receipt on the most expedited basis available. Notices will be delivered to you at the Franchise Premises, to us at our headquarters or to other locations specified in writing.

Notices may be delivered and receipted to you personally at any location.

Notices sent by certified or registered mail will be deemed to have been delivered and received 3 business days following the date of mailing. Notices sent by Federal Express, or other reputable air courier service will be deemed to have been received one business day after placement requesting delivery on the most expedited basis available.

### 9.2 **Business Name.**

You will execute any documents we may from time to time direct, to be retained by us until this Agreement ends, to evidence that you abandon, relinquish, and terminate your right or interest you may claim in or to the Service Marks and the name "FENG CHA."

### 9.3 **We and You Are Not Joint Ventures, Partners, or Agents.**

You are and will remain an independent contractor. You and we are not and will never be considered joint ventures, partners, employees, or agents one for the other. Neither will have the power to bind nor obligate the other except as otherwise outlined in this Agreement. No representation will be made by either party to anyone that would create any apparent agency, employment, or partnership. Each will hold the other safe and harmless from each other's debts, acts, omissions, liabilities, and representations. You acknowledge that you are not in a fiduciary relationship with us.

In all public and private records, documents, relationships, and dealings, you will show that you are an independent owner of the Franchise. You will prominently indicate on your letterheads and business forms that you are our licensed franchisee by using language saying that you operate an independently owned Franchise. You will prominently display, by posting of a sign within public view, on or in the Franchise Premises (if at an office site or commercial location) and on any vehicles that you use, a statement that clearly indicates that your franchise business is independently owned and operated by you as a franchisee and not as our agent.

You will maintain employee records to show clearly that you and your employees are not our employees. All employees and independent sub-contractors you employ must meet our character, quality and performance standards. All state and federal, workers compensation and insurance requirements must be met for all employees and sub-contractors, including requirements we express in the Operations Manual.

The liability of you and your owners, shareholders, members or partners will be both joint and several. A breach of this Agreement by you or by any shareholder, member or partner will be a breach by all of the shareholders, members or partners and also by you.

9.4 **Waiver.**

A waiver of any breach of any provision, term, covenant, or condition of this Agreement will not be a waiver of any subsequent breach of the same or any other provision, term, covenant, or condition.

Any waiver of any provision of this Agreement must be set forth in writing and signed by the party granting the waiver. Any waiver we grant will not prejudice any other rights we may have, and will be subject to our continuing review. We may revoke any waiver, in our sole discretion, at any time and for any reason, effective upon delivery to you of **10** days prior written notice of revocation. Customs or practices of the parties in variance with the terms of this Agreement will not constitute a waiver of our right to demand exact compliance with the terms of this Agreement. Our delay, waiver, forbearance, or omission to exercise any power or rights arising out of any breach or default by you of any of the terms, provisions, or covenants of this Agreement, will not affect or impair our rights and will not constitute a waiver by us of any right or of the right to declare any subsequent breach or default. Our subsequent acceptance of any payment due to us will not be deemed to be a waiver by us of any preceding breach by you of any terms, covenants or conditions of this Agreement.

By written notice, we unilaterally may waive any obligation of you, your owners, or the Guarantors.

Our consent, whenever required, may be arbitrarily withheld if you are in breach of this Agreement.

9.5 **Time Is of the Essence.**

Time and strict performance are of the essence of this Agreement. (“Time is of the essence” is a legal term that emphasizes the strictness of time limits. In this Agreement, it means it will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement.)

9.6 **Documents.**

You and your partners, shareholders, members, officers, and owners agree to execute and deliver any documents that may be necessary or appropriate during the term and upon expiration or termination of this Agreement to carry out the purposes and intent of this Agreement. Upon the expiration, termination or transfer of this Agreement, if you do not execute any document necessary in our judgment to comply with the requirements of this Agreement, then by this Agreement, you irrevocably nominate, constitute and appoint the person then serving as our President as your attorney-in-fact to so execute that document in your name and on your behalf.

Any material violation or breach of any of these documents or of any other Franchise or related agreement between the parties will be a material violation of this Agreement and of all the other documents and agreements. The non-breaching party may enforce or terminate this Agreement and any or all of the other documents and agreements as provided for enforcement or termination of this Agreement.

If you are a partnership, all general partners will sign the documents. If you are a corporation or limited liability company or other entity, all shareholders or members and all officers will personally guarantee your faithful performance.

You will assure that each of your owners, shareholders, general partners, members, directors, officers, managers, employees, consultants, distributors and agents will not compete with us; will not attempt to divert customers to competing businesses; will not induce the employees of us or of our franchisees to leave their employment; and will keep, preserve, and protect confidential information as required by this Agreement.

9.7 **Construction.**

- A. Entire Agreement. This document, including any exhibits attached to this Agreement and the documents referred to in this Agreement, will be construed together and constitute the entire agreement between the parties. It supersedes all prior or contemporaneous agreements or understandings, whether written or oral, with respect to the subject matter of this Agreement. There are no other oral or implied understandings between the parties with respect to the subject matter of this Agreement. Except as expressly and otherwise provided in this Agreement, this Agreement may not be modified, nor may any rights be waived or abridged, orally or by course of dealing, but only by a written instrument signed by the parties. The words "this Agreement" include any future modifications unless otherwise suggested by the context. No salesperson, representative, or other person has the authority to bind or obligate us in any way, except our president or a vice president at our home office by an instrument in writing.

No previous communications, negotiations, course of dealing or usage in the trade not specifically set forth in this Agreement will be admissible to explain, modify, or contradict this Agreement. The parties intend to confer no benefit or right on any person or entity not a party to this Agreement and no third party will have the right to claim the benefit of any provision of this Agreement as a third party beneficiary of that provision.

Nothing in this Agreement or any related agreement is intended to disclaim the representations we made to you in our franchise disclosure document.

- B. Format. All words in this Agreement include any number or gender as the context or sense of this Agreement requires. The words "will" and "must" used in this Agreement indicate a mandatory obligation. This Agreement has been prepared in the "you/we" format to simplify it and to facilitate our compliance with state and federal franchise disclosure laws. The rule of construction that a written agreement is construed against the party preparing or drafting such agreement will specifically not be applicable to the interpretation of this Agreement.
- C. Captions and Headings. All captions and headings are for reference purposes only and are not part of this Agreement. The recitals set forth in this Agreement are specifically incorporated into and constitute a part of the terms of this Agreement. If there is any typographical, word processing, printing or copying error in this Agreement, the error will be interpreted and corrected consistent with the following order of interpretation:
1. The content and expressed intent and exhibits of our Franchise Disclosure Document(s) previously delivered to you.
  2. The content and expressed intent of franchise agreements we have executed with our other franchises reasonably contemporaneous to this Agreement.
- D. Severability. If, any part of this Agreement is declared invalid, that declaration will not affect the validity of the remaining portion which will remain in full force and effect as if this Agreement had been executed with the invalid portion omitted. The parties declare their intention that they would have executed the remaining portion of this Agreement without including any part, parts, or portions which may be declared invalid in the future. Provided, however, that if we determine that the finding of invalidity materially and adversely affects the basic consideration of this Agreement, we may, at our option, terminate this Agreement.
- E. Implied Covenants. If applicable law implies a covenant of good faith and fair dealing in this Agreement, the parties agree that covenant will not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement. If applicable law implies such a covenant, the parties acknowledge and agree that:
1. This Agreement (and the relationship of the parties which is inherent from this Agreement)

2. grants us the discretion to make decisions, take actions or refrain from taking actions not inconsistent with our explicit rights and obligations under this Agreement that may favorably or adversely affect your interests;
  3. We will use our business judgment in exercising our discretion based on our assessment of our own interests and balancing those interests against the interests of the owners of other FENG CHA businesses generally (including us, our franchisees and parties related to us) and specifically without considering the individual interests of you or any other particular franchisee;
  4. We will have no liability to you for the exercise of our discretion in this manner, so long as our discretion is not exercised in bad faith toward you; and
  5. In the absence of bad faith, no trier of fact in any judicial or arbitration proceeding will substitute its judgment for the business judgment we exercise.
- F. Joint and Several. If, at any time during the term of this Agreement, you consist of two or more persons or entities (whether acting in partnership or otherwise and whether or not all have signed this Agreement), the rights, privileges and benefits granted to you in this Agreement may only be exercised and enjoyed jointly; and your obligations, liabilities and responsibilities under this Agreement will be joint and several obligations of each such person and entity.

## 9.8 **Enforcement**

From time to time there may be controversy about this Agreement, its interpretation, or performance or breach by the parties.

- A. Mediation and Arbitration. If a dispute arises between the parties, prior to taking any other legal action, the parties agree to participate in at least **8** hours of mediation in accordance with the Mediation Procedures of the US Arbitration & Mediation Service or of any similar organization that specializes in the mediation of commercial business disputes. The Parties agree to equally share the costs of mediation.

From time to time there may be controversy, dispute, question or claim arising out of, in connection with or relating to this Agreement and its execution, delivery, existence, interpretation, construction, legality, validity, binding effect, enforceability, discharge, performance, non-performance or breach by the parties. This may include a claim that this Agreement, or any portion of it, is indefinite, invalid, illegal, or otherwise void, voidable or unenforceable. The controversy (unless related to trademark infringement or collection of delinquent payments) will be resolved by arbitration before an arbitrator selected by and mutually agreed upon by the parties under the process and rules of the American Arbitration Association or its successor. Regardless of the Commercial Dispute process and the rules of the American Arbitration Association or its successor, there will be no arbitration on a class or consolidated basis. The arbitrator will have power and jurisdiction to decide the controversy or dispute solely according to the express provisions of this Agreement. The arbitrator may not alter, amend, delete, or add to the provisions of this Agreement by implication or otherwise. In any arbitration the parties will be entitled to injunctive relief or specific performance of the obligations of the other. The arbitrator will determine the prevailing party for purposes of this Section and may make a percentage award of reimbursable fees and expenses. The decision of the arbitrator made within its power or jurisdiction will be final and binding. The decision may be entered as a judgment in any court of law having jurisdiction.

The provisions of this Section will be construed as independent of any other covenant or provision of this Agreement; provided that if a court of competent jurisdiction determines that any the provisions are unlawful in any way, the court will modify or interpret the provisions to the minimum extent necessary to have them comply with the law. Notwithstanding any provision of this Agreement relating to the laws under which this Agreement will be governed by and construed under, all issues relating to its appropriateness for arbitration or the enforcement of the agreement to arbitrate contained in this Agreement will be governed by the Federal Arbitration Act (9 U.S.C. §\_1 et seq.) and the federal

common law of arbitration. The provisions of this Section will not limit our right to seek and obtain any provisional or final remedy, including, but without limitation, injunctive relief, an order for payment of any monies due and owing by you, an order for recovery or delivery up of possession, or for specific performance, or similar relief, from any court of competent jurisdiction, as may be necessary in our sole judgment to protect the Service Marks and the FENG CHA System and our confidential information and property rights, to enforce the restrictive covenants of this Agreement, to enforce our contractual rights, and to protect against actual or threatened conduct that on balance would cause or be likely to cause loss or damage if allowed to continue pending completion of an arbitration proceeding.

This arbitration provision is self-executing, and in the event that any party fails without good cause (i) to appear at any properly noticed arbitration proceeding or (ii) to make payment in full of its share of the required arbitration fees and costs within 10 days after notice and demand, absent a previously issued court order to the contrary, then a final award may be entered against such party notwithstanding the failure to appear or to make the required payment.

- B. Injunctive Relief and Specific Performance. Either party may obtain in any court of competent jurisdiction specific performance and injunctive relief to restrain a violation by the other party of any term or covenant of this Agreement. Nothing contained in this Agreement will bar us or you to obtain specific performance of the provisions of this Agreement and injunctive relief against threatened conduct that will cause you or us loss or damages under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions.
- C. Governing Law and Venue. You acknowledge that we have appointed and intend to appoint many franchisees on terms and conditions similar to those set forth in this Agreement. It mutually benefits those franchisees, you and us if the terms and conditions of these license agreements are uniformly interpreted. This Agreement is accepted by us in the State of Texas and will be governed by the substantive laws of Texas without regard to Texas choice of law provisions. Provided, however, that any law of the State of Texas that regulates the sale of franchises or business opportunities or governs the relationship of a franchisor and its franchisee will not apply unless its jurisdictional requirements are met independently without reference to this Section. Texas laws will prevail, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051, et seq.) and except in those states whose franchise laws require exclusive application of those laws. This choice of laws will not include and does not extend the scope of application of any Texas franchise or business opportunity laws except as they may otherwise apply pursuant to their terms and definitions. No franchise or business opportunity, antitrust, "implied covenant," unfair competition, fiduciary or any other doctrine of law statute, law or regulation of Texas or any other state is intended to be made applicable to this Agreement unless it would otherwise apply absent this paragraph. The foregoing will not be construed as a waiver of any of your rights under any applicable franchise registration, disclosure or relationship law of another territory, state or commonwealth. Any portion of this Agreement that requires enforcement in any other state, and is enforceable under the laws of that state but not of Texas, will be construed and enforced according to the laws of that state. All issues or disagreements relating to this Agreement will be mediated, arbitrated, tried, heard, and decided in McKinney, Texas or as near as reasonably can be attained thereto, which you agree is the most convenient venue for these purposes. You acknowledge and agree that this location for venue is reasonable and the most beneficial to the needs of and best meets the interest of, all of the members of the FENG CHA franchise system.
- D. Remedies. You recognize the unique value and secondary meaning attached to the FENG CHA System, the Service Marks and our standards of operation and trade practices. You agree that any noncompliance with the terms of this Agreement or any unauthorized or improper use of the FENG CHA System or the Service Marks will cause irreparable damage to us and our franchisees. You agree that if you engage in any unauthorized or improper use, during or after the period of this Agreement, we will be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by laws.

No right or remedy conferred upon us is exclusive of any other right or remedy in this Agreement or provided by law or equity. Each will be cumulative of every other right or remedy.

We may employ legal counsel or incur other expense to collect or enforce your obligations or to defend against any claim, demand, action or proceeding because of your failure to perform your obligations. Legal action may be filed by or against us and that action or the settlement of it may establish your breach of this Agreement. If either event occurs, we may recover from you the amount of our reasonable attorney fees and all other expenses we incur in collecting or enforcing that obligation or in defending against that claim, demand, action or proceeding.

You agree that the existence of any claims you may have will not constitute a defense to the enforcement by us of any of the confidentiality requirements and covenants not to compete described in this Agreement. You acknowledge that any violation of the confidentiality requirements and covenants not to compete would result in irreparable injury to us for which no adequate remedy at law may be available and you accordingly consent to the issuance of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete.

You agree that each of the confidentiality requirements and covenants not to compete described in this Agreement will be constructed as independent of any other covenant or provision. If all, parts or any portion of any covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which we are a party, you expressly agree to be bound by any lesser covenant subsumed within the terms of that covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in this Agreement. Each of the covenants described in this Agreement is a separate and independent covenant in each of the separate counties and states in the United States in which we transact business. To the extent that any covenant may be determined to be judicially unenforceable in any county or state, that covenant will not be affected with respect to any other county or state. You understand and acknowledge that we will have the right, in our sole discretion, to reduce the scope of any of covenants, confidentiality requirements or covenants not to compete set forth in this Agreement that apply to you or to any other of our franchisees. We may do so without your consent, effective immediately upon your receipt of written notice. You agree that you will comply with any covenant that pertains to you as we so modify it.

You acknowledge we will suffer immediate and irreparable harm that will not be compensable by damages alone if you repudiate or breach any of the provisions of any part of this Agreement that relates to the confidentiality or protection of confidential information and trade secrets or your covenants to not compete against us or our franchise system or your threats or attempts to do so. For this reason, under those circumstances, we, in addition to and without limitation of any other rights, remedies or damages available to us at law or in equity, will be entitled to obtain temporary, preliminary and permanent injunctions in order to prevent or restrain the breach, and we will not be required to post a bond as a condition for the granting of this relief. You also agree that a violation of any of our your confidentiality or non-competition covenants will entitle us, in addition to all other remedies available at law or equity, to recover from you any and all funds, including, without limitation, wages, salary, and profits, which will be held by you in constructive trust for us, received by you in connection with such violation.

You specifically acknowledge the receipt of adequate consideration for the confidentiality and non-competition covenants contained in this Agreement and that we are entitled to require you to comply with these covenants. Those covenants will survive termination or expiration of this Agreement. You represent that if this Agreement expires or is terminated, whether voluntarily or involuntarily, you have experience and capabilities sufficient to enable you to find employment or otherwise earn a livelihood in areas which do not violate this Agreement and that our enforcement of a remedy by way of injunction will not prevent you from earning a livelihood.

- E. Attorneys Fees. The prevailing party in any arbitration, insolvency proceeding, bankruptcy proceeding, suit, or action to enforce this Agreement will recover its arbitration, proceeding, and court costs and

reasonable attorney fees and previously incurred mediator fees. These will be set by the arbitration, proceeding or court, including costs and attorney fees on appeal or review from the arbitration, proceeding, suit, or action. "Prevailing party" means the party who recovers the greater relief in the proceeding.

#### 9.9 **Other Agreements.**

If you or any of your shareholders, partners, or officers violate any material provision of any other franchise or similar agreement with us, that breach will be considered a breach of this Agreement and of the other agreements. We then may terminate or otherwise enforce this Agreement and the other agreements.

Whenever this Agreement requires that you enter into a release, such as for a transfer or renewal, the release will be in substantially the following form:

You (and your owners, members, partners, officers, and directors) agree to the following general release, subject to and following laws applicable in your jurisdiction, to release us from any claims you may have against us:

In consideration of the mutual covenants and understandings set forth in this release agreement, you release and discharge us and our current and former owners, partners, directors, officers, employees and agents from all obligations, duties, covenants and responsibilities to be performed under the franchise agreement with us related to the franchise and the franchise premises ("your Prior Franchise Agreement").

You release and forever discharge us and our current and former owners, partners, directors, officers, members, employees and agents from any and all claims, demands, actions or causes of action of every name, nature, kind and description whatsoever, whether in tort, in contract or under statute, arising directly or indirectly out of the negotiation of, execution of, performance of, nonperformance, or breach of your Prior Franchise Agreement and any related agreements between you and us and out of any other action or relationship between you and us arising prior to the date of the release agreement.

You represent that this release has been read and that it is fully understood and voluntarily accepted. The purpose of this release is to make a full, final and complete settlement of all claims against us, known or unknown, arising directly or indirectly out of your Prior Franchise Agreement and the relationship between you and us prior to the date of the transfer [renewal] agreement including, but not limited to, economic loss.

It is expressly understood and agreed that this release is intended to cover and does cover not only all known losses and damages but any further losses and damages not now known or anticipated but which may later develop or be discovered, which arise under your Prior Franchise Agreement prior to the date of the transfer [renewal] agreement, including all effects and consequences.

These releases are intended to waive, release and discharge all claims against us, other than these expressly reserved, with the express waiver of any statute, legal doctrine or other similar limitation upon the effect of general releases. In particular, the parties waive the benefit of any applicable statutory provision such as by illustration, California Civil Code Section 1542, which states:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

You will waive the benefit of both statute and any other legal doctrine or principle of similar effect in any jurisdiction.

#### 9.10 **Agreement Binding on Successors and Assigns.**

This Agreement benefits and binds the respective heirs, executors, administrators, successors, and assigns of the parties.

**9.11 Execution in Counterparts and Our Acceptance.**

This Agreement will be binding upon you at the time you sign it and deliver it to us. This Agreement will not be binding upon us until we accept it in writing by one of our principal officers at our home office. If we do not accept it within **60** days, this Agreement will no longer be binding upon you. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, will constitute an original. Delivery of executed signature pages of this Agreement by facsimile transmission will constitute effective and binding execution and delivery of this Agreement.

**9.12 Approval by Shareholders, Members or Partners.**

If you are a corporation, limited liability company, partnership or other entity, we will not be bound until your shareholders, members or partners read and approve this Agreement, agree to the restrictions on them (including restrictions on the transfer of their interest in the Franchise and the restrictions and limitations on their ability to compete with us), and jointly and severally guarantee your performance under this Agreement. We may request a copy of the Resolution approved by your partners, members, shareholders, owners or directors as confirmation of your fulfillment of this requirement and authorizing your execution of this Agreement.

Your ownership certificates will have conspicuously endorsed upon them a statement that they are subject to, and that further assignment or transfer of them is subject to, the restrictions imposed upon assignments by this Agreement.

If You are an entity with more than one owner, the partnership agreement, shareholders agreement, limited liability operating agreement or other similar agreement for the entity ("Owners Agreement") must contain the following provisions which will supersede any contrary provisions in that agreement:

1. Your owners ("Owners") agree to submit any dispute they cannot resolve relating to the operation and management of the franchise business to arbitration by our president or his designee. If the arbitration submission is accepted by our president, it must be held at our headquarters or at another location the Owners and the arbitrator agree. The decision of the arbitrator will be final and subject to enforcement by the courts of competent jurisdiction. If the submission to arbitration is not accepted by our president, the Owners must resolve their disputes in accordance with the other provisions of this Franchise Agreement.
2. The term "operations and management" includes, but is not limited to, questions relating to:
  - A. Allocations of management responsibilities between the Owners;
  - B. Contributions to capital for purposes of business operations, repairs and remodeling;
  - C. The reasonable salaries of the Owners;
  - D. Marketing efforts;
  - E. The termination of the employment of an Owner;
  - F. Procedures for making and implementing management decisions;
  - G. Whether an Owner has performed duties with respect to the operation or management of the franchise business.
3. Unless the Owners and the arbitrator agree in writing otherwise, "operation and management" does not include questions relating to:
  - A. Allocations, computations or distributions of profit or loss;
  - B. Accounting issues;
  - C. Elections of officers of the entity;
  - D. Investments of cash not necessary for the operation of the business;

- E. Determining whether an Owner is disabled or incompetent within the meaning of the Owners Agreement;
  - F. The fair market value of the Owners' interests in the entity;
  - G. Whether an event has occurred, which gives rise to a right to buy the interest of an Owner other than a right resulting from an Owner's default determined to exist under 2, above;
  - H. Whether an Owner has met his obligations to purchase the interest of any current or former Owner;
  - I. Matters relating to the winding up of the entity after a dissolution;
  - J. Matters relating to the legal validity of the Owners Agreement.
4. The Owner's agreement must provide that the Owner or Owners who are to be responsible for operation of the franchise business must own 50% or more of the capital interests in the entity and that the Owners of the entity must have voting rights proportionate to their interests in capital.
  5. The Owners agree to notify us in writing of their intent to enter into, modify or amend any Owners Agreement. Notice must be given at least 10 business days before they enter into that agreement, modification or amendment. The purpose of this notice is to enable us to review it for compliance with this section.
  6. Inclusion of these provisions in the Owner's Agreement will be a condition to our consent to the transfer of the franchise to an entity.

9.13 **Personal Guarantee.**

The undersigned Guarantors are all of your partners, members, shareholders or owners. They jointly, severally, irrevocably, and unconditionally guarantee to us the due and punctual observance and performance by you of all of your obligations under this Agreement and any other agreement to which we and you are parties. Each Guarantor agrees to guarantee us against all liability, loss, harm, damage, costs, and expenses (including attorney fees) that we may incur because of your failure to observe your obligations. The liabilities and obligations of each Guarantor will not be released, discharged, or affected by our release or discharge of or dealing with you under any of these agreements; or by anything we do, suffer, or allow to be done in relation to you; or by change, alteration, or modification of any of the agreements; or by any compromise, arrangement, or plan of reorganization affecting you; or by your bankruptcy or insolvency; or by any other act or proceeding in relation to you or any of the agreements by which any Guarantor might otherwise be released. The liabilities and obligations of each Guarantor pursuant to this Guarantee will be continuing in nature and will terminate only on the satisfaction of your obligations under this Agreement. A fresh cause of action will arise in respect of each breach by you producing a liability of any Guarantor.

The Guarantors agree that it shall not be necessary for us or our assigns to institute suit or exhaust our legal remedies against you in order to enforce this guaranty. Guarantors agree that we may from time to time extend the time for performance or otherwise modify, alter, or change this Agreement, may extend the time for payment of all sums guaranteed, and may receive and accept notes, checks, and other instruments for the payment of money made by you and extensions or renewals without in any way releasing or discharging Guarantors from their obligations. This guaranty shall not be released, extinguished, modified, or in any way affected by our failure to enforce all the rights or remedies available to it under this Agreement. Our release of one or more Guarantor will not operate as a release of the other Guarantors.

9.14 **Representations and Acknowledgements.**

A. **Receipt of Disclosure Documents.**

You acknowledge that you have received our Franchise Disclosure Document at the earlier of (1) the first personal meeting with us (in New York and Rhode Island); or (2) 14 calendar days before signing any franchise or related agreement or making any payment with the franchisor or an affiliate in connection with the franchise sale (10 business days in California, Michigan, New York, Oregon, Rhode Island, Washington and Wisconsin). In addition, you acknowledge either:

1. receipt of this Agreement containing all substantive terms at the time of delivery of the Franchise Disclosure Document; or
2. if we unilaterally or materially altered the terms and conditions of our standard franchise agreement or any related agreements attached to the Franchise Disclosure Document, you acknowledge that you received a complete and final copy of this Agreement and its exhibits not less than 7 calendar days before you signed this Agreement.

**B. You Have Read and Understand this Agreement.**

You acknowledge that you have had ample to read and have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the FENG CHA System. You have received advice from advisors of your own choosing regarding all pertinent aspects of this Franchise and the franchise relationship created by this Agreement. You also acknowledge that you believe you have made a good decision for yourself or your partners or your corporation based upon what you believe is your ability to run and control a business of your own.

**C. Varying Forms of Agreement.**

You are aware that some present and future **FENG CHA** franchisees may operate under different forms of agreement and, consequently, that our obligations and rights in respect to our various present and future franchisees may differ materially in certain circumstances.

**D. Speculative Success.**

The success of your franchise is speculative and depends, to a large extent, upon your ability as an independent businessperson. You recognize that the business venture contemplated by this Agreement involves business risks. We do not make any representation or warranty, express or implied, as to the potential success of the Franchise.

**E. Independent Investigation, No Projections or Representations.**

You acknowledge that you have entered this Agreement after conducting an independent investigation of us and of the Franchise. Your success will be dependent upon your ability as an independent businessperson. You have not relied upon any representation as to gross revenues, volume, cost savings, potential earnings or profits which you in particular might realize. Except as outlined in Item 19 of our Franchise Disclosure Document, we expressly disclaim the making of, and you acknowledge that you have not received, any representation, warranty, or guarantee, express or implied, concerning the potential revenues, cost savings, volume, profits, or success of the business venture contemplated by this Agreement. You acknowledge that neither we, nor any of our officers, directors, shareholders, employees, agents or servants, made any other representation about the business contemplated by this Agreement or that are not expressly set forth in this Agreement or our Franchise Disclosure Document to induce you to accept this Franchise and execute this Agreement. Any oral representations made by our representatives to you, whether or not set forth in earlier versions of our standard form franchise agreement, have either been ratified by us by including the representations in this document or have been disavowed by excluding them from this Agreement.

**F. No Review of Business Plans, Loan Applications.**

Prior to your execution of this Agreement, we have not given you any advice or review of any of your business plans or third-party loan applications related to your purchase of and proposed operation of the franchise. We do not receive or review business plans and loan applications before a franchisee

signs the relevant franchise agreement. We have strongly recommended that you retain and work with your own independent accountant and financial advisors to fully review all financial aspects of your potential franchise investment for you. You acknowledge that we will not provide financial assistance to you and that we have made no representation that we will buy back from you any products, supplies, or equipment you purchase in connection with your franchise.

G. **Your Location and Market Area.**

You acknowledge that we will not provide or designate locations for you. You have investigated the potential of the market area in which you are to establish and operate your franchise business and the laws and regulations applicable thereto. You agree and represent that that market area is reasonable and the Initial Franchise Fee represents fair consideration for the opportunity to establish and operate a FENG CHA franchise.

H. **Health and Full-Time Participation.**

You acknowledge that a FENG CHA business involves hard work and sometimes long hours, similar to most small businesses that are owner operated. We have not represented that this business is going to be easy for you, your partners, officers, or directors. You or your majority owner if you are a corporation, limited liability company or partnership, must actively participate in the daily affairs of the business. You represent that you or your majority owner are in good health and able to devote your full time and best efforts in the day-to-day operations of your franchised business or that you have the business management skills necessary to successfully hire a general manager to run the day to day operations of your franchised business.

I. **Terrorism, Convictions, Immigration Status.**

Neither you, nor your spouse, nor your children, nor your parents, nor anyone who has an interest in or who will manage the franchise, nor any of your partners or affiliates:

1. supports terrorism,
2. provides money or financial services to terrorists,
3. receives money or financial services from terrorists or institutions that support terrorists
4. is engaged in terrorism, or
5. is on the current U.S. government lists of persons and organizations that support terrorism as provided for by law, such as the list of "Specially Designated Nationals" and "Blocked Persons" under the "USA Patriot Act" 18 USC Section 1900 et seq.

Neither you nor any of these persons has engaged in or been convicted of fraud, corruption, bribery, money laundering, narcotics trafficking or other crimes, and each is eligible under applicable U.S. immigration laws to communicate with and travel to the United States to fulfill your obligations under your agreements with us.

J. **We May Investigate.**

We may conduct investigations and make inquiries of any person or persons we, in our reasonable judgment, believe appropriate concerning the credit standing, character, and professional and personal qualifications of you and your owners, shareholders, members and partners. You authorize us to conduct these investigations and to make these inquiries. We agree to comply with the requirements of laws that apply to these investigations and inquiries.

K. **Supplier Approval.**

You acknowledge that while you may propose alternate suppliers for products and services, the proposed suppliers may not qualify. You further acknowledge that our approved suppliers may be the only source of supply for products and services required in the Franchise.

L. **Operations Manual.**

You acknowledge that the Operations Manual is loaned to you by us and at all times the Operations Manual and any updated or amended pages remain our property and that the copyright in the Operations Manual and all associated materials is vested in us. You agree to return to us the Operations Manual and any updated or amended pages immediately upon written demand.

M. **NO REPRESENTATIONS, PROJECTIONS, OR WARRANTIES.**

WE HAVE NOT MADE ANY REPRESENTATIONS, PROMISES, GUARANTEES, PROJECTIONS, OR WARRANTIES OF ANY KIND TO YOU, YOUR OWNERS, OR THE GUARANTORS TO INDUCE THE EXECUTION OF THIS AGREEMENT OR CONCERNING THIS AGREEMENT EXCEPT AS SPECIFICALLY SET FORTH IN WRITING IN THIS AGREEMENT AND IN OUR FRANCHISE DISCLOSURE DOCUMENT THAT WE DELIVERED TO YOU. YOU ACKNOWLEDGE THAT NEITHER WE NOR ANY OTHER PARTY HAS GUARANTEED YOUR SUCCESS IN THE BUSINESS CONTEMPLATED BY THIS AGREEMENT.

**SIGNATURES**

IN WITNESS, the parties have executed this Agreement on the day and year first above written.

("we/us"): **CANNECT LLC**

(jointly and severally "you"): \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Guarantor(s):

Franchisee: \_\_\_\_\_

Spouse: \_\_\_\_\_

\_\_\_\_\_

**FRANCHISE AGREEMENT  
EXHIBIT A  
FRANCHISE TERRITORY**

**Exhibit C**

**FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT  
STATE LAW ADDENDUM**

The following modifications and additions are part of the FENG CHA Franchise Disclosure Document ("FDD") and Franchise Agreement ("FA") as required by relevant state laws.

**These states have statutes which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of the Franchise:**

**ARKANSAS (Stat. Section 70-807)**  
**CALIFORNIA (Bus. & Prof. Code Sections 20000-20043)**  
**CONNECTICUT (Gen. Stat. Section 42-133e et seq.)**  
**DELAWARE (Code, tit.)**  
**HAWAII (Rev. Stat. Section 482-E1)**  
**ILLINOIS (815 ILCS 705/1-44)**  
**INDIANA (Stat. Section 23-2-2.7)**  
**MICHIGAN (Stat. Section 19.854(27))**  
**MINNESOTA (Stat. Section 80C.14)**  
**MISSISSIPPI (Code Section 75-24-51)**  
**MISSOURI (Stat. Section 407.400)**  
**NEBRASKA (Rev. Stat. Section 8-401)**  
**NEW JERSEY (Stat. Section 56:10-1)**  
**SOUTH DAKOTA (Codified Laws Section 37-5A-51)**  
**VIRGINIA (Code 13.1-557-574, 13.1-564)**  
**WASHINGTON (Code Section 19.100.RCW)**  
**WISCONSIN (Stat. section 135.03)**

**These and other states may have court decisions which may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of the Franchise.**

**California**

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Our website address is [www.fengchausa.com](http://www.fengchausa.com). OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION, ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT [www.dfpi.ca.gov](http://www.dfpi.ca.gov).

**FDD COVER PAGE**

REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER.

**FDD Item 5 (and Franchise Agreement 2.1, paragraph 1): Add**

Any and all initial fees are deferred until the franchisor has completed all of its initial obligations to the franchisee and the franchisee is open for business.

**FDD Item 17, FA Sections 5, 6, 7 and 9**

(1) California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning transfer, termination, or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

(2) The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et. seq.).

(3) The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

(4) The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

(5) You must sign a general release if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

(6) The Franchise Agreement requires mediation in McKinney, Texas, with the costs shared by the parties equally, and requires binding arbitration in McKinney, Texas with the costs being borne by the party that does not prevail. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

(7) The Franchise Agreement requires application of the laws of the State of Texas. This provision may not be enforceable under California law.

(8) Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form and containing such information as the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

(9) The franchisor, any person or franchise broker in Item 2 of the FDD is *not* subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

(10) The highest applicable interest rate in California is ten per cent (10%) per annum.

(11) No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

## **Georgia**

### **DISCLOSURES REQUIRED BY GEORGIA LAW**

The State of Georgia has not reviewed and does not approve, recommend, endorse, or sponsor any business opportunity. The information contained in this disclosure has not been verified by the state. If you have any questions about this investment, see an attorney before you sign a contract or agreement.

## **Hawaii**

Paragraph 4110.01, Section 482E-6(3): Upon termination or refusal to renew the franchise the franchisee will be compensated for the fair market value, at the time of the termination or expiration of the franchise, of the franchisee's inventory, supplies, equipment and furnishings purchased from the franchisor or a supplier designated by the franchisor; provided that personalized materials which have no value to the franchisor need not be compensated for. If the franchisor refuses to renew a franchise for the purpose of converting the franchisee's business to one owned and operated by the franchisor, the franchisor, in addition to their remedies provided in this paragraph, will compensate the franchisee for the loss of goodwill. The franchisor may deduct from such compensation reasonable costs incurred in removing, transporting and disposing of the franchisee's inventory, supplies, equipment, and furnishings pursuant to this requirement, and may offset from such compensation any moneys due the franchisor.

## **Idaho**

### FDD Item 17, FA Section 9

Any condition in a franchise agreement executed by a resident of Idaho or a business entity organized under the laws of Idaho is void to the extent it purports to waive venue or jurisdiction of the Idaho court system. Venue and jurisdiction will be in Idaho if the franchisee is an Idaho resident or a business entity organized under the laws of Idaho.

## **Illinois**

### FDD Items 5 and 6; FA Sections 2.1, 2.2, 2.3, and 2.4

The Illinois Franchise Disclosure Act prohibits discrimination among franchisees for payments made for Initial Franchise Fees, Licensing Fees, and the purchase of goods or services from the franchisor.

### FDD Item 17, FA Sections 6.1, 6.3, and 7.1(A)(9)

A franchisee's rights upon termination and non-renewal may be affected by Illinois law. (815 ILCS 705/1-44).

Releases executed by franchisees must comply with the Illinois Franchise Disclosure Act. Any attempt to waive compliance with Illinois law is void. (See Section 41 of the Illinois Franchise Disclosure Act, and Rule 200.609 of the Rules and Regulations).

The governing law and choice of law clauses contained in the Franchise Agreement are subject to the Illinois Franchise Disclosure Act.

Any provision in the Franchise Agreement and any ancillary Agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois, provided that a Franchise Agreement may provide for arbitration in a forum outside of Illinois. (See Section 4 of the Illinois Franchise Disclosure Act, and Rule 200.608 of the Rules and Regulations).

Illinois law governs the agreements between parties to this franchise.

Section 4 of the Illinois Franchise Disclosure Act provides that any provision in a franchise agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a franchise agreement may provide for arbitration in a venue outside of Illinois.

Section 41 of the Illinois Franchise Disclosure Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act, or any other law of Illinois is void.

Franchisor and/or its officers and affiliates have been the subject of franchise registration violations in 3 states, bankruptcy, and are part to pending litigation with the minority shareholder in connection with the acquisition of the majority interest in the company.

## **Indiana**

### FDD Item 17; FA Section 5 and 6

In Indiana, the reference to "members of their households or members of their immediate families" under the provisions of covenants not to compete will mean any person who has access to the information, including a spouse or any other person who lives within the household.

## **Maryland**

### FDD Item 17 and FA Sections 6, 7 and 9

According to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale, assignment or transfer of the franchise will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Any provision that provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

Section 14-216(c) (25) of the Maryland Franchise Registration and Disclosure Act requires a franchisor to file an irrevocable consent to be sued in Maryland. Notwithstanding anything to the contrary in the franchise agreement or Disclosure Document, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Act.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchises.

Section 14-226 of the Maryland Franchise Registration and Disclosure Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise. Our franchise agreement contains disclaimers of the occurrence or acknowledgment of the non-occurrence of acts that could constitute a violation of Maryland laws. These disclaimers, acknowledgments and representations are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

## **Michigan**

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are included in these franchise documents, the provisions are void for Michigan franchisees and cannot be enforced against Michigan franchisees. These provisions are:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.

- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise investment law. This will not preclude a franchisee, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause will include the failure of the franchisee to comply with any lawful provision of the Franchise Agreement and to cure the failure after being given written notice and a reasonable opportunity, which in no event need be more than 30 days, to cure the failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, , fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if:
  - (i) The term of the franchise is less than 5 years, and
  - (ii) The franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise, or the franchisee does not receive at least six months' advance notice of the franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation will be conducted outside this state. This will not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause will include, but is not limited to:
  - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any breach in the Franchise Agreement existing at the time of the proposed transfer.
- (h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a

franchise for the market or appraised value of assets if the franchisee has breached the lawful provisions of the Franchise Agreement and has failed to cure the breach in the manner provided in subdivision (c).

- (i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer the franchisee's obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

**The fact that there is a notice of this offering on file with the Attorney General does not constitute approval, recommendation or endorsement by the Attorney General. A franchisor whose most recent financial statements are unaudited and show a net worth of less than \$100,000 will, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of the escrow. Any questions regarding this notice should be directed to the Department of the Michigan Attorney General, 6520 Mercantile Way, Suite 3, Lansing, Michigan 48913; (517) 373-3800.**

The name and address of the franchisor's agent in Michigan authorized to receive service of process is:

Michigan Department of Commerce  
Corporation and Securities Bureau  
Office of Franchise and Agent Licensing  
6546 Mercantile Way  
P. O. Box 30222  
Lansing, Michigan 48910

## **Minnesota**

Minnesota law prohibits requiring a franchisee to waive his or her rights to a trial or to consent to liquidated damages, termination penalties, or judgment notes; provided, that this part will not bar a voluntary arbitration of any matter if the proceeding is conducted by an independent tribunal under the rules of the American Arbitration Association. (Minn. Rules 2860.4400(J)).

Minnesota law provides franchisees with certain termination and non-renewal rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 require, except in certain specified cases, that a franchisee be given **90** days' notice of termination (with **60** days to cure) and **100** days' notice for non-renewal of the Franchise Agreement.

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibits us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

### FDD Item 13; FA Section 5

Minnesota Statutes Section 80C.20, Subdivision 1(g) allows the Minnesota Commissioner of the Department of Commerce to issue a cease and dismiss order or issue an order denying, suspending or revoking any registration, amendment or exception on finding any of the following . . . that the method of sale or proposed method of sale of franchises or the operation of the business of the franchisor or any term or condition of the franchise agreement or any practice of the franchisor is or would be unfair or inequitable to franchisees. Pursuant to this section, the Commissioner requires all franchisors registering in the state of Minnesota to state that the franchisor will protect the franchisee's right to use the trademarks, service marks, trade names, logo types or other commercial symbols or indemnify the franchisee from any loss, cost or expenses arising out of any claim, suit or demand regarding the use of the name. We intend to comply with the Minnesota statute and to protect the franchisee's rights and indemnify the franchisee for any losses to the full extent required by relevant state law.

FDD Item 17, FA Sections 6, 7 and 9

Minnesota Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release. The general release provisions in the Franchise Agreement are void and unenforceable in the state of Minnesota.

FA Section 9

Pursuant to Minnesota Statutes Section 80.C.21, this section will not in any way abrogate or reduce any rights of the franchisee as provided for in Minnesota Statutes, Chapter 80.C, including, but not limited to, the right to submit matters to the jurisdiction of the courts in Minnesota.

The Franchise Agreement is amended, for franchises in Minnesota, such that it shall contain as a superseding term the following:

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed with the franchisee.

FDD Item 5; FA Section 2

The franchisee's obligations to pay initial franchise fees and other payment obligations are deferred until after the franchisor has satisfied its pre-opening obligations under the franchise agreement and the franchisee has commenced business operations.

**New York**

**1. The following information is added to the cover page of the Franchise Disclosure Document: INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.**

**2. The following is added at the end of Item 3:**

**Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:**

**A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.**

**B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.**

**C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10 year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.**

**D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.**

**3. The following is added to the end of Item 4:**

**Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.**

**4. The following is added to the end of Item 5:**

**The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.**

**5. The following is added to the end of the "Summary" sections of Item 17(c), titled "Requirements for franchisee to renew or extend," and Item 17(m), entitled "Conditions for franchisor approval of transfer":**

**However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.**

**6. The following language replaces the "Summary" section of Item 17(d), titled "Termination by franchisee":**

**You may terminate the agreement on any grounds available by law.**

**7. The following is added to the end of the "Summary" section of Item 17(j), titled "Assignment of contract by franchisor":**

**However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the Franchise Agreement.**

**8. The following is added to the end of the “Summary” sections of Item 17(v), titled “Choice of forum”, and Item 17(w), titled “Choice of law”:**

**The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.**

FDD Item 17

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS DISCLOSURE DOCUMENT.

Choice of Law	Section 9.7	Texas law applies except to the extent governed by the United States Trademark Act and except in those states whose franchise laws require exclusive application. The foregoing choice of law should not be considered a waiver of any right conferred upon the Franchisee by the GBL of the State of New York, Article 33.
Assignment of Contract by Us	Section 6.3	There are no restrictions on our right to transfer. However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the franchise agreement.
Termination by You	Section 6.2	You may terminate the Franchise Agreement on any grounds available by law.

**North Dakota**

FDD Item 9

Under North Dakota law, no modification or change the franchisor makes to the Operations Manual or FENG CHA System may materially affect the franchisee’s status, rights, or obligations under the Franchise Agreement.

FDD Item 17(c), FA Section 6.1

The Commissioner has determined that requiring franchisees to sign a general release upon renewal of the franchise agreement to be unfair, unjust, and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment law. The general release provision in Section 6.1 of this Agreement is void and unenforceable in the state of North Dakota.

FA Sections 5 and 6

The Commissioner has held that covenants restricting competition contrary to Section 9-08-06 of the North Dakota Century Code are unfair, unjust, or inequitable within the intent of the North Dakota Franchise Investment Law (Section 51-19-09). Thus, covenants not to compete are considered unenforceable in the State of North Dakota.

#### FA Section 6

Pursuant to Section 51-19-09 of the North Dakota Franchise Investment Law, a requirement that franchisees consent to liquidated damages or termination penalties in the event of termination of the franchise agreement is considered void and unenforceable.

#### FA Section 9.6

Apart from civil liability as set forth in section 51-19-12 N.D.D.C, which is limited to violations of the North Dakota Franchise Investment Law (registration and fraud) the liability of the franchisor to a franchisee is based largely on contract law. Despite the fact that those provisions are not contained in the franchise investment law, those provisions contain substantive rights intended to be afforded to North Dakota residents, and is unfair to franchise investors to require them to waive their rights under North Dakota Law.

The North Dakota Franchise Investment Law (Section 51-19-09) requires that this Agreement will be governed by the laws of North Dakota, which laws will prevail.

#### FA Section 9.9

Pursuant to the North Dakota Franchise Investment Law (Section 51-19-09), an arbitration or mediation locations which are remote from the site of the franchisee's business are unfair, unjust, or inequitable. Therefore, the site of arbitration or mediation must be agreeable to all parties.

Pursuant to the North Dakota Franchise Investment law (section 51-19-09), requiring franchisees to consent to the jurisdiction of courts outside of North Dakota is unfair, unjust, or inequitable. Thus, all issues or disagreements relating to this Agreement will be arbitrated, tried, heard and decided within the jurisdiction of courts in the state of North Dakota.

Sections of the Franchise Agreement stipulating that the franchisee shall pay all costs and expenses incurred by Franchisor in enforcing the agreement may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law.

### **Rhode Island**

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act." The Disclosure Document and Franchise Agreement are amended accordingly to the extent required by law.

### **South Dakota**

#### FDD Item 17; FA Section 6

Under South Dakota law, termination provisions covering breach of the Franchise Agreement, failure to meet performance and quality standards and failure to make licensing payments contained in the Disclosure Document and franchise agreement must afford a franchisee **30 days'** written notice with an opportunity to cure the breach prior to termination.

#### FA Section 9

The law regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, this Agreement and all provisions of this instrument will be and remain subject to the application, construction, enforcement, and interpretation under the governing law of the State of Texas.

Covenants not to compete upon termination of the franchise agreement are generally unenforceable in the State of South Dakota. Pursuant to SDCL 37-5A-86, any acknowledgement provision, disclaimer, or integration clause or a provision having a similar effect in a franchise agreement does not negate or act to remove from judicial review any statement, misrepresentation or action that would violate this chapter or a rule or order under this chapter.

In the event that either party will make demand for arbitration, such arbitration will be conducted in a mutually agreed-upon site in accordance with Section 11 of the Commercial Arbitration Rules of the American Arbitration Association.

Any provision in a franchise agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of South Dakota is void with respect to any cause of action which is otherwise enforceable in South Dakota.

## **Virginia**

### FDD Item 9

In Virginia, notice of approval or disapproval of a proposed supplier will be issued by us within **45** days after the franchisee has delivered all required materials.

## **Washington**

### Cover Page - "Special Risks to Consider About This Franchise"

The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.

### FDD Item 5, FA 2.1

Add: The initial fees, including the Initial Franchise Fee and all fees disclosed in Item 5 of the FDD are deferred until after the franchisor has fulfilled its initial pre-opening obligations to the franchisee and the franchisee is open for business.

### FDD Item 17: Entire FA, including without limitation Section 6 and 7

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will

be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

FDD Item 17(q) and (r)

Non-competition provisions are subject to state law.

Franchise Agreement - p. 2

The following paragraph is deleted:

We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Franchise Agreement, except those representations specifically disclosed in our Franchise Disclosure Document. You acknowledge that you have read this Agreement and our Franchise Disclosure Document and that you have no knowledge of any representations by us, or our officers, directors, shareholders, employees or agents that are contrary to the statements made in our Franchise Disclosure Document or to the terms of this Agreement. We do not furnish nor do we authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of any FENG CHA operation that is inconsistent with disclosures in our Franchise Disclosure Document. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

**The franchisee acknowledges receipt of this Addendum.**

## **Wisconsin**

### FDD Item 17

The applicable laws of Wisconsin may require notice periods greater than those set forth above for termination, cancellation, non-renewal, or the like, and may limit the reasons or causes for termination, cancellation, non-renewal, or the like. To the extent any provisions of the Franchise Agreement provide for periods of notice or for termination, cancellation, non-renewal, or the like other than in accordance with the applicable law, such provisions will not be effective, to the extent such are not in accordance with applicable law, and the franchisor will comply with the applicable law.

The Wisconsin Fair Dealership Law (Wisconsin Statutes, 1983-84, Title XIV-A, Chapter 135) supersedes any provision of a Franchise Agreement inconsistent with the law.

It is agreed that the applicable foregoing state law addendum for the state of \_\_\_\_\_, if any, supersedes any inconsistent portion of the Franchise Agreement (to which this addendum is attached) of this same date, and of the Franchise Disclosure Document. All terms of the Franchise Agreement, including these State Law Addendum provisions for the relevant state, have been agreed to at the time the Franchise Agreement was signed. However, this addendum will have effect only if the Franchise Agreement or our relationship with you satisfies all of the jurisdictional requirements of the relevant state's franchise laws, without considering this addendum.

DATED this \_\_\_/\_\_\_/\_\_\_(MM/DD/YYYY).

("we/us"): **CANNECT LLC**

(jointly and severally "you"): \_\_\_\_\_

Signature \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISOR REPRESENTS THAT THIS PROSPECTUS DOES NOT KNOWINGLY OMIT ANY MATERIAL FACT OR CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT.**

**Franchise Disclosure Document Exhibit D**

**The Following Table Reflects Our Agents for Service of Process and the Relevant State Franchise Authorities:**

**NAMES AND ADDRESSES OF STATE REGULATORY AUTHORITIES  
AND REGISTERED AGENTS IN STATES**

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
CALIFORNIA	<p>California Commissioner of Financial Protection and Innovation</p> <p>Los Angeles: 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (213) 576-7505</p> <p>Sacramento: 2101 Arena Blvd Sacramento, CA 95834 (916) 445-7205</p> <p>San Diego: 1350 Front Street San Diego, CA 92101-3697 (619) 525-4233</p> <p>San Francisco: One Sansome Street, Suite 600 San Francisco, CA 94104</p>	<p>Commissioner Department of Financial Protection and Innovation</p> <p>2101 Arena Blvd Sacramento CA 95834 (213) 576-7505</p>
CONNECTICUT	<p>The Banking Commissioner Department of Banking Securities and Business Investment Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8299</p>	<p>The Department of Banking Securities and Business Investment Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8299</p>
FLORIDA	[Not Applicable]	<p>Senior Consumer Complaint Analyst Department of Agriculture and Consumer Services Division of Consumer Services Mayo Building, Second Floor Tallahassee, Florida 32399-0800 (850) 922-2770</p>
HAWAII	<p>Commissioner of Securities of the Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 586-2722</p>	<p>Commissioner of Securities of the Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 586-2722</p>
ILLINOIS	<p>Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465</p>	<p>Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465</p>

<b>STATE</b>	<b>REGISTERED AGENTS</b>	<b>REGULATORY AUTHORITIES</b>
INDIANA	Secretary of State Administrative Offices of the Secretary of State 201 State House Indianapolis, IN 46204 (317) 232-6681	Securities Commissioner Securities Division Room E-111 302 West Washington Street Indianapolis, IN 46204 (317) 232-6681
IOWA	[Not Applicable]	Director of Regulated Industries Unit Iowa Securities Bureau 340 East Maple Des Moines, Iowa 50319-0066 (515) 281-4441
MARYLAND	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Commerce, Corporations and Securities Bureau 525 W. Ottawa 670 Law Building Lansing, MI 48913 (517) 373-7117	Franchise Administrator Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 670 Law Building Lansing, MI 48913 (517) 373-7117
MINNESOTA	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 500 St. Paul, MN 55101-2198 (651) 539-1600	Minnesota Department of Commerce 85 7 <sup>th</sup> Place East, Suite 280 St. Paul, MN 55101-2198 (651) 539-1600
NEBRASKA	[Not Applicable]	Staff Attorney Department of Banking and Finance 1200 N Street Suite 311 P.O. Box 95006 Lincoln, Nebraska 68509 (402) 471-3445
NEW YORK	Secretary of State of the State of New York 99 Washington Avenue Albany, NY 12231	Assistant Attorney General Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23rd Floor New York, NY 10271 (212) 416-8211
NORTH DAKOTA	North Dakota Securities Commissioner Fifth Floor 500 East Boulevard Bismarck, ND 58505	Franchise Examiner Office of Securities Commissioner 600 East Boulevard, 5th Floor Bismarck, ND 58505 (701) 328-4712
OREGON	Director of Oregon Department of Insurance and Fi- nance Corporate Securities Section Labor and Industries Building Salem, OR 97310 (503) 378-4387	Department of Consumer and Franchise Ser- vices Division of Finance and Corporate Securities Labor and Industries Building Salem, OR 97310 (503) 378-4387

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
RHODE ISLAND	Director of Rhode Island Department of Franchise Regulation Division of Securities Suite 232 Providence, RI 02903 (401) 222-3048	Associate Director and Superintendent of Securities Division of Securities 233 Richmond Street, Suite 232 Providence, RI 02903-4232 (401) 222-3048
SOUTH DAKOTA	Director of South Dakota Division of Securities 445 E. Capitol Ave. Pierre, SD 57501 (605) 773-4823	Franchise Administrator Division of Securities 445 East Capitol Avenue Pierre, SD 57501-5070 (605) 773-4013
TEXAS	[Not Applicable]	Secretary of State Statutory Document Section P.O. Box 12887 Austin, TX 78711 (512) 475-1769
UTAH	[Not Applicable]	Division of Consumer Protection Utah Department of Commerce 160 East Three Hundred South P.O. Box 45804 Salt Lake City, Utah 84145-0804 (801) 530-6601
VIRGINIA	Clerk of the State Corporation Commission 1300 E. Main Street, 1 <sup>st</sup> Floor Richmond, VA 23219 (804) 371-9733	Chief Examiner/Investigator State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street, 9 <sup>th</sup> Floor Richmond, VA 23219 (804) 371-9051
WASHINGTON	Director of Department of Financial Institutions Securities Division = 150 Israel Rd. SW Tumwater WA 98501 (360) 902-8760	Administrator Dept. of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760
WISCONSIN	Wisconsin Commissioner of Securities P.O. Box 1768 345 W. Washington Avenue, 4 <sup>th</sup> Floor Madison, WI 53703 (608) 261-9555	Franchise Administrator Securities and Franchise Registration Wisconsin Securities Commission 345 W. Washington Avenue, 4 <sup>th</sup> Floor Madison, WI 53703 (608) 261-9555
FEDERAL TRADE COMMISSION		Franchise Rule Coordinator Division of Marketing Practices Bureau of Consumer Protection Pennsylvania Avenue at 6 <sup>th</sup> Street, NW Washington, D.C. 20580 (202) 326-3128

## State Effective Dates

This Uniform Franchise Disclosure Document is effective as of:

General FTC (for states not requiring registration) – February 29, 2024

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin. This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

States Requiring Registration (registration not approved if blank):

California: pending  
Hawaii: pending  
Illinois: pending  
Indiana: pending  
Maryland: pending  
Minnesota: pending  
New York: pending  
North Dakota: pending  
Rhode Island: pending  
South Dakota: pending  
Virginia: pending  
Washington: pending  
Wisconsin: pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.





## EXHIBIT - Global SBA Addendum

### ADDENDUM RELATING TO FENG CHA FRANCHISE AGREEMENT

**THIS ADDENDUM** ("Addendum") is made and entered into on September 27th, 2021, (the "Effective Date") by Cannect LLC ("Franchisor"), located at 4117 Lindbergh Dr. Addison TX 75001.

The Franchisor has entered into franchise agreements with franchisees for the locations identified in the attached list (Attachment 1).<sup>1</sup> Franchisor is applying for financing(s) in which funding is provided with the assistance of the United States Small Business Administration ("SBA"). SBA requires the execution of this Addendum as a condition for obtaining the SBA-assisted financing.

Accordingly, Franchisor hereby agrees that, notwithstanding any other terms in any of the Franchise Agreements executed by Franchisor and its franchisees or any other document that Franchisor requires its franchisees to sign:

1. **Change of Ownership:** If franchisee is proposing to transfer a partial interest in franchisee and the franchise agreement gives Franchisor an option to purchase or a right of first refusal with respect to that partial interest, Franchisor may exercise such option or right only if the proposed transferee is not a current owner or family member of a current owner of franchisee. If the Franchisor's consent is required for any transfer (full or partial), Franchisor will not unreasonably withhold such consent. If the event of an approved transfer of the franchisee's interest or any portion thereof, the transferor will not be liable for the actions of the transferee franchisee.
2. **Forced Sale of Assets:** If Franchisor has the option to purchase the business personal assets upon default or termination of the Franchise Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the franchisee owns the real estate where the franchise location is operating, franchisee will not be required to sell the real estate upon default or termination, but franchisee may be required to lease the real estate for the remainder of the franchise term (excluding additional renewals) for fair market value.
3. **Covenants:** If the franchisee owns the real estate where the franchise location is operating, Franchisor will not, during the term of the Franchise Agreement, record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental use restrictions.
4. **Employment:** Franchisor will not directly control (hire, fire or schedule) franchisee's employees. For temporary personnel franchises, the temporary employees will be employed by the Franchisee not the Franchisor.

This Addendum automatically terminates when SBA no longer has any interest in the SBA-assisted financing(s) provided to the Franchisor.

Except as modified by this Addendum, the Franchise Agreements executed by the Franchisor and its franchisees will remain in full force and effect and are incorporated into this Addendum by reference.

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<sup>1</sup> This Addendum applies to current and future Franchise Agreements entered into by Franchisor and its franchisees.

Franchisor acknowledges that submission of false information to SBA, or the withholding of material information from SBA, can result in criminal prosecution under 18 U.S.C. § 1001 (\$250,000 fine and/or up to 5 years imprisonment), 15 U.S.C. § 645(a) (\$5,000 fine and/or up to 2 years imprisonment), and, if submitted to a Federally insured institution, under 18 USC 1014 (up to \$1,000,000 fine and/or imprisonment of not more than 30 years), and civil penalty under 12 U.S.C. § 1833a (up to \$1,000,000), and other provisions, including liability for treble damages under the False Claims Act, 31 U.S.C. §§ 3729-3733.

**Authorized Representative of Franchisor**

By:  \_\_\_\_\_

Print Name: Yan Chen

Title: CEO