

FRANCHISE DISCLOSURE DOCUMENT



KF TEA FRANCHISING LLC
A Delaware Limited Liability Company
589 8th Ave., 17th Floor
New York, NY 10018
1-855-KFT(538)-9888
info@kfteausa.com
www.kungfutea.com

We offer franchises for the operation of retail shops selling a variety of brew tea, bubble tea, coffee, juices, smoothies and other hot and cold drinks. We also offer a multi-unit franchise under which you agree to open and operate a specified number of Kung Fu Tea shops over an agreed period of time within an agreed geographic area.

The total investment necessary to begin operation of a Kung Fu Tea franchise is \$169,000 to \$378,000 for a standard Kung Fu Tea shop and \$184,000 to \$269,500 for a non-traditional unit. This includes \$59,000 to \$82,000 that you must pay to us or our affiliate for a standard unit and \$59,000 to \$70,000 for a non-traditional unit.

If you sign a multi-unit agreement covering three units, your total initial investment will be \$219,000 to \$428,000 if your first unit under the agreement is a standard unit and \$234,000 to \$319,500 if your first unit under the agreement is a nontraditional unit. This includes \$109,000 to \$132,000 that you must pay to us or our affiliate if your first unit franchise under the multi-unit agreement is a standard unit and \$109,000 to \$120,000 if your first unit under the multi-unit agreement is a nontraditional unit. If you sign an agreement for more than three units, you would pay us or our affiliate an additional \$12,500 for each unit you agree to develop after your third unit, and this amount would be added to your total initial investment.

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 Darren Chen at KF Tea Franchising LLC, 589 8th Ave., 17th Floor, New York, NY 10018, telephone 1-855-KFT(538)-9888.

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 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 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: April 25, 2024

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 and the multi-unit agreement require you to resolve disputes with the franchisor by litigation only in New York. Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost more to litigate with the franchisor in New York than in your own state.
2. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.
3. **Supplier Control.** You must purchase all or nearly all of the inventory or 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.
4. **Financial Condition.** 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.
5. **Unopened Franchises.** [The Franchisor has signed a significant number of Franchise Agreements with franchisees who have not yet opened their outlets. If other franchisees are experiencing delays in opening their outlets, you may also experience delays in opening your own outlet.](#)

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" pages for your state (if any) to see whether your state requires other risks to be highlighted.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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.

<i>Provision</i>	<i>Sections in the Franchise Agreement ("FA") and the Multi-Unit Agreement ("MUA")</i>	<i>Summary</i>
a. Length of the franchise term	FA: Section 5.1.1 MUA: Section 5.1	FA: Ten years, or the end date of your lease if it is for a shorter period of time. MUA: Ten years.
b. Renewal or extension of the term	FA: Section 5.1.2 MUA: Section 5.1	FA: Upon expiration of the initial term, you may renew for a term equal to the term of your renewal lease, but not more than ten years. At the expiration of the second ten-year term, you may renew provided we are still offering franchises. MUA: None
c. Requirements for you to renew or extend	FA: Sections 2.1.7.9 and 5.1.2 MUA: Not applicable	FA: Notify us of your desire to renew 12-18 months before the end of the term; repair and update equipment and premises; and sign a new franchise agreement which may contain materially different terms and conditions than your original contract. We may require you to sign a release. You must also pay a renewal fee, which will not exceed the greater of \$10,000 or 25% of the then-current initial franchise fee.
d. Termination by you	FA: Sections 5.2.1 and 5.3.5. MUA: Not applicable	FA: You may terminate upon 90 days' prior notice to us provided that you pay us all amounts you owe to us including liquidated damages. See Provision "i" below. You may also terminate if we materially breach the franchise agreement and fail to cure after notice from you (<u>subject to applicable state law</u>).
e. Termination by us without cause	FA: Not applicable MUA: Not applicable	

Provision	Sections in the Franchise Agreement (“FA”) and the Multi-Unit Agreement (“MUA”)	Summary
p. Your death or disability	FA: Section 4.2.6 MUA: Section 4.2.6	FA: The estate or personal representative must assign the franchise to an approved buyer within 12 months in the event of death, and 6 months in the event of disability. MUA: Same as franchise agreement.
q. Non-competition covenants during the term of the franchise	FA: Section 3.3.2 MUA: Section 3.2.2	FA: No involvement in competing business anywhere in the U.S. or in any other country in which a Kung Fu Tea shop operates. MUA: Same as franchise agreement.
r. Non-competition covenants after the franchise is terminated or expires	FA : Section 3.3.3 MUA : Section 3.2.3	FA: No competing business for two years (including after assignment) within 5 miles of any Kung Fu Tea shop business at the time the franchise is terminated or expires. MUA: Same as franchise agreement.
s. Modification of the franchise agreement	FA: Sections 1.4 and 7.14 MUA: Section 7.10	FA: No modifications generally unless signed by the parties, but the manual is subject to change. MUA: No modifications unless signed by the parties.
t. Integration/merger clause	FA: Section 7.14 MUA: Section 7.10	FA: Only the terms of the signed agreements are binding (subject to applicable law). Any representations or promises outside the disclosure document and franchise agreement may not be enforceable. Nothing in this or any related agreement is intended to disclaim the express representations made in this disclosure document, its exhibits and amendments. MUA: Same as franchise agreement.
u. Dispute resolution by arbitration or mediation	FA: Not applicable MUA: Not applicable	FA: Neither we nor you are required to endeavor to resolve a dispute by arbitration or mediation <u>(subject to applicable state law)</u> . MUA: Same as franchise agreement.

Item 21

FINANCIAL STATEMENTS

Attached to this disclosure document as Exhibit D are the audited balance sheets of KF Tea Franchising LLC as of December 31, 2023 and 2022, and the related statements of income, members' equity and cash flows for the years ended December 31, 2023, 2022 and 2021. Exhibit D also contains an unaudited balance sheet of KF Tea Franchising LLC as of March 31, 2024, and an unaudited income statement for the period from January through March 2024. Our fiscal year ends December 31.

Item 22

CONTRACTS

Exhibit F contains copies of the following contracts:

1. Franchise Deposit Agreement
2. Franchise Agreement
3. Guaranty
4. Lease Addendum
5. Supply Agreement
6. Dual Concept Addendum
7. Multi-Unit Agreement
8. Consent to Transfer Agreement
9. Renewal Addendum
10. ACH Debit Application

Item 23

RECEIPTS

A detachable form for your use to acknowledge your receipt of this disclosure document, including all exhibits, is attached as Exhibit I at the very end of this disclosure document. You must date and sign this receipt and deliver it to us.

Unaudited First Quarter 2024 Financials

These financial statements have been prepared without an audit. Prospective franchisees or sellers of franchises should be advised that no independent certified public accountant has audited these figures or expressed an opinion with regard to their content or form.

KF Tea Franchising LLC

Added

Balance Sheet As of March 31, 2024

	TOTAL
ASSETS	
Current Assets	
Bank Accounts	
1-2101 Signature BK #5295 Marketing	554,526.74
1-2102 Signature Bank #9931	1,631,779.03
1-2103 East West Bank #20001	49,990.00
1-2200 Cash on Hand	23,121.70
Total Bank Accounts	\$2,259,417.47
Accounts Receivable	
1-3100 Accounts Receivable (A/R)	768,137.52
1-3150 Provision for Doubtful Debt	-35,458.51
Total 1-3100 Accounts Receivable (A/R)	732,679.01
Total Accounts Receivable	\$732,679.01
Other Current Assets	
1-4000 ROU Assets	1,167,936.54
1-5000 Prepayment	1,883.83
1-5020 Security Deposits	128,000.00
1-7002 On behalf of Arms Global Inc	-21,401.41
1-7003 On behalf of KF Tea USA Inc	69,792.03
Total Other Current Assets	\$1,346,210.99
Total Current Assets	\$4,338,307.47
Fixed Assets	
1-1400 Computer hardware and Office equipment	16,777.95
1-1450 Accumulated depreciation	-11,157.59
Total 1-1400 Computer hardware and Office equipment	5,620.36
1-1800 Capitalized Software Costs	338,707.00
1-1850 Accumulated amortization	-135,482.80
Total 1-1800 Capitalized Software Costs	203,224.20
1-1900 Trademarks & Patent	10,575.00
1-1950 Accumulated Amortization	-3,983.46
Total 1-1900 Trademarks & Patent	6,591.54
Total Fixed Assets	\$215,436.10
TOTAL ASSETS	\$4,553,743.57

KF Tea Franchising LLC

Balance Sheet

As of March 31, 2024

	TOTAL
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2-1100 Accounts Payable (A/P)	65,506.57
Total Accounts Payable	\$65,506.57
Credit Cards	
2-1401 AE 1008/ 2006	452.84
2-1402 Business Platinum *1009	67,245.85
2-1403 Capital One - 4406	17,085.29
Total Credit Cards	\$84,783.98
Other Current Liabilities	
2-1200 Accrued Expenses	10,000.00
2-1300 Rent Liability - ST	606,450.55
2-2100 Deferred Franchise Fees	6,648,411.95
2-2200 Deferred Marketing Fees	44,082.93
2-2400 Deferred Training Fees	47,000.00
Total Other Current Liabilities	\$7,355,945.43
Total Current Liabilities	\$7,506,235.98
Long-Term Liabilities	
2-2500 Rent Liability - LT	655,287.27
Total Long-Term Liabilities	\$655,287.27
Total Liabilities	\$8,161,523.25
Equity	
3-3000 Additional Paid-in Capital	-7,978,388.00
3-4000 Partner Distributions	-672,000.00
3-5000 Retained Earnings	4,622,327.73
Net Income	420,280.59
Total Equity	\$ -3,607,779.68
TOTAL LIABILITIES AND EQUITY	\$4,553,743.57

KF Tea Franchising LLC

Profit and Loss January - March, 2024

	TOTAL
Income	
4-1000 Sales	
4-1010 Franchise Fee	417,326.31
4-1020 Training Fee	55,000.00
4-1030 Marketing Fee	581,741.49
4-1040 Royalty Fee	1,050,724.62
Total 4-1000 Sales	2,104,792.42
4-2000 Others Income	
4-2000-1 Violation Payment Income	47,800.00
4-2000-2 NSF Payment Income	400.00
Total 4-2000 Others Income	48,200.00
Total Income	\$2,152,992.42
GROSS PROFIT	\$2,152,992.42
Expenses	
6-1001 Rent & Lease	
6-1001-1 589 8th Ave NY - 15th Floor	57,643.37
6-1001-2 589 8th Ave NY - 17th Floor	56,233.97
6-1001-3 Training facility - Manhattan	44,030.70
6-1001-4 Training facility - Queens Crossing	12,922.47
Total 6-1001 Rent & Lease	170,830.51
6-1002 Utilities	6,587.57
6-1003 Phone/Internet	8,091.04
6-1004 Office Supplies & Software	7,096.61
6-1005 Office Expenses	12,048.84
6-1006 Postage & Delivery	36,145.48
6-1008 Insurance	
6-1008-2 Disability	-770.15
6-1008-4 Workers Compensation	12,454.00
Total 6-1008 Insurance	11,683.85
6-1009 Gift & Entertainment	
6-1009-1 Gifts to employee	2,955.18
6-1009-2 Entertainment	6,429.73
Total 6-1009 Gift & Entertainment	9,384.91
6-1010 Meals	
6-1010-1 Office Meals	3,851.29
Total 6-1010 Meals	3,851.29
6-1011 Travel	
6-1011-1 Air & Ground Transportation	24,601.08
6-1011-2 Accommodation/ Lodging	15,612.28

KF Tea Franchising LLC

Profit and Loss January - March, 2024

	TOTAL
6-1011-3 Business/Travel Meals	24,669.86
6-1011-4 Parking/ Tolls/ Fuel Fees	8,059.61
6-1011-5 Car Rental/ Lease	7,291.54
Total 6-1011 Travel	80,234.37
6-1013 Dues & Subscriptions	39,448.65
6-1014 Legal & Professional Fees	
6-1014-1 Legal Fee	39,199.53
6-1014-2 Accounting & Audit Fee	36,055.10
Total 6-1014 Legal & Professional Fees	75,254.63
6-1015 Research & Development	146.62
6-1018 Payroll	
6-1018-1 Net Pay	196,372.88
6-1018-2 Payroll Taxes (EE)	88,147.41
6-1018-3 Payroll Taxes (ER)	34,455.15
6-1018-4 401(k) Contribution	8,443.19
6-1018-5 Bonus	35,841.63
6-1018-7 Commuter Benefit	2,919.00
6-1018-8 Health Insurance (EE)	43,388.76
Total 6-1018 Payroll	409,568.02
6-1019 Software Development	7,500.00
6-1020 Service & Handling Fee	
6-1020-1 Bank charge	3.32
6-1020-2 Stripe Fee	240.84
6-1020-3 Paycom	3,729.34
6-1020-4 Others	571.52
Total 6-1020 Service & Handling Fee	4,545.02
6-1022 Taxes & Licenses	5,500.00
6-1022-1 Canadian tax withholding	165.68
Total 6-1022 Taxes & Licenses	5,665.68
6-1024 Recruiting Expenses	460.10
6-1025 Licensing Fee	540,000.00
6-1032 Training and Education Expense	2,546.20
6-2000 Advertising & Promotion	20,000.00
6-2001 Design & Printing	71,171.48
6-2002 Marketing Expenses	41,414.87
6-2003 Promotional Expenses	65,666.57
6-2004 Public Relations	103,368.64
Total 6-2000 Advertising & Promotion	301,621.56
Total Expenses	\$1,732,710.95
NET OPERATING INCOME	\$420,281.47

KF Tea Franchising LLC

Profit and Loss

January - March, 2024

	TOTAL
Other Expenses	
6-8000 Miscellaneous	0.88
Total Other Expenses	\$0.88
NET OTHER INCOME	\$ -0.88
NET INCOME	\$420,280.59

CALIFORNIA ADDENDUM

THE REGISTRATION OF THIS FRANCHISE OFFERING DISCLOSURE DOCUMENT BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER.

OUR WEBSITE WWW.KUNGFUTEA.COM HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION AT [HTTPS://DFPI.CA.GOV](https://dfpi.ca.gov).

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 AT LEAST 14 DAYS PRIOR TO EXECUTION OF AGREEMENT.

Section 31125 of the Franchise Investment Law requires us to give to you a disclosure document in a form containing the information that the commissioner may by rule or order require.

Item 3 – LITIGATION

Neither the franchisor nor any person listed in Item 2 of the FDD is 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 that association or exchange.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

According to Item 17r, the Franchise Agreement requires you not to compete with us for a period of two years after the agreement is terminated or expires. This provision may not be enforceable under California law.

According to Item 17v, the Franchise Agreement and Multi-Unit Agreement provide that litigation must take place in New York, NY. 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) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

According to Item 17w, the Franchise Agreement and Multi-Unit Agreement provide that New York law applies. This provision may not be enforceable under California law.

You must sign a general release of claims 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).

California's Franchise Investment Law (Corporations Code sections 31512 and 31512.1) states that any provision of a franchise agreement or related document requiring the franchisee to waive specific provisions of the law is contrary to public policy and is void and unenforceable. The law also prohibits a franchisor from disclaiming or denying (i) representations it, its employees, or its agents make to you, (ii) your ability to rely on any representations it makes to you, or (iii) any violations of the law.

Section 5.2.2.22 of the Franchise Agreement and Section 5.2.1.6 of the Multi-Unit Agreement allow us to terminate if you become insolvent or if a petition in bankruptcy is filed by you or filed against and consented to by you or not dismissed within 30 days. These provisions may not be enforceable under federal bankruptcy law. (11 U.S.C.A. § 101 et seq.)

~~REGISTRATION OF THIS FRANCHISE DISCLOSURE DOCUMENT DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER.~~

Any provision of a franchise agreement, franchise disclosure document, acknowledgement, questionnaire, or other writing, including any exhibit thereto, disclaiming or denying any of the following shall be deemed contrary to public policy and shall be void and unenforceable:

- (a) Representations made by the franchisor or its personnel or agents to a prospective franchisee.
- (b) Reliance by a franchisee on any representations made by the franchisor or its personnel or agents.
- (c) Reliance by a franchisee on the franchise disclosure document, including any exhibit thereto.
- (d) Violations of any provision of this division.

The pages that follow constitute additions to the Franchise Agreement and the Multi-Unit Agreement for California.

VIRGINIA ADDENDUM

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.

Item 5 – INITIAL FRANCHISE FEE

The Virginia State Corporation Commission's Division of Securities and Retail Franchising requires us to defer payment of the initial franchise fee and other initial payments owed by franchisees to the franchisor until the franchisor has completed its pre-opening obligations under the franchise agreement. In addition, all development fees and initial payments by area developers shall be deferred until the first franchise under the development agreement opens.

Item 17 – RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

The following statement is added to Item 17(h):

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the franchise agreement does not constitute "reasonable cause" as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Item 21 – FINANCIAL STATEMENTS

The franchisor has no fixed assets (*i.e.*, furniture, equipment, property, etc.) with which to support the franchise system.

The pages that follow constitute additions to the Franchise Agreement and the Multi-Unit Agreement for Virginia.

VIRGINIA ADDENDUM TO THE KUNG FU TEA FRANCHISE AGREEMENT

between

KF TEA FRANCHISING LLC

and

This Addendum modifies and amends the Kung Fu Tea Franchise Agreement dated as of _____, between KF TEA FRANCHISING LLC and _____ (the "Franchise Agreement").

1. Based upon the franchisor's financial condition, the Virginia State Corporation Commission's Division of Securities and Retail Franchising has required a financial assurance. Therefore, all initial fees and payments owed by franchisees will be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

2. No statement, questionnaire or acknowledgement signed or agreed to by you 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 us, any franchise seller, or other person acting on our behalf franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

32. In all other respects, the Franchise Agreement is unchanged.

KF TEA FRANCHISING LLC

[Franchisee]

By _____

By _____

Title _____

Title _____

Date _____

Date _____

VIRGINIA ADDENDUM TO THE KUNG FU TEA MULTI-UNIT AGREEMENT

between

KF TEA FRANCHISING LLC

and

This Addendum modifies and amends the Kung Fu Tea Multi-Unit Agreement dated as of _____, between KF TEA FRANCHISING LLC and _____ (the "Multi-Unit Agreement").

1. Based upon the franchisor’s financial condition, the Virginia State Corporation Commission’s Division of Securities and Retail Franchising has required a financial assurance. Therefore, all initial fees and payments owed by franchisees will be deferred until the franchisor completes its pre-opening obligations under the franchise agreement. In addition, all development fees and initial payments by area developers shall be deferred until the first franchise under the development agreement opens.

2. No statement, questionnaire or acknowledgement signed or agreed to by you 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 us, any franchise seller, or other person acting on our behalf franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

32. In all other respects, the Multi-Unit Agreement is unchanged.

KF TEA FRANCHISING LLC

[Developer]

By _____

By _____

Title _____

Title _____

Date _____

Date _____