

FRANCHISE DISCLOSURE DOCUMENT

ZENSHI

Advanced Fresh Concepts Franchise Corp.

a California corporation
19700 Mariner Avenue
Torrance, California 90503
Telephone: 310-604-3200
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www.afcsushi.com



Advanced Fresh Concepts Franchise Corp. (“AFC”) will grant you a franchise to use our system to offer prepared sushi and other Asian style foods from one or more (i) Zenshi Counters at a grocery store, retail center or other location that someone else owns (“Zenshi Counter”); (ii) AFC food service counters at a grocery store, retail center or other location that someone else owns (“AFC Food Service Counter”); (iii) Wild Blue Counters at a university or other select locations (“Wild Blue Counter”).

The total investment necessary to begin operation of a Zenshi Counter/AFC Food Service Counter/Wild Blue Counter is as follows: (1) if you are a new franchisee, the estimated total investment for one full-time or part-time Zenshi Counter/AFC Food Service Counter/Wild Blue Counter is between \$45,004 and \$151,404 for a non-AFC operated location and between \$46,004 and \$251,404 if you purchase an existing AFC operated location. This includes \$42,244 to \$237,074 that must be paid to us; (2) if you are an existing franchisee purchasing an additional full-time or part-time Zenshi Counter/AFC Food Service Counter/Wild Blue Counter, the estimated total investment necessary to begin operation of each additional Zenshi Counter/AFC Food Service Counter/Wild Blue Counter is between \$42,019 and \$130,324 for a non-AFC operated location and \$43,019 and \$230,324 for an existing AFC operated location. This includes \$40,769 to \$227,524 that must be paid to us; (3) if you are an existing franchisee purchasing a self-service Zenshi Counter/AFC Food Service Counter/Wild Blue Counter, the estimated total investment necessary to begin operations is between \$4,025 and \$20,900. This includes \$4,025 to \$20,000 that must be paid to us.

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 Vincenzo Calcagni, at 19700 Mariner Avenue, Torrance, California 90503, Telephone: 310-604-3200.

The terms of your contract will govern your franchise relationship. Don’t rely on the disclosure document alone to understand your contract. Read all of 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 your mind. More information on franchising, such as “A Consumer Guide’s 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 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.

FTC Issuance Date: July 22, 2025, amended August 28, 2025 and September 23, 2025

EXHIBIT A

FINANCIAL STATEMENTS

**AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31,
2025, MARCH 31, 2024, AND MARCH 31,
2023**

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
FINANCIAL REPORT
MARCH 31, 2025

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Advanced Fresh Concepts Franchise Corp.

Opinion

We have audited the financial statements of Advanced Fresh Concepts Franchise Corp. (the "Company"), which comprise the balance sheets as of March 31, 2025 and 2024, the related statements of comprehensive income, changes in stockholder's equity, and cash flows for each of the three years in the period ended March 31, 2025, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2025 and 2024, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2025 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As disclosed in Notes 2, 5 and 8 to the financial statements, the Company and the results of its operations are dependent on transactions with the parent company and affiliates. Accordingly, the accompanying financial statements may not be indicative of the financial position or results of operations that would have occurred had the Company operated without such affiliation. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Singer Lewak LLP

July 10, 2025

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

BALANCE SHEETS

March 31, 2025 and 2024

ASSETS		
	2025	2024
Current assets		
Cash and cash equivalents	\$ 20,077,954	\$ 8,594,494
Accounts receivable, net of allowance for credit losses of \$437,870 and \$320,362, respectively	77,796,423	73,555,878
Due from related parties	9,161,337	38,867,212
Inventory	2,401,630	1,579,277
Prepaid expenses and other assets	1,362,314	1,570,012
Loans receivable – franchisees	481,923	424,984
Prepaid income taxes	1,588,626	1,502,136
Total current assets	112,870,207	126,093,993
Equipment, net	4,427,185	4,559,272
Operating lease right-of-use assets	92,813	150,631
Deposits and other asset	70,291	68,203
Deferred taxes	4,521,279	4,397,348
Total assets	\$ 121,981,775	\$ 135,269,447

(Continued)

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

BALANCE SHEETS

March 31, 2025 and 2024

LIABILITIES AND STOCKHOLDER'S EQUITY

	2025	2024
Current liabilities		
Accounts payable	\$ 45,283,375	\$ 44,181,823
Due to related party	8,962,550	19,299,097
Accrued expenses and other liabilities	5,106,455	4,457,895
Income taxes payable	2,738,133	3,491,089
Operating lease liabilities, current portion	45,464	57,818
Current portion of deferred revenue	4,159,193	3,868,534
Total current liabilities	66,295,170	75,356,256
Operating lease liabilities, noncurrent portion	47,349	92,813
Deferred revenue, net of current portion	8,679,118	8,530,460
Total liabilities	75,021,637	83,979,529
Stockholder's equity		
Common stock, no par value, authorized 100,000 shares, issued and outstanding 5,000 shares	500,000	500,000
Retained earnings	47,395,476	51,425,672
Accumulated other comprehensive loss	(935,338)	(635,754)
Total stockholder's equity	46,960,138	51,289,918
Total liabilities and stockholder's equity	\$ 121,981,775	\$ 135,269,447

(Concluded)

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

STATEMENTS OF COMPREHENSIVE INCOME Years Ended March 31, 2025, 2024 and 2023

	2025	2024	2023
Revenues			
Franchise revenue	\$ 408,637,052	\$ 410,865,584	\$ 405,225,599
Product revenue	250,728,389	240,193,646	219,136,610
Retail revenue	35,442,056	26,501,503	23,894,287
Total revenues	<u>694,807,497</u>	<u>677,560,733</u>	<u>648,256,496</u>
Costs and expenses			
Direct contract costs	266,105,960	250,609,777	228,685,015
Operating expenses	415,230,839	409,950,618	402,034,468
Total costs and expenses	<u>681,336,799</u>	<u>660,560,395</u>	<u>630,719,483</u>
Income from operations	<u>13,470,698</u>	<u>17,000,338</u>	<u>17,537,013</u>
Financial income (expense)			
Interest income	1,141,054	1,249,392	1,736,974
Interest expense	-	(3,561)	(596)
Net financial income	<u>1,141,054</u>	<u>1,245,831</u>	<u>1,736,378</u>
Income before provision for income taxes	14,611,752	18,246,169	19,273,391
Provision for income taxes	<u>3,641,948</u>	<u>4,550,885</u>	<u>4,410,321</u>
Net income	<u>10,969,804</u>	<u>13,695,284</u>	<u>14,863,070</u>
Other comprehensive loss			
Foreign currency translation adjustment	(299,584)	(5,950)	(366,744)
Total comprehensive income	<u>\$ 10,670,220</u>	<u>\$ 13,689,334</u>	<u>\$ 14,496,326</u>

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended March 31, 2025, 2024 and 2023

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Loss	Total
Balance at March 31, 2022	5,000	\$ 500,000	\$ 37,867,318	\$ (263,060)	\$ 38,104,258
Net income	-	-	14,863,070	-	14,863,070
Other comprehensive loss	-	-	-	(366,744)	(366,744)
Dividend paid	-	-	(10,000,000)	-	(10,000,000)
Balance at March 31, 2023	5,000	500,000	42,730,388	(629,804)	42,600,584
Net income	-	-	13,695,284	-	13,695,284
Other comprehensive loss	-	-	-	(5,950)	(5,950)
Dividend paid	-	-	(5,000,000)	-	(5,000,000)
Balance at March 31, 2024	5,000	500,000	51,425,672	(635,754)	51,289,918
Net income	-	-	10,969,804	-	10,969,804
Other comprehensive loss	-	-	-	(299,584)	(299,584)
Dividend paid	-	-	(15,000,000)	-	(15,000,000)
Balance at March 31, 2025	5,000	\$ 500,000	\$ 47,395,476	\$ (935,338)	\$ 46,960,138

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2025, 2024 and 2023

	2025	2024	2023
Cash flows from operating activities			
Net income	\$ 10,969,804	\$ 13,695,284	\$ 14,863,070
Adjustments to reconcile net income to net cash from operating activities:			
Deferred taxes	(12,668)	(451,070)	(447,775)
Depreciation expense	935,405	830,411	633,067
Bad debt expense	610,422	437,481	233,100
Noncash lease expense	57,818	56,723	50,189
Gain on disposition of equipment	(112,718)	(169,932)	(61,632)
Changes in operating assets and liabilities:			
Accounts receivable	(4,945,860)	(11,813,102)	(1,958,997)
Due from related parties	29,742,761	309,943	4,511,313
Inventory	(823,476)	(32,206)	(360,722)
Prepaid expenses and other assets	149,662	(108,835)	(129,245)
Prepaid income taxes	(88,564)	84,166	(212,681)
Deposits and other asset	(2,088)	(953)	(43,445)
Accounts payable	1,162,306	3,032,703	(6,998,380)
Due to related party	(10,334,374)	716,320	1,375,047
Accrued expenses and other liabilities	650,855	363,939	1,115,912
Income taxes payable	(752,956)	28,982	(108,801)
Operating lease liabilities	(57,818)	(56,723)	(50,189)
Deferred revenue	444,068	1,158,890	994,586
Net cash provided by operating activities	27,592,579	8,082,021	13,404,417
Cash flows from investing activities			
Purchases of equipment and for construction in progress	(895,856)	(2,462,809)	(1,748,785)
Proceeds from sales of equipment	202,187	182,355	175,883
Net cash used in investing activities	(693,669)	(2,280,454)	(1,572,902)
Cash flows from financing activities			
Principal payments on finance lease	-	(1,746)	(3,941)
Dividends paid	(15,000,000)	(5,000,000)	(10,000,000)
Net cash used in financing activities	(15,000,000)	(5,001,746)	(10,003,941)
Effect of exchange rate changes on cash and cash equivalents	(415,450)	(4,130)	(505,866)
Net increase in cash and cash equivalents	11,483,460	795,691	1,321,708
Cash and cash equivalents – beginning of year	8,594,494	7,798,803	6,477,095
Cash and cash equivalents – end of year	\$ 20,077,954	\$ 8,594,494	\$ 7,798,803

(Continued)

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

STATEMENTS OF CASH FLOWS Years Ended March 31, 2025, 2024 and 2023

	2025	2024	2023
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ -	\$ 3,561	\$ 596
Cash paid for income taxes	\$ 4,938,168	\$ 5,270,688	\$ 5,244,059

(Concluded)

See notes to financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Advanced Fresh Concepts Franchise Corp. (the “Company”) was incorporated on April 30, 2002 in California. The Company is a wholly owned subsidiary of Advanced Fresh Concepts Corp. (the “Parent Company”). The principal business of the Company is to authorize and manage franchises for the operation of food service counters, primarily offering sushi, within supermarkets and other locations (collectively, the “facility owners”) pursuant to a certain system that was developed by the Parent Company. The food service counters began as outlets serving sushi and expanded into offering other Asian cuisine. While the Company primarily operates in the United States, beginning in September 2009, the Company initiated operations in Canada. In November 2018, the Parent Company was acquired by Zensho Holdings Co., Ltd. (“Zensho Holdings”) to become the ultimate parent of the Company. In April 2019, Zensho Holdings transferred its ownership in the Parent Company to Zensho USA Corporation, a wholly owned subsidiary of Zensho Holdings.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with purchased maturities of three months or less.

Accounts Receivable

Accounts receivable represents the Company’s unconditional rights to considerations in exchange of goods and services transferred from franchise operations, sales of food and related products at the food service counter and product sales made to franchisees. Receivables are collectible from the facility owners and franchisees based on agreed payment terms. Amounts due from facility owners are dependent on the payment cycle which is generally on a weekly or monthly basis while payments on franchisee accounts are generally received on a monthly basis. Accounts receivable, net, opening balance at April 1, 2023 amounted to \$62,185,623.

The Company records accounts receivable at amortized cost less an allowance for credit losses. The Company measures its allowance for credit losses using an expected credit loss model utilizing a loss rate methodology which considers historical loss rates on its trade accounts receivable balances, adjusted for current economic and business conditions, and anticipated future economic events that may affect a customer’s ability to pay.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable (Continued)

Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or net realizable value.

Equipment

Equipment is stated at cost. Depreciation of equipment is calculated by using the straight-line method over the estimated useful lives of the respective assets, as follows:

Vehicles	5 to 6 years
Computer equipment	3 to 5 years
Furniture and fixtures	5 to 7 years

Impairment of Long-lived Assets

Impairment losses are recorded on long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of each asset's carrying amount over the estimated fair value of the asset.

Revenue Recognition

Revenue is measured based on a transaction price specified in a contract with a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring products and services to the customer. The Company excludes sales, use, and similar taxes from the measurement of the transaction price. The Company does not have significant variable consideration in its contracts.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer either at a point in time or over time. Total approximate revenue recognized over time and at a point in time was as follows for the years ended March 31, 2025, 2024 and 2023:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Revenue recognized at a point in time	\$ 689,037,687	\$ 672,532,519	\$ 643,583,805
Revenue recognized over time	<u>5,769,810</u>	<u>5,028,214</u>	<u>4,672,691</u>
Total	<u>\$ 694,807,497</u>	<u>\$ 677,560,733</u>	<u>\$ 648,256,496</u>

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The following is a description of the principal activities from which the Company generates its revenue, and the nature and timing of satisfaction of each performance obligation.

Franchise Revenue

The Company enters into a franchise agreement with franchisees and assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. The contract term is in line with the stated term in the contract at all times.

The specified promises that are licensed to the franchisee are the franchise rights, which include use of the name, trademarks, and proprietary methods. The franchisee is granted the right to operate at the facility pursuant to the Company's license agreements with the facility owners.

The Company also provides certain pre-opening services to franchisees such as training and orientation, systems implementation, and the design of a quality control program. These services are highly interrelated and not considered distinct from the franchise right.

Upfront payments related to franchise fees and pre-opening services are initially recorded in deferred revenue and revenue is recognized over the contract term. The Company believes that the impact of the financing component on upfront payment related to initial franchise fee is not significant at the contract level.

Related to the grant of a franchise right, the Company receives a sales-based royalty which is determined by the gross sales from franchised stores, less any commissions attributable to the franchisees. Revenue from sales-based royalties is recognized as the related sales occur at the franchised stores.

Revenue from services related to the franchise operations after the contract commencement such as laboratory, inspection, and web/data services, is recognized when the service is performed based on a stand-alone selling price.

Product Revenue

The Company sells food and supplies to franchisees through the online purchase order system that dictates the price, quantity of goods, payment terms, delivery terms, and other terms and conditions of the transaction.

Product revenue is recognized when food and supplies are shipped (for shipments from a related party's warehouse) or when products are delivered (for shipments from a third-party vendor) which indicates the transfer of control from the Company to the franchisee.

As a practical expedient, shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included under direct contract costs in the statement of comprehensive income.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Retail Revenue

The Company generates revenue from the sale of food and related products to end customers, at its company-managed stores.

Company-managed store revenue is recognized when the sale is consummated, and control is transferred at the food service counter.

Costs and Expenses

Direct costs of sales and servicing of contracts with customers are recorded as direct contract costs as they are incurred. Direct costs also include costs incurred for shipping and handling of food and related products to franchisees. Operating expenses such as selling, general and administrative costs are charged in the statement of comprehensive income when incurred.

Advertising Costs

Advertising costs included in operating expenses are expensed as incurred. Advertising expense amounted to \$4,746,188, \$3,736,836, and \$2,712,419 for the years ended March 31, 2025, 2024 and 2023, respectively.

Leases

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company recognizes leases on its balance sheet as a right-of-use asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of comprehensive income.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Company made an accounting policy election available under Topic 842 not to recognize right-of-use assets and lease liabilities for leases with a term of 12 months or less. For all other leases, right-of-use assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease. The right-of-use assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Company made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date.

The Company has made an accounting policy election to account for lease and non-lease components in their contracts as a single lease component for all asset classes.

Income Taxes

The Company is treated as a C corporation for federal and state income tax purposes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes which relate to the temporary differences between financial and tax reporting.

The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered and settled, respectively. Management records a valuation allowance to reduce its deferred taxes to the amount it believes is more likely than not to be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future income are reduced.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Company classifies interest and penalties related to unrecognized tax benefits, if incurred, as a component of income tax expense. To date, there have been no unrecognized tax positions.

Foreign Currency Transactions/Translation

The functional currency for the Company's Canadian operations is the applicable local currency which is the Canadian dollar. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using the current exchange rate in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The gains or losses, net of applicable income taxes, resulting from such translation are included as a component of stockholder's equity and classified as other comprehensive income or loss. Gains and losses resulting from foreign currency transactions are recorded in the statement of comprehensive income.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common-Control Arrangements*, related to the accounting for leases between entities under common control. This ASU provides a practical expedient for private companies to consider only the written terms and conditions of a common-control arrangement for determination of whether a lease exists and the subsequent accounting for the lease. In addition, the ASU amends the accounting for leasehold improvements in common-control arrangements by requiring a lessee in a common-control lease arrangement to amortize leasehold improvements that it owns over the improvements' useful life to the common control group, regardless of the lease term, if the lessee continues to control the use of the underlying asset through a lease. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company adopted ASU 2023-01 on April 1, 2024. The adoption of this standard did not have a significant impact on the Company's financial statements.

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires that an entity, on an annual basis, discloses additional income tax information, primarily related to the rate reconciliation and income taxes paid. The amendment in the ASU is intended to enhance the transparency and decision usefulness of income tax disclosures. The provisions of this standard are effective for annual periods beginning after December 15, 2025. The Company is currently evaluating the impact of this new guidance on its financial statements.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – RELATED PARTY TRANSACTIONS

In recognition of certain benefits and services the Parent Company has provided the Company, the Company paid the Parent Company amounts totaling \$14,611,753, \$18,246,168, and \$19,273,390 for the years ended March 31, 2025, 2024, and 2023, respectively. On July 1, 2024, the Company, declared dividends of \$3,000 per share of outstanding stock of 5,000 shares to the Parent Company; dividends paid amounted to \$15,000,000. On June 29, 2023, the Company, declared dividends of \$1,000 per share of outstanding common stock of 5,000 shares to the Parent Company; dividends paid amounted to \$5,000,000. On September 15, 2022, the Company declared dividends of \$2,000 per share of outstanding common stock of 5,000 shares to the Parent Company; dividends paid amounted to \$10,000,000.

On July 1, 2016, the Company entered into an “Agreement for Franchise Operations” with Advanced Fresh Concepts Pty Ltd (“AFCPL”), a wholly owned Australian subsidiary of the Parent Company. Pursuant to the agreement, the Company granted AFCPL certain rights and privileges related to the franchising of food service counter operations in Australia and New Zealand. In recognition of the rights and privileges conveyed and administrative expenses not directly reimbursed, the Company will receive an annual service fee from AFCPL as stipulated in the agreement. The initial term is for five years, absent notification by either party, will renew for an additional five-year period. Service fee income related to this agreement amounted to \$2,012,829, \$2,376,942, and \$2,887,446 for the years ended March 31, 2025, 2024, and 2023, respectively.

Effective July 1, 2016, the Company began purchasing substantially all of their products from AFC Distribution Corp., a wholly owned subsidiary of the Parent Company. Prior to this, the Company had purchased most of their products from the Parent Company.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – RELATED PARTY TRANSACTIONS (Continued)

The following is a summary of significant transactions and balances with the Parent Company and affiliates as of and for the years ended March 31, 2025, 2024, and 2023:

	2025	2024	2023
Due from Parent Company (see Note 5)	\$ 7,148,508	\$ 36,490,270	\$ 36,289,288
Due from affiliates	2,012,829	2,376,942	2,887,446
Due to affiliate	8,962,550	19,299,097	18,582,630
Purchases	242,834,229	229,046,919	206,428,162
Service fee expense	14,611,753	18,246,168	19,273,390
Service fee/management fee income	2,012,829	2,376,942	2,887,446
Dividend	15,000,000	5,000,000	10,000,000

NOTE 3 – CONCENTRATION OF CREDIT RISK AND OTHER RISKS

Risks

The Company maintains its cash accounts in two banks located in California and two banks in Canada. Management believes that the Company is not exposed to any significant risk related to cash and cash equivalents because of the high quality of the financial institutions where cash and cash equivalents are deposited.

For the year ended March 31, 2025, sales processed by the top two supermarket chains represented approximately 44% of total facility owner gross sales; as of March 31, 2025, approximately 31% of the accounts receivable from facility owners are associated with two supermarket chains.

For the year ended March 31, 2024, sales processed by the top two supermarket chains represented approximately 43% of total facility owner gross sales; as of March 31, 2024, approximately 37% of the accounts receivable from facility owners are associated with three supermarket chains.

For the year ended March 31, 2023, sales processed by the top two supermarket chains represented approximately 42% of total facility owner gross sales; as of March 31, 2023, approximately 30% of the accounts receivable from facility owners are associated with these two supermarket chains.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – EQUIPMENT

At March 31, 2025 and 2024, equipment is summarized by major classifications as follows:

	<u>2025</u>	<u>2024</u>
Vehicles	\$ 3,055,402	\$ 3,376,436
Computer equipment	1,773,660	1,662,574
Furniture and fixtures	<u>628,485</u>	<u>797,339</u>
	5,457,547	5,836,349
Accumulated depreciation	<u>(2,620,379)</u>	<u>(2,564,023)</u>
	2,837,168	3,272,326
Construction in progress	<u>1,590,017</u>	<u>1,286,946</u>
	<u>\$ 4,427,185</u>	<u>\$ 4,559,272</u>

NOTE 5 – INCOME TAXES

The Company is included in the consolidated income tax returns of the Parent Company as a member of an affiliate group for U.S. federal and certain state income taxes. For financial reporting purposes, the provision for income taxes is computed as if the Company were filing on a separate return basis. The Parent Company pays federal and certain state income taxes on behalf of the Company. Federal income tax payable is determined based on the consolidated taxable income and allocated based on the individual taxable income of the members of the group. State income tax payable is calculated based on standalone taxable income for each state that the Company files a separate income tax return and combined taxable income of the group for each state a consolidated income tax return is filed with the payable amount allocated according to the filing requirement of each member of the group.

Outstanding income tax balances related to the Company's share in income tax liability that have been offset against due from Parent Company as of March 31, 2025 and 2024 amounted to \$3,100,968 and \$3,287,547, respectively. The components of the provision for income taxes for the years ended March 31, 2025, 2024, and 2023 are as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current taxes:			
Federal	\$ 2,715,944	\$ 3,556,076	\$ 3,316,665
State	760,033	1,321,642	1,356,769
Foreign	<u>178,639</u>	<u>124,237</u>	<u>184,662</u>
	<u>3,654,616</u>	<u>5,001,955</u>	<u>4,858,096</u>
Deferred taxes:			
Federal	(125,465)	(253,801)	(267,895)
State	<u>112,797</u>	<u>(197,269)</u>	<u>(179,880)</u>
	<u>(12,668)</u>	<u>(451,070)</u>	<u>(447,775)</u>
	<u>\$ 3,641,948</u>	<u>\$ 4,550,885</u>	<u>\$ 4,410,321</u>

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – INCOME TAXES (Continued)

The provisions for income taxes for the years ended March 31, 2025, 2024, and 2023 are different from the amounts computed by applying the statutory U.S. federal income tax rate to net income before income taxes primarily due to state/foreign income taxes, foreign-derived intangible income deduction, foreign tax credits and certain non-deductible items.

The components of the Company's deferred tax assets and liabilities at March 31, 2025 and 2024 are stated below:

	2025	2024
Deferred tax assets:		
Accrued vacation	\$ 277,000	\$ 264,000
Accrued bonus	218,000	297,000
Allowance for doubtful accounts	126,000	95,000
State taxes	-	36,348
Deferred revenue	3,684,000	3,669,000
Lease liabilities	27,000	45,000
Foreign tax credits	240,000	188,000
Translation adjustments	368,000	258,000
Total deferred tax assets	<u>4,940,000</u>	<u>4,852,348</u>
Deferred tax liabilities:		
Right-of-use assets	(27,000)	(45,000)
Research and development	(41,000)	(24,000)
State taxes	(36,721)	-
Equipment basis	(314,000)	(386,000)
Total deferred tax liabilities	<u>(418,721)</u>	<u>(455,000)</u>
Net deferred tax assets	<u>\$ 4,521,279</u>	<u>\$ 4,397,348</u>

As of March 31, 2025, the Company had foreign tax credit carryforwards for U.S. federal tax purposes of \$240,000 which expire in tax years 2033 to 2034.

The Company believes that its deferred tax assets are more likely than not to be realizable based on estimates of future taxable income.

NOTE 6 – FACILITY LICENSING CHARGES

The Company enters into license agreements with facility owners which allow the Company or franchisees to operate food service counters as separate departments within supermarkets and other venues. As provided in the license agreements, the facility owners are entitled to receive consideration equivalent to a certain percentage of gross sales collected at franchised stores and company-managed stores. Facility licensing charges constitute a cost of the Company in granting the franchise rights to franchisees and the cost of selling food and related products at the company-managed stores.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – FACILITY LICENSING CHARGES (Continued)

Total gross sales at franchised stores and company-managed stores collected by facility owners amounted to \$1,196,589,998, \$1,207,837,708, and \$1,213,324,433 for the years ended March 31, 2025, 2024, and 2023, respectively.

The facility licensing charges presented under operating expenses in the statement of comprehensive income amounted to \$314,732,074, \$318,498,056, and \$320,391,751 for the years ended March 31, 2025, 2024, and 2023, respectively.

NOTE 7 – FRANCHISE OPERATIONS

The Company executes franchise agreements that set the terms of its arrangement with each franchisee for five years. If fully compliant with all requirements, a franchisee may generally renew their agreement upon the expiration of the agreement, which is usually for another period of five years.

Franchise revenue for the years ended March 31, 2025, 2024 and 2023 is as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Sales-based royalty	\$ 398,436,714	\$ 400,795,516	\$ 396,642,891
Franchise fees	5,939,521	5,351,042	4,863,067
Others	<u>4,260,817</u>	<u>4,719,026</u>	<u>3,719,641</u>
	<u>\$ 408,637,052</u>	<u>\$ 410,865,584</u>	<u>\$ 405,225,599</u>

Others consist of mainly training fee and additional services that are being provided to franchisees.

As of March 31, 2025, the number of franchisees in the United States and Canada amounted to approximately 3,146 and 60, respectively. The number of franchisee-operated locations in the United States and Canada approximated 4,128 and 64, respectively.

As of March 31, 2024, the number of franchisees in the United States and Canada amounted to approximately 3,206 and 70, respectively. The number of franchisee-operated locations in the United States and Canada approximated 4,200 and 81, respectively.

In certain instances, the Company may temporarily operate a food service counter until a franchisee is found. The number of company-managed locations as of March 31, 2025 and 2024, is approximately 302 (United States – 299; Canada – 3) and 241 (United States – 238; Canada – 3), respectively.

ADVANCED FRESH CONCEPTS FRANCHISE CORP.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – FRANCHISE OPERATIONS (Continued)

As provided in the franchise agreement, franchisees are entitled to receive commissions based on a certain percentage of gross sales from franchised stores as agreed by the Company and the franchisee. These franchisee commissions amounted to \$762,711,228, \$780,540,690, and \$792,787,254 for the years ended March 31, 2025, 2024, and 2023, respectively. Amounts owed by the franchisees for food purchases, related products, and other charges are deducted from their commission.

NOTE 8 – 401(K) SAVINGS PLAN

The Company belongs to the AFC 401(k) Retirement Plan (the “Plan”) in which eligible employees of the Company can participate. The Plan is currently sponsored by the Parent Company. Under the Plan, eligible participants can elect to defer up to 90% of their wages, subject to statutory limitations. The Plan allowed for a matching contribution equal to 50% (25% prior to July 1, 2022) of the first 6% contributed by the employees. Employees are eligible to participate if the employee has one year of service with 1,000 hours of service completed. The Company’s contributions totaled \$320,509, \$222,222, and \$172,656 for the years ended March 31, 2025, 2024, and 2023, respectively.

NOTE 9 – LEASES

The Company leases central kitchen space and copy machines under operating lease agreements that expire in August 2025 to February 2028. The central kitchen space leases include an option to extend the lease term. The Company considers such an extension option in determining the lease term, when it is reasonably certain to exercise the extension option. As of March 31, 2025, all central kitchen space leases are considered short-term leases.

The Company had a vehicle lease classified as a finance lease with an interest rate of 0.73% which expired in August 2023. At March 31, 2023, this finance lease was included in other assets and amounted to \$1,692.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the years ended March 31, 2025, 2024 and 2023:

	2025	2024	2023
Operating lease cost	\$ 63,170	\$ 62,633	\$ 52,848
Variable lease cost	29,946	18,865	-
Finance lease cost – amortization of right of use assets	-	423	5,075
Finance lease cost – interest on lease liabilities	-	34	596
Short-term lease cost	333,810	368,964	205,146
	\$ 426,926	\$ 450,919	\$ 263,665

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – LEASES (Continued)

Supplemental cash flow information related to leases is as follows for the years ended March 31, 2025, 2024 and 2023:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in measurement of lease liabilities:			
Operating cash outflows – payments on operating leases	\$ 57,818	\$ 56,723	\$ 50,189
Operating cash outflows – payments on finance leases	-	34	596
Financing cash outflows – payments on finance leases	-	1,746	3,941
Right-of-use assets obtained in exchange for lease obligations:			
Operating lease	-	127,292	-

As of March 31, 2025, 2024 and 2023, the lease term and discount rate for leases are as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term:			
Operating lease	2.19 years	2.95 years	2.26 years
Finance lease	-	-	0.37 years
Weighted-average discount rate:			
Operating lease	4.15%	3.93%	2.52%
Finance lease	-	-	0.73%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the operating lease liabilities recognized on the balance sheet are as follows as of March 31, 2025:

Years Ending <u>March 31,</u>	
2026	\$ 48,428
2027	34,764
2028	<u>14,174</u>
Total lease payments	97,366
Less imputed interest	<u>(4,553)</u>
Total present value of lease liabilities	<u>\$ 92,813</u>

ADVANCED FRESH CONCEPTS FRANCHISE CORP.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – CONTINGENCIES

The Company is exposed to various asserted and unasserted legal claims, actions and complaints in the ordinary course of business including disputes regarding franchise agreement provisions or terminations, unfair business practices, product quality and trademark infringement. It is the opinion of management that the resolution of such claims will not have a material adverse effect on the financial position or results of operations of the Company.

NOTE 11 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through July 10, 2025, the date on which the financial statements were available to be issued.

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, 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:

State	Effective Date
California	Exempt
Hawaii	September 15, 2025, <u>amended</u>
Illinois	Exempt
Indiana	July 30, 2025, amended September 10, 2025 <u>and</u> <u>amended</u>
Maryland	August 12, 2025, <u>amended</u>
Michigan	July 31, 2025
Minnesota	September 9, 2025 <u>amended</u>
New York	Exempt
North Dakota	July 28, 2025, amended September 9, 2025 <u>and</u> <u>amended</u>
Rhode Island	August 1, 2025, amended September 11, 2025 <u>and</u> <u>amended</u>
South Dakota	July 28, 2025
Virginia	Exempt
Washington	August 14, 2025, amended September 22, 2025 <u>and</u> <u>amended</u>
Wisconsin	July 28, 2025, amended September 15, 2025 <u>and</u> <u>amended</u>

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.

RECEIPT
(Franchisee's Copy)

This disclosure document summarizes provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If AFC offers you a franchise, AFC must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration that relates to the franchise relationship, whichever occurs first.

If AFC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington D.C. 20580 and the state administrator listed in Exhibit N to the disclosure document.

The name, principal business address and phone number of each franchise seller offering the franchise is:

Franchisor:

Advanced Fresh Concepts Franchise Corp.
19700 Mariner Avenue
Torrance, California 90503
Telephone: 310-604-3200
info@afcsushi.com
www.afcsushi.com

Franchise Seller:

Name of Individual(s) selling on behalf of Franchisor:

Advanced Fresh Concepts Franchise Corp.
19700 Mariner Avenue
Torrance, California 90503
Telephone: 310-604-3200

Issuance Date: July 22, 2025, amended August 28, 2025 and September 23, 2025.

We authorize Incorp Services, Inc. 5716 Corsa Avenue, Suite 110, Westlake Village, California 91362-7354 to receive service of process for us or see Exhibit N if you are located outside California.

I received a Disclosure Document dated July 22, 2025, amended August 28, 2025 and September 23, 2025, that included the following Exhibits:

A.	Financial Statements	J.	Food Service Counter Transfer Agreement
B.	Franchise Application	K.	Promissory Note
C.	Franchise Agreement	L.	Table of Contents of Manuals
D.	Full-Time Location Franchise Addendum	M.	List of Franchisees, Company Owned Locations, Transfers, Terminations, Non-Renewals, Ceased Operations/Other in our Last Fiscal Year
E.	Part-Time Location Franchise Addendum	N.	List of State Administrators and Agents for Service of Process
F.	Self-Service Location Addendum	O.	State Specific Addenda
G.	General Release	P.	Confidentiality Agreement
H.	Assignment of Franchise Agreement and Franchisor Consent	Q.	Tablet and Rice Sheeter Specifications
I.	Asset Sale and Purchase Agreement	R.	Receipts

Date: _____

PROSPECTIVE FRANCHISEE'S SIGNATURE

(Print Name)

Keep This Copy for Your Records.

RECEIPT
(Franchisor's Copy)

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I.	Asset Sale and Purchase Agreement	R.	Receipts

Date: _____

PROSPECTIVE FRANCHISEE'S SIGNATURE

(Print Name)

Return this copy to us.