

FRANCHISE DISCLOSURE DOCUMENT

KOREAN RED GINSENG CORP., INC.

a California corporation

12750 Center Court Dr., Suite 100

Cerritos CA, 90703

(562) 860-2323

www.kgcus.com



As a franchisee, you will own and operate a Jung Kwan Jang Korea Ginseng Store ("Jung Kwan Jang Store," "Cheong Kwan Jang Store," or "Store"). Jung Kwan Jang Stores are retail stores offering Jung Kwan Jang branded products featuring various consumer health supplement products made from the world-famous Korean red ginseng grown and harvested in Korea. The total investment necessary to begin operation of a Jung Kwan Jang Store franchise is \$110,000 to \$316,000. This includes (i) \$15,000 that must be paid to the franchisor or affiliate, and (ii) between \$30,000 and \$60,000 in opening inventory purchased from franchisor and/or approved suppliers.

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 our Franchise Administrator at 12750 Center Court Dr., Suite 100, Cerritos CA, 90703 and (562) 860-2323.

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 contracts carefully. Show your contracts 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 15, 2026

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
How much can I earn?	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 or Exhibit E and Exhibit F.
How much will I need to invest?	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.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit G includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only ginseng supplement business in my area?	Item 12 and Article I in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be Jung Kwan Jang franchisee?	Item 20 or Exhibit E and Exhibit F lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	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. The franchisor may have the right to compete with you.

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 A.

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 risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration or litigation only in California. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in California than in your own state.
2. **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.
3. **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.

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

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Exhibit B – State Specific Addendum

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Exhibit F – List of Franchisees Who Have Left the System

Exhibit G – Financial Information

Exhibit H – State Effective Dates

RECEIPT

ITEM 1

THE FRANCHISOR AND ANY PARENTS PREDECESSORS AND AFFILIATES

To simplify the language, this disclosure document uses “**KRGC**”, “**we**” or “**us**” to refer to Korean Red Ginseng Corp., Inc., the franchisor. “**You**” or “**your**” means the individual, corporation or other entity who buys the Jung Kwan Jang franchise.

The Franchisor, Parents, Predecessors and Affiliates

We are in the business of selling franchises for a retail store that sells red ginseng products (“**Products**”) manufactured pursuant to the unique and proprietary quality control programs instituted by our parent company, Korea Ginseng Corp., a Korean corporation, under the name, Jung Kwan Jang (“**JKJ**” or “**JKJ Store**”). JKJ Stores are located at locations approved by us, such as in strip shopping centers, shopping malls, and free-standing units, and they sell Products to general public. The term “JKJ System” or “System” is used in this disclosure document to refer to our business formats, methods, procedures, designs, layouts, standards and specifications we have developed to open and operate JKJ Stores.

Our parent company, Korea Ginseng Corp. (“**KGC**”), a Korean corporation having its business address at 71 Butkot-gil, Pyungchon-dong, Daeduk-gu, Daejeon, Korea, was registered in California as a foreign corporation on September 9, 2002, and began distributing certain Products through various distributors. KGC’s registration as a foreign corporation in California was surrendered in January 2010. KGC has not offered any franchises in connection with JKJ in the United States, and it also has not offered franchises in any other line of business in the United States. KGC owns and licenses all intellectual property relating to the JKJ and JKJ Stores, including a royalty-free intellectual property license to us, which then licenses you the right to use certain intellectual property under our franchise agreement. Otherwise, we are not controlled by, controlling, or under common control with any other entity that provides goods or services to our franchisees or offers franchises in any line of business. We have no predecessors or affiliates.

We are a California corporation formed on January 20, 2009. Our principal business address is 12750 Center Court Drive, Suite 100, Cerritos, CA 90703. We do business under our corporate name “Korean Red Ginseng Corp., Inc.” and our brand names, “Jung Kwan Jang,” “Cheong Kwan Jang,” or “Café & Ginseng.” We do not do business under any other name. We have not offered franchises for any other line of business. We have conducted business of the type to be operated by you since January 20, 2009.

Upon the formation of our company, we continued to distribute Products to KGC’s prior distributors for resale to U.S. customers. In 2013, we began to provide more organized and systematic support for our distributors by converting prior distribution relationships

into franchise relationships by furnishing a franchise disclosure document containing, among others, a franchise agreement.

As of April 15, 2026, there are a total of 34 franchised JKJ Stores operating throughout the United States.

We have no other business activities and have not offered franchises in other lines of business.

Market and Competition

The general market in which you will operate your JKJ Store is in the nutritional and dietary supplement as well as health-food, vitamin store and outlet markets. This is a highly competitive business, and you will compete with a variety of other retail establishments, as well as online retailers, including large chains and high-traffic websites. Some of these competitors are large, international companies while others are locally owned and operated. You will compete for business in this highly competitive environment. Sales are not seasonal.

Special Industry Regulation

You must comply with all local, state and federal laws that apply to businesses generally, including the Fair Labor Standards Acts and state laws governing various matters, such as minimum wage, overtime and other working conditions. Increases in the minimum wage can increase your labor costs and affect your bottom line. You also must comply with the provisions of the Americans With Disabilities Act, which requires that employers provide reasonable accommodations for employees and customers with disabilities. Additionally, you must comply with all local, state and federal laws applicable to stores, including licensing, health, sanitation, smoking, safety, fire and other matters, Equal Employment Opportunity Commission and Occupational Safety and Health Administration regulations, food and safety regulations, discrimination, employment, sexual harassment, tax and environmental laws and laws and regulations on citizenship or immigration status. Various federal and state agencies, including the U.S. Food and Drug Administration and the U.S. Department of Agriculture and state and local health and sanitation agencies have regulations for the preparation of food and the condition of store facilities. The Clean Air Act and state implementing laws also may require certain geographic areas to attain and maintain certain air quality standards for ozone, carbon monoxide and particulate matters. As a result, businesses involved in commercial food preparation may be subject to caps on emissions.

Some states may require franchises to obtain store, business, occupational, food products, and miscellaneous licenses. You also may have to obtain health licenses and to comply with health laws and regulations that apply to store and food product establishments. In addition, some states and local governments also may require you to

comply with laws relating to the labeling that is included on your menus, menu boards, and related materials.

You must ensure that your POS or your credit card processing terminals (whichever are responsible for processing credit card transactions) are in compliance with the most current Payment Card Industry (PCI) standards. This currently includes at a minimum completing required assessments by the credit card associations, performing quarterly scans of the network, and in some cases may include on-site audits. You are solely responsible for complying with these regulations in a timely manner and for all costs of maintaining compliance. We may provide you with communications, education, training materials or software updates to assist you in maintaining PCI compliance, but you remain solely responsible for remaining compliant. Please note that if your POS or credit card terminal is compliant, this does not necessarily mean that your business is compliant. Please consult with your credit card provider for information on what is required for your business.

Agent for Service of Process

Our agent for service of process in this state is listed in Exhibit A.

ITEM 2

BUSINESS EXPERIENCE

President and CEO : Woo Sung Chung

Woo Sung Chung has been our President and CEO since March 2025. Mr. Chung's employment with Korea Ginseng Corp., located at Beotkkot Street 71, Daedeok-gu, Daejeon, Republic of Korea, began in 2008. From April 2022 to February 2025, Mr. Chung served as the Director of Global Strategy & Planning and America Sales at Korea Ginseng Corp. headquarters, located at Beotkkot Street 71, Daedeok-gu, Daejeon, Republic of Korea.

Sales & Business Innovation Director : Sang Min Oh

Sang Min Oh has been our Sales & Business Innovation Director since June 2023. Mr. Oh's employment with Korea Ginseng Corp., located at Beotkkot Street 71, Daedeok-gu, Daejeon, Republic of Korea, began in 2007. From June 2022 to May 2023, Mr. Oh served as the senior manager of Korea Ginseng Corp., located at Beotkkot Street 71, Daedeok-gu, Daejeon, Republic of Korea.

Manager of Franchise Business: Dochun Choi

Dochun Choi has been our Manager of Franchise Business since October 2023. From

November 2017 to September 2023, Mr. Choi served as General Manager of Bluejay, located at 2414 James M. Wood Blvd. #A, Los Angeles, CA 90021.

Account Manager of Franchise Business: Seungwan Lee

Seungwan Lee has served as our Account Manager of Franchise Business since February 2024. From February 2023 to February 2024, Mr. Lee served as a Supply Chain Specialist at Korean Ginseng Corp., Inc. in Cerritos, California. From November 2020 to December 2021, Mr. Lee served as an Operations and Web Development Associate at Wide Impact, a startup company located in Seoul, Republic of Korea. From September 2017 to September 2018, Mr. Lee served as a full-time Operations Staff member at Posan Industry, located in Gyeonggi-do, Republic of Korea.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4

BANKRUPTCY

No bankruptcies are required to be disclosed in this Item.

ITEM 5

INITIAL FEES

The initial franchise fee for a new JKJ Store is \$15,000 ("**Initial Franchise Fee**"), which is required to be paid in full at the time you sign the Franchise Agreement (see Exhibit C). The Initial Franchise Fee is non-refundable. We use the initial franchise fee to cover the costs of evaluating your proposed site, providing training, providing certain initial point of sales equipment and designer (see Item 11) and generally assisting you to develop and open your JKJ Store.

You will pay us and/or our approved suppliers between \$30,000 and \$60,000 for opening inventory. The cost of opening inventory is non-refundable.

Based upon the franchisor's financial condition, the **Maryland Securities Commissioner** has required a financial assurance. Therefore, all initial fees and payments

owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

ITEM 6

OTHER FEES

Type of Fee ¹	Amount	Due Date	Remarks
Royalty Fees	3% of Net Sales	Paid weekly by electronic funds transfer	"Net Sales " means the total amount of all revenue from the sale of Products as well as any other income related to the operation of your JKJ Store during the preceding week, except sales taxes.
Marketing Fees	3% of Net Sales	Paid weekly by electronic funds transfer	This fee is due and payable at the same time and in the same manner as the Royalty Fees. The Marketing Fund has been established as of the effective date of this Franchise Disclosure Document.
Transfer Fee	50% of the then-current initial franchise fee	Upon request for approval of transfer	No transfer fee is required if the transfer is to a corporation you own 100% of and formed only for the convenience of ownership.
Interest on Overdue Payments	0.8% per month or the maximum rate permitted by law, whichever is less.	If payments are more than 30 days overdue, on demand	Interest on late payments runs from the date you should have made your payment until the date it is received by us. Highest interest rate allowed in CA is 10% annually.
Insurance	Cost and premiums, plus interest on our outlay and a reasonable administrative fee that we will set	If incurred, on demand	If you do not obtain or maintain insurance coverage and we choose to do so on your behalf, you must reimburse us
Costs and Attorneys' Fees	Will vary under circumstances	If incurred, on demand	These fees are payable to us in any legal claim or

			proceeding between you and us in connection with the Franchise Agreement because of your default.
Indemnity	Will vary under circumstances	If incurred, on demand	You must reimburse us for the costs, including reasonable attorneys' fees, we incur if we are sued or held liable for claims that arise from your operation of your franchised business or your violation of the Franchise Agreement
Liquidated Damages	Will vary under circumstances	Upon demand following termination by us for your default before expiration of the term	If we terminate the Franchise Agreement before expiration due to your default, you must pay liquidated damages as described in Section 18.13 of the Franchise Agreement. The amount is based on the average monthly Royalty Fee and Marketing Fee for the prior 12 months (or shorter operating period), multiplied by the remaining term, discounted to present value.
Testing	Costs of testing	If incurred, on demand	This covers the costs of testing new products or inspecting new suppliers you propose
Renewal Fee	None	None	You will need to enter into a new Franchise Agreement prior to, on, or after the expiration of your then-current Franchise Agreement.

Note 1: You must pay all fees to us unless otherwise noted. All fees are imposed uniformly on franchisees. All fees are nonrefundable.

Note 2: The Marketing Fee will be used to fund advertising, promotions, digital campaigns, customer incentives (including rewards and loyalty programs), and related brand-building activities in the manner described in Item 11 and the Franchise Agreement. The Royalty Fee is 3% of Net Sales and the Marketing Fee is 3% of Net Sales. **The combined continuing fees are 6% of Net Sales.** These fees are imposed uniformly on franchisees

ITEM 7

INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

TYPE OF EXPENDITURE	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Initial Franchise Fee (1)	\$15,000	Lump sum	In full, at signing of Franchise Agreement	Us
Real Estate (2-a)	\$3,000 - \$7,000	As arranged	As arranged	Landlord
Real Estate Security/Utility Deposits, Licenses and Prepaid Fees (2-b)	\$4,000-\$17,000	As arranged	When incurred	Suppliers
Furniture and Fixtures (3)	\$15,000-\$100,000	As arranged	When incurred	Suppliers
Leasehold Improvements (4)	\$20,000-\$50,000	As arranged	When incurred	Suppliers
Opening Inventory (5)	\$30,000-\$60,000	As arranged	When incurred	Us and Approved Suppliers
Insurance (6)	\$2,000-\$5,000	As arranged	When incurred	Suppliers
Signage (7)	\$5,000-\$20,000	As arranged	When incurred	Suppliers
Grand Opening Promotion (8)	\$3,000-\$6,000	As arranged	When incurred	Suppliers
Travel and Accommodations (9)	\$2,000-\$3,000	As arranged	When incurred	Suppliers
Cash Registers/Other Office Equipment (10)	\$2,000-\$3,000	As arranged	When incurred	Suppliers and Approved Suppliers (POS System)
Additional Funds – 3 months (11)	\$10,000-\$30,000	As arranged	When incurred	Employees and Suppliers
TOTAL INITIAL INVESTMENT AMOUNT	\$111,000-\$316,000			

Notes:

1. The Initial Franchise Fee is non-refundable. All other fees, except as noted above, are non-refundable.

2-a. A JKJ Store occupies approximately 300 to 1,500 square feet of space. It is your obligation to select a potential site for your JKJ Store within three (3) months from signing the franchise agreement. We can provide assistance and support in this regard, but the obligation to select a site for our review and consent rests on you and you only. You may own or lease the real estate on which you will operate your JKJ Store. If you do not own the real estate on which you will operate your JKJ Store, the terms of the lease and the amount of the monthly lease payment and security deposit generally depends on the geographic location and size and condition of the premises and the demand for the premises by other prospective tenants. These recurring overhead costs cannot be estimated. You will lease space from the owner of the premises, mall, or retail center on terms negotiated by you and the owner, and the final draft of the lease must be submitted to us for our review and approval.

2-b. The lower figure contemplates a security deposit equal to one month's rent and the higher figure contemplates a security deposit equal to two months (security deposit may not apply if you own the real estate on which you will operate the JKJ Store). This category includes an estimate of security deposits, utility deposits, telephone services, food service licenses and other prepaid fees that you will be required to pay.

3. This includes all fixtures, furniture and displays for your JKJ Store.

4. Leasehold improvement and construction costs vary significantly depending on the condition, location, size and configuration of the JKJ Store, the layout of the mall or retail center, and other factors relating to the geographic location of the business, suppliers, government regulations, labor costs and other considerations. You will contract directly with the architect, construction contractor and possibly other construction suppliers on terms negotiated by you.

5. This includes all required inventory of goods and products for opening of your JKJ Store.

6. You must obtain and maintain certain types and amounts of insurance. (See Item 8). Insurance costs depend on policy limits, type of policies, nature and value of physical assets, gross revenue, number of employees, square footage, location, business contents, and other factors bearing on risk exposure. The estimate contemplates insurance costs for 3 months.

7. The lower figure contemplates one store front signage, and the higher figure is for two store signages.

8. This covers your Grand Opening promotion and first 3 months of marketing. You must spend this amount on your JKJ Store, including newspaper, direct mail advertising, and promotional items and food, such as brochures and promotional flyers.
9. Initial training for the operation of your JKJ Store will be provided free of charge. You must pay for the expenses of attending training, such as lodging, meals, transportation and salary of trainees.
10. You must have office equipment, including a personal computer, printer, DVR, and other office equipment for the operation of your JKJ Store. We will provide equipment for one (1) POS System for your JKJ Store without cost to you. You will be responsible for maintaining the POS system and paying a monthly service charge of up to \$100, which includes the monthly fee for POS software and SMS messaging services.
11. This item estimates the recommended additional funds you need to start your JKJ Store. It includes payroll costs and miscellaneous supplies, but not any draw or salary for you. This item varies depending on the size of your JKJ Store and the personnel, inventory, and supplies required to operate it. Factors considered in formulating the amount of additional funds includes personnel, inventory, and supplies requirements of your JKJ Store depending on location and sales activity. Some JKJ Store locations require more personnel, inventory, and supplies than others as a result of increased sales and sales related activities.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS

You must operate the JKJ Store according to our System Standards. "**System Standards**" may regulate, among other things, the types, models and brands of fixtures, furniture, equipment (including a required or recommended computer and point of sale information system), furnishings and signs. "**System Assets**" relate to Trade Secret Products, Branded Products, other products and supplies required for the JKJ Store.

We develop and modify our specifications and standards internally, and may, but are not obligated to, consult with suppliers, professionals, and others in doing so. We communicate the standards, operating specifications and procedures for the operation of your JKJ Store in the Confidential Operations Manual as described in Item 11 of this disclosure document. We provide specific standards for items that you may purchase from any approved source. We provide suppliers and potential suppliers with specifications and standards for items that must be purchased from approved suppliers. Suppliers must keep these specifications confidential. We do not provide that information to you.

In the case of Trade Secret Products and Branded Products, suppliers will be limited to us, our affiliates and/or other specified exclusive sources, and you must buy Trade Secret Products and Branded Products only from us, our affiliates, and/or other exclusive sources designated and approved by us. We currently do not have any of our affiliates who sell or lease any products to franchisees. We restrict your sources of Trade Secret Products and Branded Products in order to protect our intellectual property and trade secrets, assure a reliable supply of products that meet our standards, achieve better terms of purchase and delivery service, control usage of the Marks by third parties, and monitor the manufacture, packaging, processing, and sale of these items.

In the case of items other than Trade Secret Products and Branded Products, we will identify all designated and approved suppliers in the Operations Manual or other written communications. The suppliers for these types of products could, at our option, be limited to us, our affiliates and/or other exclusive sources designated by us, and we have the absolute right to limit the suppliers with whom you may deal. If you want to use any item or service that we have not yet evaluated or to buy or lease from a supplier that we have not yet approved or designated, you first must send us sufficient information, specifications, and samples so that we can determine whether the item or service complies with System Standards or the supplier meets approved supplier criteria. We may charge you or the supplier a reasonable fee for the evaluation (see Item 6) and will decide within a reasonable time, but no more than 30 days. We periodically will establish procedures for your requests and may limit the number of approved items, services, and/or suppliers as we think best. Supplier approval will depend reasonably on product quality, delivery frequency and reliability, service standards, financial capability, customer relations, concentration of purchases with limited suppliers to obtain better prices and service, and/or a supplier's willingness to pay us and/or our system for the right to do business with our system. We and any other affiliate have the right to receive payments from suppliers on account of their dealings with you and other franchisees and to use all amounts that we and our affiliates receive without restrictions (unless we and our affiliates agree otherwise with the supplier) for any purposes we and our affiliates deem appropriate. Supplier approval might be temporary until we evaluate the supplier in more detail. We may inspect a proposed supplier's facilities during and after the approval process to make sure that the supplier meets our standards. If it does not, we may revoke our approval by notifying the supplier and you in writing. We have no obligation to approve any request for a new supplier, product or service.

We reserve the right to receive certain considerations from required purchases or leases by franchisees on account of their dealings with you and other franchisees and to use all amounts that we receive without restrictions for any purposes we deem appropriate. We also reserve the right to receive certain considerations from suppliers from franchisee purchases. Presently, however, there are no such considerations paid to us from any suppliers of services or products, and we have no revenues derived from such payments.

We serve as the sole supplier for purchases of Products sold to our franchisees. In the year

ending 2025, our total revenue from the sale of such required purchases was \$8,428,095, which makes up 31.51% from our total revenue for 2025. Our total revenue from the sale of all Products in 2025 was \$26,748,431.

Besides these purchases or leases, you must obtain and maintain, at your own expense, the insurance coverage that we periodically require and satisfy other insurance-related obligations. You currently must have all risks coverage insurance for your JKJ Store and its contents for full replacement value; comprehensive general liability and product liability insurance with coverage for broad form contractual liability, products/completed operations, personal and advertising injury, and fire damage (with minimum limits of \$1 million); general aggregate coverage for \$2 million; business interruption insurance; and workers' compensation insurance required by state law. Premiums depend on the insurance carrier's charges, terms of payment, and your history. All insurance policies must name us as additional insured parties.

Before you use them, you must send us samples of all advertising, promotional, and marketing materials that we have not prepared or previously approved for our review. If you do not receive written disapproval within 30 days after we receive the materials, they are deemed to be approved. You may not use any advertising, promotional, or marketing materials that we have not approved or have disapproved.

We will furnish you, at our cost, our standard designs, plans and specifications. You will need to hire your own contractors and architects, as the case may be, to adjust and meet your site's requirements. We have the right to approve any final plans and specifications in this regard. While we will have the right to inspect, and if necessary, require any changes to the development of your JKJ Store during design and construction phases, you will be ultimately responsible for ensuring that the construction meets with all System requirements for dimensions, design, image, interior layout, décor and color scheme and the legal requirements of any federal, state or local law, code or regulation, including those arising under the Americans with Disabilities Act ("ADA") or similar rules governing public accommodations for persons with disabilities, other applicable ordinances, building codes, permit requirements, and lease requirements and restrictions.

Your JKJ Store must be at a site that we approve. We have the right to approve the JKJ Store's lease or sublease, including our right to your JKJ Store's site if the franchise is terminated or if you lose possession because of your default under the lease.

You can expect items purchased or leased in accordance with our specifications will represent approximately 90% to 100% of total purchases you will make to begin operations of the business and approximately 50% to 90% of the ongoing costs to operate the business.

There currently are no purchasing or distribution cooperatives. We do not provide material benefits to you for using our designated or approved sources.

No franchisor officer owns an interest in any supplier.

The franchisor does not provide material benefits (including, for example, renewal or granting additional franchises) to a franchisee based on the franchisee's purchase of particular products or services or use of designated or approved suppliers.

You must adopt and comply with our standardized Return and Refund Policy as set forth in the Operations Manual, which provides, among other things, that unopened products may be returned within 7 days of purchase with a receipt for a full refund or exchange. Defective products (including damaged, spoiled, or products with manufacturing defects) may also be returned within 7 days with proof of purchase. All other sales are final. You must prominently post the Return and Refund Policy at your JKJ Store. We reserve the right to modify the Return and Refund Policy from time to time in our sole discretion upon written notice to you.

ITEM 9

FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure documents.

Obligation	Section in Agreements	Item(s) in Disclosure Document
a. Site selection and acquisition/lease	Franchise Agreement: II and VII	6, 7, 11
b. Pre-opening purchases/ leases	Franchise Agreement: II, VII, VIII and IX	7, 8, 11
c. Site development and other pre-opening requirements	Franchise Agreement: II, VII, VIII and IX	7, 8, 11
d. Initial and ongoing training	Franchise Agreement: II, IV, VI and XX	7, 11
e. Opening	Franchise Agreement: II, VI and VII	11
f. Fees	Franchise Agreement: V, VIII, IX, XI and XX	5, 6, 7, 11
g. Compliance with standards and policies/Operating Manual	Franchise Agreement: IV, VIII, XI and XV	8, 11, 16
h. Trademarks and proprietary information	Franchise Agreement: III, VIII and XI	13, 14
i. Restrictions on products/ services offered	Franchise Agreement: VII	8, 16
j. Warranty and customer service requirements	None	None
k. Territorial development and sales quotas	None	12
l. Ongoing product/service purchases	Franchise Agreement: VIII	8, 16
m. Maintenance, appearance and remodeling requirements	Franchise Agreement: VIII and XV	11
n. Insurance	Franchise Agreement: XII	7
o. Advertising	Franchise Agreement: IX	6, 7, 11
p. Indemnification	Franchise Agreement: XIII	6
q. Owner's participation/ management/staffing	Franchise Agreement: VIII and XIX	15
r. Records/reports	Franchise Agreement: X	6
s. Inspection/audits	Franchise Agreement: VII and X	6, 11
t. Transfer	Franchise Agreement: XX	6, 17

Obligation	Section in Agreements	Item(s) in Disclosure Document
u. Renewal	Franchise Agreement: IV	6, 17
v. Post-termination obligations	Franchise Agreement: XVIII	17
w. Non-competition covenants	Franchise Agreement: XIV	17
x. Dispute resolution	Franchise Agreement: XXIX	17
y. Minimum performance standards and required operating standards	Franchise Agreement: VIII, XVII and XIX	12, 16, 17

ITEM 10

FINANCING

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

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

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

Before Opening:

1. Give you our site selection criteria for the Store. The site must meet our criteria for demographic characteristics, traffic patterns, parking, character of neighborhood, competition from and proximity to other businesses, the nature of other businesses in proximity to the site and other commercial characteristics, and the size, appearance and other physical characteristics of the proposed site. We will accept or deny a location you propose for the Store within 30 days after we receive the complete site report and other materials we request. We do not generally own the premises or lease to you the premises in which your Store will operate.
2. Our representative will assist with the purchase of equipment, signs, fixtures and opening inventory and supplies, but we will not install these items. We will assist you in setting up accounts with approved suppliers and provide you a copy of such specifications.
3. Give you mandatory and suggested specifications and layouts for your Store,

including requirements for dimensions, design, image, interior layout, decor, fixtures, equipment, signs, furnishings and color scheme.

4. Train you and your manager. This training is described in detail later in this Item.
5. We will loan you a copy of (or provide you electronic access to) our Confidential Operations Manual, comprised of 33 pages, containing the uniformed standards, specifications and other requirements for operation of your Store.
6. We will provide assistance and guidance on your initial opening of the Store, including dispatching of our representative to help with the opening.

After Opening:

1. We will provide guidance and advice to you regarding operating issues concerning the Store disclosed by reports you submit or inspections we make.
2. We will give you guidance on standards, specifications and operating procedures and methods used by other JKJ Stores in the System; new recipe items and display methods; purchasing required fixtures, furnishings, equipment, signs, products, materials and supplies; advertising and marketing programs; employee training; and administrative, bookkeeping and accounting procedures. This guidance will, at our discretion, be furnished in our Operations Manual, bulletins or other written materials and/or during telephone consultations at our office or the Store.
3. We will review and approve or disapprove of proposed advertising materials prepared by you for use in local advertising.
4. We will inspect and observe the operations of your JKJ Store from time to time to determine whether you and the Store are complying with the Franchise Agreement and all System Standards. The details of inspections will be furnished in our Operations Manual.
5. Administer the Marketing Fund in the manner described in the Franchise Agreement.
6. We will provide ongoing initial training program, including advanced and refresher training programs.
7. We will update periodically the Operations Manual, as needed, to incorporate new developments and changes in the System, and will provide you a copy of all updates.
8. In our discretion, at any time, without prior notice, we may delegate performance of our duties to our affiliate operating in your market. These duties may include conducting inspections and providing consultation and advice.

9. We will give you guidance on Product pricing by providing a manufacturer suggested retail price (MSRP) for each Product offer for sale at your JKJ Store. MSRP's may be modified at our discretion from time to time upon written notice to you. However, you retain discretion over all decisions which concern or affect the prices of Products you sell.

Advertising and Marketing Fund

We have established a Marketing Fund (the “**Marketing Fund**”) for advertising, marketing and public relations programs that we, in our sole discretion, deem necessary or appropriate to promote JKJ Stores. We will administer the Marketing Fund as follows:

1. We will direct all advertising and public relations programs financed by the Marketing Fund, with sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Marketing Fund will establish and maintain an on-line presence. The Marketing Fund may be used to pay the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, direct mail and coupon advertising campaigns and other public relations activities; employing advertising agencies; providing a toll-free number for prospective customers to call for referral purposes; and providing promotional brochures and other marketing materials to franchisees in the System). Also monies in the Marketing Fund may be used to cover administrative costs and overhead we may incur including salary costs of employees working for the Marketing Fund, up to 15%. You must participate in all advertising and public relations programs instituted by the Marketing Fund. All JKJ Stores owned by us or our affiliates will contribute to the Marketing Fund on the same basis as you. Franchisees must contribute 3% of Net Sales to the Marketing Fund. Contributions to the Marketing Fund are due and payable weekly, by electronic funds transfer, at the same time and in the same manner as the Royalty Fees.
2. The Marketing Fund will be accounted for separately from our other funds. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all Stores to the Marketing Fund in that year, and the Marketing Fund may borrow from us or other lenders at standard commercial interest rates to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus for future use by the Marketing Fund.
3. You authorize us to collect for remission to the Marketing Fund any advertising or promotional monies or credits offered by any supplier based upon your purchases. Any advertising or promotional monies or credits we collect from any supplier based upon your purchases will not be credited toward your required contribution to the Marketing Fund.
4. A statement of monies collected and costs incurred by the Marketing Fund will be prepared annually by us and will be furnished to you upon written request. We will have

the right to cause the Marketing Fund to be incorporated or operated through an entity separate from us at such time as we deem appropriate, and such successor entity will have all our rights and duties.

5. The Marketing Fund is intended to maximize recognition of the Marks and patronage of JKJ Stores generally. Although we will endeavor to utilize the Marketing Fund to develop advertising and marketing materials and programs, and to place advertising, in order to benefit all Stores, we undertake no obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Marketing Fund by the Stores operating in that geographic area or that any Store will benefit directly or in proportion to its contribution to the Marketing Fund from the development of advertising and marketing materials or the placement of advertising. Your failure to derive any such benefit will not serve as a basis for a reduction or elimination of your obligation to contribute to the Marketing Fund. We have no fiduciary obligation to you or any other JKJ Stores in connection with the establishment of the Marketing Fund or the collection, control or administration of monies paid into the Marketing Fund. Except as expressly provided in the Franchise Agreement, we assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the Marketing Fund.

6. The Marketing Fund may place advertising in any media, including print, radio and television. The coverage is typically regional and national in nature. Advertising may be developed in-house and/or by regional and national advertising agencies. No money will be spent by the Marketing Fund to solicit new franchisees.

Local Advertising

1. You may (but are not required to), at your own cost, develop promotional materials and advertising for local use. Before distributing or publishing any advertising or promotional materials you create, you must obtain our written approval of the materials you intend to distribute. As a condition of approval, you must assign your copyright and any trademark or service mark rights in any materials you create to us, without compensation. You must permit us, the Marketing Fund and other JKJ franchisees we authorize, to use these materials without compensation.

2. All advertising, promotion and marketing must be completely clear and factual and not misleading and conform to the highest standards of ethical marketing and the promotion policies which we prescribe from time to time. You may not use any advertising or promotional materials that we have not approved, have disapproved or that do not include the copyright registration notices and trademark registration notices we designate.

3. To apply for approval, you must submit a copy or transcript of the proposed materials in the exact form you intend to use them. We have 10 business days to review your request. If you do not receive our written disapproval in 10 business days, the materials are

deemed to be approved, unless we request a reasonable extension of time. If you use materials we approve, you must use them in the exact form in which you submitted them to us.

Advertising Cooperatives

At this time, there is no advertising cooperative or council of franchisees that advise us regarding advertising and promotional programs or policies for JKJ Stores generally. We do not currently require franchisees to participate in a local or regional advertising cooperative.

Operating Manual

Attached as Exhibit "D" is a copy of the table of contents of our current Operating Manual, which indicates the number of pages devoted to each topic and subtopics in the Operating Manual. The Operating Manual consists of 33 pages.

Information Technology System/Computer System

1. We will provide equipment for one (1) POS System for your JKJ Store without cost to you. You must, use, maintain and update your computer system and other business equipment, including the POS system for your JKJ Store that meets our specifications and requirements. There are no contractual limitations on the frequency and cost of upgrades and updates to the systems or programs. You must comply with our then-current terms of use policies and any other requirements regarding any inter/intranet sites we establish for Stores. We have presently approved SkyMember, Inc. dba SkySoft as the supplier for the POS system, and they are located at 1320 East Olympic Blvd., Suite 200, Los Angeles, CA 90021, and they can be contacted at 213-372-5938. We reserve the right to replace the above supplier and appoint a new supplier or suppliers as we deem necessary at our discretion. We will have independent access to information generated by you and stored in the POS System and related computer system.
2. The cost of purchasing the required information technology system and computer system is estimated to range between \$2,000-\$3,000. The estimated annual cost of optional or required maintenance, updating, upgrading or support contracts is approximately \$1,500.
3. You must obtain and maintain at your own expense accounting, sales, reporting and records retention systems conforming to the requirements set by us. We reserve the right to use, and to have full access to, all your cash registers, computers and any other systems, and the information and data they contain. We may charge a reasonable fee for the license, modification, maintenance or support of software or any other goods and/or services that we furnish to you in connection with any of the systems.
4. We may introduce to the System additional computer software and hardware

(including additional back office systems) which you must purchase, use, maintain and update at your expense, as specifications and requirements may be modified over time. In some cases, such as the POS system, these components may only be available through us or approved vendors. You will be responsible for paying all supplier and/or licensor (which may include us) charges for use, maintenance, support and/or updates to any future required systems. We do not have a contractual obligation under the Franchise Agreement to provide any maintenance, repairs, upgrades, or updates on any software or hardware. There are no contractual limitations on the frequency and cost of upgrades and/or updates to the systems or programs.

5. You will use the computer for basic accounting practices, receiving and responding to emails, submitting monthly reports. We will have access to all data captured by these computers. There is no contractual limitation on our use of the data, although any use by us shall be for reasonable business purposes.

6. We do not warrant or have any responsibility for the software or hardware you must obtain. Any warranty you may have on equipment or software will be limited to that provided by the applicable manufacturer or licensor.

Site Selection and Opening

1. It is our standard procedure to have you search, identify and select the site for the JKJ Store. Our site acceptance is based on residential population, traffic counts and patterns, competing establishments, median income levels, availability of parking, rental and lease terms, physical configuration of the site and growth trends in the area. We must approve any site selected, but our consent will not be unreasonably withheld. If you cannot find a suitable site within three (3) months from signing the Franchise Agreement, we can terminate the Franchise Agreement and keep the Initial Franchise Fee.

2. We estimate that there will be an interval of three (3) to six (6) months between the execution of the Franchise Agreement and the opening of the JKJ Store, but the interval may vary based upon such factors as the location and condition of the site, the construction schedule for the Store, the extent to which an existing location must be upgraded or remodeled, the delivery schedule for equipment and supplies, delays in securing financing arrangements and completing training and your compliance with local laws and regulations. You may not open the Store for business until: (1) we approve the Store as developed according to our specifications and standards; (2) pre-opening training has been completed to our satisfaction; (3) the Initial Franchise Fee and all other amounts then due to us have been paid; and (4) we have been furnished with copies of all required insurance policies, or such other evidence of insurance coverage and payment of premiums as we request. You must open the JKJ Store for business within five days after we notify you that the Store is ready to open unless there are circumstances beyond your control. We must approve any delay in opening of the JKJ Store with approval to be reasonable in nature.

Training

1. Our franchisee training program consists of three (3) days of instruction by our current management team concerning all aspects of the operation and management of the JKJ Store. The training program is generally scheduled near the time of the completion of the construction of your JKJ Store (i.e. shortly before your JKJ Store is scheduled to open to the public). Our trainers have the following experience with the franchise: Trainer 1 has 7 years of experience with the franchise and as a trainer for the franchise; Trainer 2 has 5 years of experience with the franchise and as a trainer for the franchise. We require that you and your JKJ Store manager attend the franchise training program.
2. One (1) day of training will generally take place at our business located in Cerritos, California, or at another location or locations as we may designate, and will be conducted by our certified instructors. Two (2) days of training will take place “on-site” at your JKJ Store, and will be conducted by our certified instructors in-person or by other means such as telephone or videoconference. We may require that you and/or your designated manager attend such further training programs as we shall from time to time reasonably prescribe and complete the programs to our satisfaction. There may be a fee for refresher courses, but not exceeding \$350.00 per day. The fee will be primarily to compensate the personnel who teach the courses and to defray the expenses of such courses. A person who has successfully completed our new franchisee training program must at all times actively supervise the operation of your JKJ Store.
3. For all required initial training program, we will provide, at no charge to you, instructors and training materials. You will be responsible for all other expenses which you or your employees incur for the purpose of this training, including the cost of transportation, lodging, meals and wages. For any additional programs, we may develop audio-visual and other training materials and provide them to you at a reasonable charge.
4. You are responsible for the recruitment and hiring of *all* of your employees. You are also responsible for the training of all your Store employees.
5. We will be available to consult with you and/or your Manager by telephone, Monday through Friday from 10:00 a.m. to 7:00 p.m. (local time in California), with respect to all aspects of starting and operating your JKJ Store.
6. Listed below is a chart showing our tentative training schedule, the principal instructors, the instructional material you will use, and the location of the training:

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Orientation	0.5	0	Cerritos, CA
Concept, History, Business Model	1	0	Cerritos, CA
Human Resources Management	1	0	Cerritos, CA
Customer Service and Sales Techniques	1	0	Cerritos, CA
Display/Presentation	1	0	Irvine, CA
Product Ordering – Specifications and Inventory Control	1	0	Irvine, CA
Marketing and Advertising	1	0	Irvine, CA
Quality Standards and Store Sanitation	1	0	Irvine, CA
General Store Operation (opening & closing)	0.5	0	Irvine, CA
On-site Training	0	16	
Total	8	16	

7. All aspects of training are integrated. There are no definitive starting and stopping times. The training program will be supervised by our experienced corporate trainer, who will determine whether you have satisfactorily completed training. We can require that you retake training, or take additional and/or refresher training programs, as we may reasonably require, to correct, improve and enhance your operations and the System at our corporate headquarters, with durations not longer than 3 days and not more than 2 times in any given year. If we determine that you require additional initial On-the-Job Training, we may conduct training at your store location for up to 2 additional days. You will be responsible for all travel, living, incidental and other expenses for you and your personnel attending optional or mandatory training programs, seminars or meetings. We may charge a reasonable fee for any training program, conference, convention or other events.

ITEM 12

TERRITORY

You will not receive an exclusive or minimum territory (i.e. your JKJ Store will not have exclusive or minimum rights to any territory, radius, or population). You may choose a location for your JKJ Store, but the location is subject to our approval. You may face

competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Additional Disclosures

1. The Franchise Agreement lets you engage only in retail transactions of authorized Products to customers for their own use at your JKJ Store. You may not engage in online Product sales or sales through any other channels (for example, through catalog sales, telemarketing, or other direct marketing) except retail sales to customers at your JKJ Store.
2. You may not engage in wholesale sales without our prior written consent. "**Wholesale sales**" includes the sale or distribution of merchandise or products to a third party for resale, retail sale or other method of distribution. You may not engage in transactions with customers that do not take place on the premises of your JKJ Store.
3. Unless we consent in writing, you do not receive the right, including any right of first refusal, to acquire additional JKJ franchises. After the initial ramp-up period described in the Franchise Agreement, however, you must satisfy the Minimum Performance Standards established under the Franchise Agreement and the Operations Manual. Failure to satisfy those standards may constitute a default and grounds for termination if not cured as provided in Article XVII of the Franchise Agreement and applicable law.
4. We and our affiliates have the right but no current plan to operate or franchise other businesses selling or leasing similar products or services under different trademarks.
5. We reserve the right to use alternative distribution, including the Internet, under our principal trademarks or different trademarks to sell our products directly to consumers. This includes sales to consumers that may have otherwise visited your JKJ Store to purchase the same or similar products. We are not obligated to compensate you (nor do we compensate any of our franchisees) in respect of any sales made by us using alternative distributions methods, including the Internet.
6. There are no current plans to grant exclusive or minimum territories to any current or future franchisee.

Relocation

If your lease or sublease for the premises of the franchise store terminates without any fault on your part, or if the premises are damaged, condemned or otherwise unusable, or if in our mutual reasonable judgment we determine that there is a change in the character of the location of your franchise store sufficiently detrimental to its business potential to warrant its relocation, we will grant permission to you for relocation of the franchise store to a location approved by us. Any such relocation will be at your sole expense, and we will have the right to charge you for costs and expenses incurred by us in connection with any

relocation.

ITEM 13

TRADEMARKS

The following trademarks have been filed with the United States Patent and Trademark Office (“USPTO”) and are the principal trademarks that we license to you for use in the franchised business:

MARK	REGISTRATION NO. (SERIAL NUMBER)	REGISTRATION DATE (FILING DATE)	STATUS
正官庄 [Cheong Kwan Jang or Jung Kwan Jang in Chinese characters]	2226502 (Principal Register)	February 23, 1999	Live
HEALTH CODE	3122318 (Principal Register)	August 1, 2006	Live
	2204843 (Principal Register)	November 24, 1998	Live
	2200666 (Principal Register)	October 27, 1998	Live
	3862622 (Principal Register)	October 19, 2010	Live
	3905756 (Principal Register)	January 11, 2011	Live

KGC	4615497 (Principal Register)	October 7, 2014	Live
G-SHOT	4180572 (Principal Register)	July 24, 2012	Live
G-MAX	4254693 (Principal Register)	December 4, 2012	Live
정관장 [Cheong Kwan Jang in Korean characters]	4532725 (Principal Register)	May 20, 2014	Live
Jung Kwan Jang	7308383 (Principal Register)	February 20, 2024	Live
 JUNG KWAN JANG	97889142 (Principal Register)	April 14, 2023 (application date)	Live
Cheong Kwan Jang	4991174 (Principal Register)	July 5, 2016	Live
HONGSAMWON	5142311 (Principal Register)	February 14, 2017	Live
 JUNG KWAN JANG GINSENG SINCE 1899	97884946 (Principal Register)	April 12, 2023	Live

1. Korea Ginseng Corp., a Korean corporation, our parent company, is the registrant for the above marks and presently has granted us the exclusive license to use and license the above trademark, and we in turn will grant you the non-exclusive right to use these marks as well as any other trademarks, service marks, trade names and commercial symbols that we may authorize in the future (collectively, the “**Marks**”). The Marks may only be used at the location we approve for your JKJ Store for the sale of Products we authorize under the Franchise Agreement.

2. Your use of the Marks and any goodwill is to our exclusive benefit and you retain no rights in the Marks. You also retain no rights in the Marks upon expiration or termination of your Franchise Agreement. You are not permitted to make any changes or substitutions of any kind in or to the use of the Marks unless we direct in writing. We may change the System presently identified by the Marks, including the adoption of new Marks, new

products, new equipment or new techniques and you must adopt the changes in the System. You must comply within a reasonable time if we notify you to discontinue or modify your use of any Mark. We will have no liability or obligation as to your modification or discontinuance of any Mark.

3. There are currently no effective material determinations by the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, or any pending infringement, opposition or cancellation proceeding, or any pending material litigation, involving the Marks. There are currently no agreements in effect that significantly limit our rights to use or license the use of any Marks in any manner material to the franchise. There are no superior prior rights or infringing uses actually known to us that could materially affect your use of the Marks. We are not obligated to protect you against infringement or unfair competition claims arising out of your use of the Marks or to participate in your defense or indemnify you. We reserve the right to control any litigation related to the Marks, and we have the sole right to decide to pursue or settle any infringement actions related to the Marks. You must notify us promptly of any infringement or unauthorized use of the Marks that you may become aware. If we determine that a trademark infringement action requires changes or substitutions to the Marks, you must make the changes or substitutions at your own expense.

4. We will renew registrations of the Marks and make the applicable filings for renewal at the times required by the USPTO.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

1. There are no patents or copyrights currently registered that are material to the JKJ franchise. Where we obtain registrations of patents or copyrights necessary for you to operate your JKJ Store, we will indemnify you for your use of such patents and copyrights in the same manner as we indemnify you for your use of our Marks.

2. Our Manual, other manuals, training material, merchandise and vendor lists and updates, action plans, and other directives contain material which we consider to be trade secrets. We claim trade secret and copyright protection for these manuals and materials although we have not filed any corresponding applications concerning them. You have to follow our direction in protecting the manuals and other trade secret material from unauthorized disclosure. You must use our proprietary materials only as we direct.

3. All of your managers and supervisors must sign a confidentiality agreement in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

If you are an individual, you must devote full time and attention to supervising all administrative and operational activities of your JKJ Store. If a legal entity owns the franchise rights, such as a corporation, partnership or limited liability company, the person who owns the controlling interest in the entity's equity or voting rights, or a general partner, must devote full time and attention to franchise activities.

You must respond to our communications and requests for information within time frames we request. You must staff your JKJ Store with at least 1 "**Approved Manager**" who has management responsibilities and who has successfully completed the initial training program. You (or the person who owns a controlling interest in equity or voting interests of an entity) may be an Approved Manager, provided you supervise and manage all aspects of your franchise business. You have an obligation to hire and train all your employees.

We require that your Approved Manager sign a confidentiality agreement in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use. Upon written notice to you, we may immediately terminate your franchise agreement if your Approved Manager is convicted of a felony or any other criminal misconduct which is relevant to the operation of the Franchise Store.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

1. You must operate your JKJ Store in accordance with our System Standards (including required products). We have the right, without limitation, to change the types of products that you are authorized to sell at our sole discretion.
2. There are no restrictions on the retail customers to whom you can sell the products at your JKJ Store. However, you may not use your Store for any purposes other than the operation of the JKJ Store in full compliance with the Franchise Agreement and Manual, without our prior written approval. You must purchase, use and offer each of and only the types, brands and quality of products we designate. The Franchise Agreement allows you to operate one JKJ Store at the franchise location only, and nowhere else, except with our prior written approval.
3. You must operate your JKJ Store during the days and hours prescribed in the Operations Manual, which initially shall be from 10:00 a.m. to 7:00 p.m. local time, seven

(7) days per week (i.e. including Sunday), except on New Years Day (January 1), Independence Day (July 4), Thanksgiving Day (fourth Thursday of November), and Christmas Day (December 25), and any other designated holidays identified by us in the Operations Manual or other written system standards, unless local law, lease requirements, or our prior written consent require otherwise. Your operations must comply with all laws, including, but not limited to, laws on packaging, labeling, health and sanitation, environmental waste, and the like. You must investigate these laws and ensure compliance.

4. Any variation from our mandatory requirements requires our prior written approval. We may grant exceptions in our discretion based on local conditions, operational needs, or other reasonable business factors. Granting an exception to another franchisee does not require us to grant you that or any exception.

5. We may add to, modify, or discontinue the approved list of Products or other authorized goods and services, and we may communicate those changes by written bulletin or revisions to the Operations Manual. Any such changes will be implemented on a system-wide or otherwise reasonable basis, you will be given a reasonable time to comply (and at least thirty (30) days to stop selling deleted items, unless a shorter period is required by law or product safety concerns), and the changes will not materially and unreasonably increase your obligations except as expressly permitted by the Franchise Agreement or applicable law.

6. Effective as of the date of this Franchise Disclosure Document, we have added a line of cosmetics products (the “**Cosmetics Line**”) to our approved product list. The Cosmetics Line consists of products derived from our Korean Red Ginseng formulations. Franchisees may be required to place an initial minimum order for cosmetics products (minimum quantities range from 4 to 9 units per product per carton). Thereafter, franchisees must maintain reasonable inventory levels of the Cosmetics Line as determined by the Franchisor and set forth in the Operations Manual. We reserve the right to modify the Cosmetics Line, including the number of products offered and minimum order quantities, upon 30 days’ written notice. The estimated initial cost of the Cosmetics Line minimum order is included in the estimated initial investment in Item 7.

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.

Provision	Section in Franchise Agreement	Summary
a. Term of the franchise	IV	3 years
b. Renewal or extension of the term	IV	You have no contractual right to renew or extend. Before expiration, the parties may enter into a new franchise agreement on the terms and conditions then in effect for new franchisees.
c. Requirement for franchisee to renew or extend	IV	To continue operating after expiration, you must sign our then-current franchise agreement. If you continue operating with our consent and without a new franchise agreement, the relationship becomes month-to-month, terminable by either party on 30 days' notice.
d. Termination by you	None	The Franchise Agreement does not provide for this. But you may seek to terminate on any grounds available to you under applicable law.
e. Termination by us without cause	None	N/A
f. Termination by us with cause	XVII	We can terminate only if you commit any one of several listed violations, including failure to satisfy Minimum Performance Standards, subject to applicable notice and cure rights.
g. "Cause" defined – defaults which can be cured	XVII	Operations defaults, including failure to satisfy Minimum Performance Standards, are subject to at least sixty (60) days' notice and opportunity to cure, except as otherwise permitted by applicable law.
h. "Cause" defined – defaults which cannot be cured	XVII	Conviction of a felony, abandonment, unapproved transfers, bankruptcy, assignment for benefit of creditors, repeated violations, and any one of several other listed violations in compliance with applicable law.
i. Your obligations on termination	XVIII	Pay outstanding amounts, de-identification, return of confidential information and telephone numbers (see also below)
j. Assignment of contract by us	XX	No restriction on our right to assign. However, no assignment will be made except to an assignee who, in our good faith judgment is willing and able to assume our obligations under the Franchise Agreement
k. "Transfer" by you – definition	XX	Includes transfer of contract of assets or any ownership change

Provision	Section in Franchise Agreement	Summary
l. Our approval of transfer by you	XX	We have the right to approve all transfers, our consent not to be unreasonably withheld
m. Conditions for our approval of transfer	XX	Transferee qualifies, all amounts due are paid in full, transferee completes training, Transfer Fee of 50% of then-current Initial Franchise Fee paid, then-current contract signed
n. Our right of first refusal to acquire your business	XX	We can match any offer within 15 days of receipt of written notice of all purchase terms
o. Our option to purchase your business	XVIII	Other than our right of first refusal to acquire your business, we do not have the right to purchase your business on termination. We do have the right to purchase any and all of the assets bearing our Marks at your cost or fair market value, whichever is less
p. Your death or disability	XX and XXI	Franchise must be assigned to approved buyer within 12 months or transferred to an heir or representative
q. Non-competition covenants during the term of the franchise	XIV	Can't divert business or operate a competing business anywhere
r. Non-competition covenants after the franchise is terminated or expires	XIV	No competing business for two years, within 20 miles of any other Store
s. Modification of the agreement	XXXI	No modifications generally but Operations Manual subject to change. Revisions to the Operations Manual will not unreasonably affect your obligations, including economic requirements, under the Franchise Agreement. Any change to the Franchise Agreement must be in writing and signed by parties.
t. Integration/merger clause	XXXI	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	XXIX	Except for certain claims, all disputes must be arbitrated in California (subject to state law)
v. Choice of forum	XXIX	Arbitration in California (subject to state law)
w. Choice of law	XXVIII	California law applies (subject to state law)
x. Liquidated damages upon early termination for default	XVIII	If we terminate before expiration due to your default, you must pay liquidated damages calculated under Section 18.13.

ITEM 18

PUBLIC FIGURES

We do not use any public figure to promote our franchise.

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits a franchisor to provide information about actual or potential financial performance of its franchised and/or franchiser-owned outlets, if there is a reasonable basis for the information, and 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, affiliate-owned or franchised JKJ Stores. We do not authorize our employees or representatives to make any such representations either orally or in writing. But if you are purchasing an existing JKJ Store from us or an affiliate of ours, we may provide you the actual records of that JKJ Store. If you receive any other financial performance information or projections of your future income, you should report it to our management by contacting Mr. Woo Sung Chung, President of Korean Red Ginseng Corp., Inc. at 12750 Center Court Drive, Suite 100, Cerritos, CA 90703 (562) 860-2323, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary
For years 2023 to 2025

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2023	33	34	1
	2024	34	36	2
	2025	36	34	-2
Company or Affiliate-Owned	2023	1	1	0
	2024	1	1	0
	2025	1	1	0
Total Outlets	2023	34	35	1
	2024	35	37	2
	2025	37	35	-2

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2023 to 2025

State	Year	Number of Transfers
California	2023	0
	2024	0
	2025	1
All Other States	2023	0
	2024	1
	2025	0
TOTAL	2023	0
	2024	1
	2025	1

Table No. 3
Status of Franchised Outlets
For years 2023 to 2025

State	Year	Outlets at Start of Year	Outlet Opened	Termination	Non-Renewal	Re-acquired by Franchisor	Ceased Operations-Other Reasons	Outlets at the end of the Year
AZ	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
	2025	0	0	0	0	0	0	0
CA	2023	12	1	0	0	0	0	13
	2024	13	2	0	0	0	0	15
	2025	15	1	1	0	0	0	15
GA	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
	2025	2	0	0	0	0	0	2
HI	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
	2025	1	0	0	0	0	0	1
IL	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
	2025	2	0	1	0	0	0	1
MA	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
	2025	1	0	0	0	0	0	1
MD	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
	2025	1	0	0	0	0	0	1
NJ	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
	2025	3	0	0	0	0	0	3
NY	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
	2025	3	0	1	0	0	0	2
OR	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
	2025	0	0	0	0	0	0	0
PA	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
	2025	1	0	0	0	0	0	1
TX	2023	3	0	0	0	0	0	3

	2024	3	0	0	0	0	0	3
	2025	3	0	0	0	0	0	3
VA	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
	2025	2	0	0	0	0	0	2
WA	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
	2025	2	0	0	0	0	0	2
Total	2023	33	1	0	0	0	0	34
	2024	34	2	0	0	0	0	36
	2025	36	1	3	0	0	0	34

Table 4
Status of Company or Affiliate Owned Outlets
For years 2023 to 2025

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at the end of the Year
California	2023	1	0	0	0	0	1
	2024	1	0	0	0	0	1
	2025	1	0	0	0	0	1
Totals	2023	1	0	0	0	0	1
	2024	1	0	0	0	0	1
	2025	1	0	0	0	0	1

Table 5
Projected Openings as of December 31, 2025

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets in the Next Fiscal Year	Projected New Company-owned Outlets in the Next Fiscal Year
None	0	0	0
Total	0	0	0

If you buy a JKJ Store franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Attached to this Franchise Disclosure Document as Exhibit E is a list of names of all current franchisees and the address and telephone number of each of their outlets. Exhibit F provides a list of name, city and state, and the last known telephone number of every franchisee who had an outlet terminated, canceled, or otherwise voluntarily or involuntarily ceased to do business during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the disclosure document issuance date.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with JKJ Store franchise. 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. During our last 3 fiscal years, we have not signed any confidentiality clauses with current or former franchisees which restrict them from speaking openly with you about their experience with us.

ITEM 21

FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit G is our audited financial statements as of December 31, 2023, December 31, 2024 and December 31, 2025.

ITEM 22

CONTRACTS

All agreements proposed for use in this State are attached to this Franchise Disclosure Document as follows:

EXHIBIT “C” - Franchise Agreement and its exhibits, including Confidentiality and Non-Competition Agreements

EXHIBIT “G” of the Franchise Agreement contains the *Franchisee’s Compliance Certification* questionnaire

ITEM 23

RECEIPT

The last page of this Disclosure Document contains a detachable Receipt form which you must date, sign, and return to us immediately upon your receipt of this Disclosure Document.

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT A

STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

CALIFORNIA

Department of Financial Protection and
Innovation
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
Toll Free No.: (866)-275-2677

Agent: Commissioner of Financial Protection
and Innovation

HAWAII

Department of Commerce and Consumer
Affairs
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 548-2722

Agent: Commissioner of Securities of the State
of Hawaii

ILLINOIS

Franchise Division
Office of Attorney General
500 South Second Street
Springfield, Illinois 62706
(217) 782-4465

Agent: Illinois Attorney General

MARYLAND

Office of the Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202-2020
(410) 576-6360

Agent: Maryland Securities Commissioner
200 St. Paul Place
Baltimore, Maryland 21202-2020

MICHIGAN

Consumer Protection Division
Antitrust and Franchise Unit
Michigan Department of Attorney
General
670 Law Building
Lansing, Michigan 48913
(517) 373-7177

Agent: Michigan Department of Commerce
Corporations and Securities Bureau

MINNESOTA

Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
(651) 296-4026

Agent: Minnesota Commissioner of
Commerce

INDIANA

Franchise Section
Indiana Securities Division
Room E-111
302 West Washington Street
Indianapolis, Indiana 46204
(317) 232-6681

Agent: Indiana Secretary of State
Indiana Securities Division
201 State House
Indianapolis, IN 46204

NEW YORK

Bureau of Investor Protection and Securities
New York State Department of Law
23rd Floor
120 Broadway
New York, New York 10271
(212) 416-8211

Agent: New York Secretary of State

NORTH DAKOTA

Office of Securities Commissioner
Fifth Floor
600 East Boulevard
Bismarck, North Dakota 58505
(701) 328-2910

Agent: North Dakota Securities Commissioner

OREGON

Department of Insurance and Finance
Corporate Securities Section
Labor and Industries Building
Salem, Oregon 97310
(503) 378-4387

Agent: Director of Oregon Department
of Insurance and Finance

NEBRASKA

Nebraska Department of
Banking and Finance
1200 N Street
P.O. Box 95006
Lincoln, Nebraska 68509-5006

SOUTH DAKOTA

Division of Securities
c/o 118 West Capitol
Pierre, South Dakota 57501
(605) 773-4013

Agent: Director of South Dakota Division
Securities

TEXAS

Secretary of State
P.O. Box 12887
Austin, Texas 78711

VIRGINIA

State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219
(804) 371-9051

Agent: Clerk of the State Corporation
Commission

RHODE ISLAND

Division of Securities
Suite 232
233 Richmond Street
Providence, Rhode Island 02903
(401) 222-3048

Agent: Director of Rhode Island Department
of Business Regulation

WISCONSIN

Securities and Franchise Registration
Wisconsin Securities Commission
P.O. Box 1768
Madison, Wisconsin 53703
(608) 266-8559

Agent: Wisconsin Commissioner of Securities

WASHINGTON

Director
Department of Financial Institutions
Securities Division
P.O. Box 9033
Olympia, Washington 98507
(360) 902-8760

Agent: Securities Administrator, Director of
Department of Financial Institutions

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT B

STATE SPECIFIC ADDENDUM

California

The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.

Neither the franchisor nor any person identified in Item 2 of this Disclosure Document 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 the person from membership in the association or exchange.

California Business and Professions Code §§ 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.

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.)

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. A contract which restrains a former franchisee from engaging in a lawful trade or business is to that extent void under California Business & Professions Code § 16600.

Under both the California Franchise Relations Act and the Franchise Investment Law, a provision in a Franchise Agreement that requires you to waive your rights under either or both of these laws is void. Any release of claims that the franchisor asks you to sign will specifically exclude claims under these franchise laws.

Before the franchisor can ask you to materially modify your existing franchise agreement, Section 31125 of the California Corporations Code requires the franchisor to file a material modification application with the Department that includes a disclosure document showing the existing terms and the proposed new terms of your franchise agreement. Once the application is registered, the franchisor must provide you with that disclosure document with an explanation that the changes are voluntary.

The franchise agreement contains a liquidated damages clause. Under California

Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The franchise agreement requires binding arbitration. The arbitration will occur at Los Angeles, and the arbitrators have the discretion to assess the costs of arbitration, including reasonable arbitrators' and attorneys' fees in proportions as the arbitrators may determine. 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.

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).

The franchise agreement contains a provision requiring you to waive your right to punitive or exemplary damages against the franchisor or any of its representatives, limiting your recovery to actual damages. Under California Corporations Code section 31512, these provisions are not enforceable in California for any claims you may have under the California Franchise Investment Law.

No statement, questionnaire, or acknowledgment 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.

Under California law, an agreement between a seller and a buyer regarding the price at which the buyer can resell a product (known as vertical price-fixing or resale price maintenance) is illegal. Therefore, requirements on franchisees to sell goods or services at specific prices set by the franchisor may be unenforceable.

OUR WEBSITE ADDRESS IS [HTTP://WWW.KGCUS.COM](http://www.kgcus.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 [HTTPS://DFPI.CA.GOV](https://dfpi.ca.gov).

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF EACH PROPOSED AGREEMENT RELATING TO THE GRANT OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

Illinois

Illinois law governs the Franchise Agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

Your rights upon Termination and Non-Renewal of an agreement are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 41 of the Illinois Franchise Disclosure Act, 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.

No statement, questionnaire, or acknowledgment 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.

The Franchisee:

By: _____

Maryland

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.).

The Franchise Agreement says that franchisor may require franchisee to sign a release of claims, other than claims that may not be waived in advance under applicable law, as a condition of renewal or transfer of your franchise. Under Maryland law, the release will not apply to any liability under the Maryland Franchise Registration and Disclosure law.

Under the Franchise Agreement, franchisee must disclaim the occurrence and/or acknowledge the non-occurrence of acts that might constitute a violation of the Maryland franchise law. These representations are not intended to nor do they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure

Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the franchise is granted.

Notwithstanding the above, with respect to claims arising under the Maryland Franchise Registration and Disclosure Law, franchisee may bring such claims in any federal or state court in the state of Maryland.

Initial Franchise Fees of new Maryland franchisees are held in an escrow account until the franchisee's business is open.

No statement, questionnaire, or acknowledgment 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.

Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

Michigan

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:

- (a) A prohibition on the right of a franchisee to join an association of franchises.
- (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 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 thirty (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 five (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 (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:

(i) 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 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.

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 FRANCHISE SHALL NOT BE SOLD IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, AT LEAST TEN (10) BUSINESS DAYS BEFORE THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT OR AT LEAST TEN (10) BUSINESS DAYS BEFORE THE RECEIPT OF ANY CONSIDERATION, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE STATEMENT DESCRIBED IN THIS STATUTE.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, franchisee has the right to request an escrow arrangement.

Any questions regarding this notice should be directed to:
Consumer Protection Division
Attn: Marilyn McEwen
670 Law Building
Lansing, Michigan 48913
(517) 373-7117

No statement, questionnaire, or acknowledgment 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.

Minnesota

The Franchise Agreement requires binding arbitration. The arbitration will occur in a state other than Minnesota, with costs being borne by the non-prevailing party. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this provision may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

The Franchise Agreement requires application of the laws of a state other than

Minnesota. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this provision may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. Sec. 80C. 14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice of non-renewal of the Franchise Agreement.

The Franchise Agreement requires you to sign a release of claims as a condition of renewing or transferring a franchise. Minnesota Rule Part 2860.4400J prohibits franchisor from requiring franchisee to sign a release of claims arising under the Minnesota Franchise Law. Therefore, any release we require you to sign will exclude claims arising under the Minnesota Franchise Law.

The Franchise Agreement provides that franchisor is entitled to a temporary injunction or decree of specific performance. The Franchise Agreement is amended to provide that we are entitled to seek a temporary injunction or decree of specific performance if we can demonstrate to a court of competent jurisdiction that there is substantial likelihood of franchisee's breach or threatened breach of any of the terms of the Franchise Agreement, not that franchisor is necessarily entitled to obtain this relief.

Under Minnesota law, any claim arising under §80C may be brought within three years after the cause of action accrues. The Franchise Agreement is amended to provide for a three-year period within which to bring any Minnesota claims.

No statement, questionnaire, or acknowledgment 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.

New York

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH FRANCHISEE ABOUT ITEMS COVERED IN THIS PROSPECTUS. 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 PROSPECTUS.

Except as stated in Item 3 of this Disclosure Document, neither the franchisor, its predecessor or predecessors nor any person or sales agent identified in Item 2 of this Disclosure Document: (i) has pending any administrative, criminal, or material civil action

(or a significant number of civil actions irrespective of materiality) alleging a felony, violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (ii) 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 a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action by final judgment or been the subject of a material complaint or other legal proceeding if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (iii) is subject to any injunctive or restrictive order or decree relating to franchises or under Federal or State franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency.

Neither the franchisor, its affiliate, its predecessor, officers, nor general partner during the 10-year period immediately before the date of the Disclosure Document: (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 the officer or general partner of the franchisor held this position in the company or partnership.

The introduction to Item 17 is amended to read as follows:

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.

The Summary column of Item 17d is amended to read: "You may terminate upon any grounds permitted by law."

The Summary column of Item 17j is amended to read: "We may assign only to a financially responsible assignee that we reasonably believe is capable of performing its obligations under the franchise agreement and which expressly assumes these obligations in writing."

The Summary column in Item 17w is amended to add the following: "The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York, Article 33."

No statement, questionnaire, or acknowledgment 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.

North Dakota

In North Dakota, the Disclosure Document is amended as follows to conform to North Dakota law:

Item 17c is revised to omit any requirement that a general release be signed as a condition of renewal.

Item 17r is amended to add the following: "To the extent that covenants not to compete apply to periods after the term of the franchise, they are generally considered unenforceable in the State of North Dakota."

Item 17u is amended to omit any reference to the location or mediation or arbitration.

Item 17w is amended to state "None."

No statement, questionnaire, or acknowledgment 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.

Rhode Island

The Rhode Island Securities Division requires the following specific disclosures to be made to prospective Rhode Island franchisees:

In spite of the provisions of Item 17v and Item 17w of the Disclosure Document, any litigation or arbitration arising under the Franchise Agreement will take place in Rhode Island or other place mutually agreed to by the franchisee and franchisor.

To the extent required by § 19-28.1-14 of the Rhode Island Franchise Investment Act, the Franchise Agreement will be governed by the laws of the State of Rhode Island.

No statement, questionnaire, or acknowledgment 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.

South Dakota

The Franchise Agreement includes a covenant not to compete after termination of the franchise. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of South Dakota, except in certain instances provided by law. The Franchise Agreement provides for arbitration in a state other than South Dakota. Under South Dakota law, arbitration must be conducted at a mutually agreed upon site in accordance with §11 of the Commercial Arbitration Rules of the American Arbitration Association.

The Franchise Agreement designates the law of a state other than South Dakota as the governing law, except that trademark issues are to be under the Landham Act. 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 contractual and all other matters will be subject to application, construction, enforcement and interpretation under the governing law specified by the Franchise Agreement.

Under South Dakota law, any provision in a Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue outside South Dakota is void with respect to any cause of action which is governed by the law of South Dakota.

Under South Dakota law, termination provisions covering breach of the Franchise Agreement, failure to meet performance and quality standards, and failure to make royalty payments contained in the Disclosure Document and Franchise Agreement must afford a franchisee thirty (30) days written notice with an opportunity to cure the default prior to termination. Under SDL 37-5A-86, any condition, stipulation or provision purporting to waive compliance with any provision of this chapter, or any rule or order is void.

An acknowledgment, 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 the South Dakota franchise law or a rule or order under the South Dakota franchise law.

No statement, questionnaire, or acknowledgment 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.

Virginia

Under Section 13.1 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the franchise agreement involves the use of undue influence by the franchisor to induce the franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable.

No statement, questionnaire, or acknowledgment 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.

Washington

The State of Washington has a statute, RCW 19.100.180, that 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 the franchise.

In Washington, provisions of the Franchise Agreement which unreasonably limit the statute of limitations or remedies under the Washington Franchise Investment Act, such as the right to jury trial, may not be enforceable.

The Franchise Agreement requires application of the laws of a state other than Washington. If there is a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chap. 19.100 RCW, will prevail.

The Franchise Agreement requires franchisee to sign a release of claims as a condition of renewing or transferring the franchise. A release or waiver of rights signed by a franchise owner may not include rights under the Washington Franchise Investment Protection Act.

Under Washington law, transfer fees may be collected only to the extent that they reflect the franchisor's reasonable estimated or actual costs in connection with the transfer.

No statement, questionnaire, or acknowledgment 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.

Hawaii

THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF REGULATORY AGENCIES OR A FINDING BY THE DIRECTOR OF REGULATORY AGENCIES THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE OFFERING CIRCULAR, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.

THIS OFFERING CIRCULAR CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

No statement, questionnaire, or acknowledgment 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.

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT C

FRANCHISE AGREEMENT

FRANCHISE AGREEMENT
KOREAN RED GINSENG CORP., INC.

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EXHIBITS:

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“B”	CONDITIONAL LEASE ASSIGNMENT PROVISIONS
“C”	CONFIDENTIALITY AND NON-COMPETITION AGREEMENT
“D”	TRANSFER OF FRANCHISE TO A CORPORATION
“E”	TELEPHONE NUMBER ASSIGNMENT AND POWER OF ATTORNEY
“F”	AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO KOREAN RED GINSENG CORP., INC.
“G”	FRANCHISEE COMPLIANCE CERTIFICATION
“H”	STATE-SPECIFIC ADDENDA
“I”	CALIFORNIA ADDENDUM

JUNG KWAN JANG

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT, ("Agreement") is made and entered into the ___day of _____, 20__, between Korean Red Ginseng Corp., Inc., a California corporation having its office at 12750 Center Court Drive, Suite 100, Cerritos, CA 90703 ("Franchisor") and _____, residing at _____ ("Franchisee"). Both parties are collectively referred to as the "**Parties**" and individually, a "**Party**".

RECITALS:

A. Franchisor owns the exclusive rights to offer and sell franchises for the operation of retail stores that sell select, high-quality ginseng products manufactured pursuant to unique and proprietary quality control programs ("**Products**") using certain trademarks, service marks, logos and other commercial symbols, including without limitation, "Jung Kwan Jang" and "Cheong Kwan Jang" (collectively, "**Marks**"), and following a system of operation developed and used by Franchisor to operate these stores ("**JKJ Stores**" or "**Store**"). JKJ Stores are operated with uniform formats, designs, systems, methods, specifications, standards and procedures, all of which may be improved, further developed or otherwise modified from time to time by Franchisor ("**System**").

B. Franchisor grants to persons who meet Franchisor's qualifications and who are willing to undertake the investment and effort to establish and develop a JKJ Store, a franchise to own and operate such a Store, offering the Products approved by Franchisor and utilizing Franchisor's formats, designs, methods, specifications, standards, operating procedures and the Marks.

C. Franchisee received a copy of Franchisor's Franchise Disclosure Document ("**FDD**"), which contains a copy of this Agreement, at least fourteen (14) calendar days before executing this Agreement.

D. Franchisee acknowledges that Franchisee has read this Agreement and the FDD and that Franchisee understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain Franchisor's high standards of quality and service and the uniformity of those standards at all JKJ Stores in order to protect and preserve the goodwill of the Marks.

E. Franchisee has applied for a franchise to own and operate a single JKJ Store at the premises identified in Article I below, and the application has been approved by Franchisor in reliance on all of the representations made in the application.

In consideration of the above recitals and the mutual promises and covenants made in this Agreement, Franchisor and Franchisee agree as follows:

ARTICLE I
GRANT OF FRANCHISE

1.1 Subject to the terms and conditions contained in this Agreement, Franchisor grants to Franchisee the right to own and operate a JKJ Store at, and only at, the premises approved by Franchisor in accordance with the provisions of this Agreement (the “**Store**”), and to use the Marks in the operation of the Store.

1.2 Unless an approved location has been selected by Franchisee at the time this Agreement is executed, Franchisee shall select the location of the Store, subject to Franchisor’s approval, within the timeframe as provided in this Agreement.

1.3 The franchise location set forth in Exhibit “A” may not be altered or changed by Franchisee without Franchisor’s prior written approval. In the event there is such an approval, the new franchise location shall become the “**Franchise Location**” under the terms of this Agreement.

1.4 Franchisee will not receive an exclusive territory.

1.5 Franchisee acknowledges that Franchisor, entities related to Franchisor through common ownership, and each of their officers, directors, employees and agents, may engage in any and every activity, anywhere, which is not expressly prohibited by this Agreement. Except for the restrictions stated in this Section, this Agreement does not limit Franchisor’s right to use or license the Marks or the System, or to engage in, or license, any other marks for any type of business activity, whether similar to or different from the JKJ System.

1.6 Franchisee acknowledges and agrees that Franchisee has no right to participate, directly or indirectly, in any activity reserved by Franchisor, and that Franchisee has no right to object to any activity reserved by Franchisor.

1.7 Franchisor, in its sole discretion, reserves the right to approve exceptions or deviations from the System. Franchisee acknowledges it has no right to object to variances granted to others and to claim against Franchisor for failing to enforce standards of the System against other JKJ franchisees.

ARTICLE II
DEVELOPMENT AND OPENING OF THE STORE

Lease of Store Premises:

2.1 Franchisor shall have the right, in its sole discretion, to require:

A. Franchisee to conditionally assign such lease to Franchisor (with the consent of the lessor, if required) by conditional lease assignment provisions in the form attached as Exhibit “B” to this Agreement in order to secure performance of any and all of Franchisee’s liabilities and obligations to Franchisor; or

B. That such lease contain substantially the following provisions:

1. "Anything contained in this lease to the contrary notwithstanding, Lessor agrees that without its consent, this lease and the right, title and interest of the Lessee hereunder may be assigned by the Lessee to Korean Red Ginseng Corp., Inc., or its designee."

2. "Lessee agrees that Lessor may, upon the written request of Korean Red Ginseng Corp., Inc., disclose to Korean Red Ginseng Corp., Inc. all reports, information or data in Lessor's possession respecting sales made in, upon or from the leased premises."

3. "Lessor shall give written notice to Korean Red Ginseng Corp., Inc. (concurrently with the giving of such notice to Lessee) of any default by Lessee under the lease, and Korean Red Ginseng Corp., Inc. shall have the right, in its sole discretion, to cure any such default. Such notice shall be sent to Korean Red Ginseng Corp., Inc. at its headquarters, or such other address as Korean Red Ginseng Corp., Inc. may from time to time specify in writing to Lessor."

2.2 Franchisor shall have the right to approve the terms of any sublease or lease for the premises of the Store. If Franchisor cures any default by Franchisee under such lease, the total amount of all costs and payments incurred by Franchisor in effecting such cure shall be immediately due and owing by Franchisee to Franchisor.

2.3 Franchisee's execution of a lease or sublease for the location for Franchisee's Store shall constitute acceptance by Franchisee of such location and site and the terms of such lease and shall constitute a waiver of any claim or rights against Franchisor relating to Franchisee's choice of such site and location, and of the terms of such sublease or lease.

Development of Store:

2.4 Franchisor will furnish to Franchisee prototype or proto-style plans and specifications for a Store reflecting Franchisor's requirements for dimensions, exterior design, interior design and layout, image, building materials, fixtures, equipment, furniture, signs and decor.

2.5 Within ninety (90) days after obtaining possession of the premises of the Store and having been furnished with the above-described plans and specifications, Franchisee will do or cause to be done the following:

A. Prepare, at Franchisee's expense, and submit to Franchisor for approval (which approval may be granted or withheld at Franchisor's sole discretion) any proposed modifications to Franchisor's prototype or proto-style plans and specifications, which may be modified only to the extent necessary to comply with applicable ordinances, building codes, permit requirements and lease or deed requirements and restrictions, all such modifications being subject to prior notification to, and approval by, Franchisor;

B. Obtain all required building, utility, sign, health, sanitation and business permits and licenses, and any other required permits and licenses;

C. Construct all required improvements to the premises, purchase and install all required fixtures and equipment and decorate the premises in compliance with plans and specifications approved by Franchisor; and

D. Purchase, in accordance with Franchisor's specifications and requirements, an opening inventory of proprietary Products, ingredients and other products and supplies required for the opening of the Store.

2.6. Franchisee shall use Franchisee's best efforts to complete development and have the Store ready to open within one hundred eighty (180) days after Franchisee obtains possession of the premises. All activities, including without limitation, (1) obtaining bids and concluding a contract with a suitable general contractor or contractors for the construction of the Store; (2) obtaining bids and concluding orders for the signs, fixtures, furnishings, equipment and operating supplies and materials; (3) making all decisions concerning the construction, furnishing, equipping and staffing of the Store; (4) maintaining a current and complete accounting of the costs of development of the Store; and (5) supervising the construction, furnishing, equipping and staffing of the Store, shall be performed by Franchisee in the time frames necessary to complete the development of the Store on schedule. All final decisions concerning the development of the Store which are discretionary and not dictated by Franchisor's written specifications shall be made by Franchisee. Within a reasonable time after the completion of development, a final accounting of all costs of development of the Store, along with copies of all contracts, lien waivers, other paid receipts and equipment warranties, shall be provided by Franchisee to Franchisor when requested. Franchisee may, at Franchisee's option, purchase or lease equipment for the Store.

Fixtures, Equipment, Furniture and Signs:

2.7 Franchisee will use, in the construction and operation of the Store, only those brands, types or models of construction and decorating materials, fixtures, equipment, furniture and signs that Franchisor has approved for Stores as meeting its specifications and standards for quality, design, appearance, function and performance. Franchisee further agrees to place or display at the premises of the Store only such signs, emblems, lettering, logos and display materials that are from time to time approved in writing by Franchisor. Franchisee may purchase approved types or models of construction and decorating materials, fixtures, equipment, furniture and signs from any supplier approved or designated by Franchisor (which may include Franchisor and/or its affiliates), which approval may not be unreasonably withheld. If Franchisee proposes to purchase any type or model of construction or decorating material, fixture, equipment, furniture or sign not then approved by Franchisor, and/or any such item from any supplier which is not then approved by Franchisor, Franchisee shall first notify Franchisor in writing and shall submit to Franchisor sufficient specifications, photographs, drawings and/or other information or samples for a determination by Franchisor of whether such brand or type of construction or decorating material, fixture, equipment, furniture or sign complies with its specifications and standards. Franchisor may, in its sole discretion, refuse to approve any such item(s) and/or supplier(s) that does not meet Franchisor's standards or specifications.

Store Opening:

2.8 Franchisee will not open the Store for business until:

A. Franchisor determines that the Store has been constructed and equipped in accordance with approved plans and specifications;

B. Franchisee and Franchisee's manager(s) have completed training to Franchisor's reasonable satisfaction;

C. The Initial Franchise Fee and all other amounts due to Franchisor under this Agreement and any other related agreements to which Franchisee is a party have been paid;

D. Franchisor has been furnished with copies of all insurance policies required by Article XII of this Agreement, or such other evidence of insurance coverage as Franchisor requests; and

E. Franchisee has completed all preparations for the opening of the Store, as reasonably determined by Franchisor.

2.9 Final approval by Franchisor of the opening of the Store shall be given in writing and shall be in Franchisor's reasonable discretion. Franchisee will open the Store for business within ten (10) days after receipt of such written notice from Franchisor.

Relocation of Store:

2.10 If Franchisee's lease or sublease for the premises of the Store terminates without fault of Franchisee, or if the premises are damaged, condemned or otherwise unusable, or if in the reasonable judgment of Franchisor and Franchisee there is a change in the character of the location of the Store sufficiently detrimental to its business potential to warrant its relocation, Franchisor shall grant permission to Franchisee for relocation of the Store to a location approved by Franchisor. Any such relocation shall be at Franchisee's sole expense, and Franchisor shall have the right to charge Franchisee for costs and expenses incurred by Franchisor in connection with any relocation.

2.11 In the event of a relocation of the Store, Franchisee shall promptly remove from the first Store premises, and discontinue using for any purposes, any and all signs, fixtures, furniture, posters, furnishings, equipment, advertising materials, stationery supplies, forms and other articles which display any of the Marks or any distinctive features or designs associated with JKJ Stores. Compliance with the foregoing shall be a condition subsequent to Franchisor's approval of any relocation request by Franchisee, and in the event complete de-identification of the first Store premises is not promptly and completely undertaken, Franchisor may then revoke its permission for relocation and declare a default under this Agreement pursuant to Article XVII below.

ARTICLE III

PROPRIETARY MARKS AND GOODWILL

3.1 When used in this Agreement, "**Marks**" mean the trademarks and service marks, including but not limited to "JKJ", which are used to identify JKJ Stores and to distinguish it from that of any other business, and the trademarks, service marks, trade names, logos and commercial symbols as may be designated by Franchisor from time to time for use in connection with the System.

3.2 Franchisee is authorized to use the Marks, goodwill and trade secrets in the operation of the Store only at the location specified in Article I. Nothing in this Agreement shall be construed as authorizing or permitting their use at any other location or for any other purpose except

as may be authorized in writing by Franchisor. Franchisee expressly understands and agrees that Franchisee will not represent in any manner that Franchisee has acquired any ownership or equitable rights in any of Franchisor's Marks by virtue of the limited license granted hereunder, or by virtue of Franchisee's use of any of the Marks.

3.3 Franchisee shall not register or attempt to register the Marks or to assert any rights in them other than as specifically granted in this Agreement.

3.4 At Franchisor's request, Franchisee shall assign, transfer or convey to Franchisor, in writing, all additional rights, if any, that may be acquired by Franchisee as a result of Franchisee's use of Marks.

3.5 Franchisee shall only use the Marks, logos, trade styles, color combinations, designs, signs, symbols and slogans of Franchisor, and only in the manner and to the extent specifically permitted by this Agreement or in any manuals, directives or memos (collectively referred to below as "**Confidential Operations Manuals**") prepared by Franchisor. Franchisee shall not use any confusingly similar Marks in connection with its franchise or any other business in which it has an interest.

3.6 Franchisor reserves the right to approve all signs, memos, stationery, business cards, advertising material forms and all other objects and supplies using Franchisor's Marks. All advertising, publicity, point of sale materials, signs, decorations, furnishings, equipment, or other materials using the Marks shall comply with this Agreement and the Confidential Operations Manuals, and Franchisee shall obtain Franchisor's approval prior to such use.

3.7 If at any time, Franchisor in its sole discretion, decides to modify or discontinue use of any Mark and/or to adopt or use one or more additional or substitute proprietary marks, then Franchisee shall comply with any such instruction by Franchisor. In such event and at Franchisor's direction, Franchisee shall adopt, use and display only such new or modified Marks, and shall promptly discontinue the use and display of outmoded or superseded marks, at Franchisee's expense. Franchisee waives any claim arising from or relating to any proprietary mark change, modification or substitution. Franchisor will not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any proprietary mark addition, modification, substitution or discontinuation. Franchisee will not commence or join in any litigation or other proceeding against Franchisor for any of these expenses, losses or damages.

3.8 Upon the expiration or termination of this Agreement, Franchisee shall immediately cease using Franchisor's Marks, color combinations, designs, symbols or slogans; and Franchisee shall execute such documents and take such action as Franchisor may deem necessary or appropriate to evidence this fact. After the effective date of expiration or termination, Franchisee shall not represent or imply that Franchisee is associated with Franchisor. To this end, Franchisee irrevocably appoints Franchisor or its nominee to be Franchisee's attorney-in-fact to execute, on Franchisee's behalf, any document or perform any legal act necessary to protect Franchisor's Marks from unauthorized use. Franchisee acknowledges and agrees that the unauthorized use of Franchisor's Marks will result in irreparable harm to Franchisor, for which Franchisor may obtain injunctive relief, monetary damages, reasonable attorneys' fees and costs.

3.9 Franchisee shall immediately notify Franchisor of any apparent infringement of or

challenge to Franchisee's use of the Marks, or any claim, demand, or suit based upon or arising from the unauthorized use of, or any attempt by any other person, firm, or corporation to use, without authorization, or any infringement of or challenge to, any of Franchisor's Marks. Franchisee will immediately notify Franchisor of any other claim, demand or litigation instituted by any person, firm, corporation or governmental entity against Franchisor or Franchisee.

3.10 Franchisor shall undertake the defense or prosecution of any litigation concerning Franchisee that relates to any of Franchisor's Marks or that, in Franchisor's judgment, may affect the goodwill of the System; and Franchisor may, in such circumstances, undertake any other action which it deems appropriate. Franchisor shall have sole and complete discretion in the conduct of any defense, prosecution or other action it chooses to undertake. Franchisee shall execute those documents and perform those acts, which in the opinion of Franchisor, are necessary for the defense or prosecution of the litigation or for such other action as Franchisor may undertake.

3.11 In order to develop and maintain high uniform standards of quality and service and to protect the reputation and goodwill of Franchisor, Franchisee will do business and advertise using only the Marks designated by Franchisor. Franchisee shall not do business or advertise using any other name. Franchisee is not authorized to, and shall not, use the name "JKJ" by itself, as a part of the legal name of any corporation, partnership, proprietorship or other business entity to which Franchisee is associated, or with a bank account, trade account or in any legal or financial connection.

3.12 In order to preserve the validity and integrity of Franchisor's Marks, and to assure that Franchisee is properly employing them in the operation of Franchisee's business, Franchisor and its agents shall have the right at all reasonable times to inspect Franchisee's business, financial books and records, and operations. Franchisee shall cooperate with and assist Franchisor's representative in such inspection.

3.13 Franchisee shall be required to affix the [™] or [®] symbol upon all advertising, publicity, signs, decorations, furnishings, equipment or other printed or graphic material employing the words "JKJ" or any other of Franchisor's Marks, whether presently existing or developed in the future.

3.14 Franchisee acknowledges that it does not have any right to deny the use of Franchisor's Marks to any other franchisees. Franchisee shall execute all documents and take such action as Franchisor may request to allow Franchisor or other franchisees to have full use of the Marks.

3.15 If, during the term of this Agreement, there is a claim of prior use of any of Franchisor's Marks in the area in which Franchisee is doing business, Franchisee, at Franchisor's discretion, shall use Franchisor's Marks in such a way to avoid a continuing conflict.

3.16 Franchisor shall indemnify Franchisee against, and reimburse Franchisee for, all damages for which Franchisee is held liable in any proceeding in which Franchisee's use of any Mark pursuant to and in compliance with this Agreement is held to constitute trademark infringement, unfair competition or dilution, and for all costs reasonably incurred by Franchisee in the defense of any such claim brought against Franchisee or in any such proceedings in which he is named as a party, provided that Franchisee has timely notified Franchisor of such claim or proceedings, has otherwise complied with this Agreement, and has tendered complete control of the defense of such to Franchisor. If Franchisor defends such claim, Franchisor shall have no obligation to indemnify or

reimburse Franchisee with respect to any fees or disbursements of any attorney retained by Franchisee.

3.17 During the term of this Agreement or extension hereof, Franchisee shall identify itself as the owner of the Store in conjunction with any use of the Marks, including, but not limited to, on invoices, order forms, receipts, business stationery, contracts with all third parties or entities, as well as the display of such notices in such content and form at such conspicuous locations as Franchisor may designate in writing.

ARTICLE IV **TERM**

4.1 Except as otherwise provided in this Agreement, the term of this franchise (the “**Term**”) shall be for three (3) years from the date on which Franchisee's opens the JKJ Store pursuant to this Agreement. Franchisee has no contractual right to renew or extend this Agreement. Prior to the end of the Term, Franchisee and Franchisor may enter into a new franchise agreement, subject to terms and conditions then in effect for new franchisees.

4.2 In the event Franchisee shall continue to operate Franchisee's Store without entering into a new franchise agreement following the expiration or termination of this Agreement for any reason, with the express or implied consent of Franchisor, such continuation shall be construed to be an extension of the term of this Agreement only from month-to-month, terminable by either party on no more than thirty (30) days' notice to the other party and otherwise in accordance with all of the provisions of this Agreement.

ARTICLE V **INITIAL AND CONTINUING FEES PAYABLE TO FRANCHISOR**

5.1 In consideration of the execution of this Agreement and Franchisor's granting to Franchisee the franchise covered hereby, Franchisee agrees to pay to Franchisor an Initial Franchise Fee of Fifteen Thousand Dollars (\$15,000.00) (the “**Initial Franchise Fee**”), payable upon the execution of this Agreement, which sum shall be deemed fully earned by Franchisor upon receipt thereof and is non-refundable, except as may be set forth in this Agreement.

5.2 In consideration of this franchise granted by this Agreement, the services to be provided by Franchisor, the right to sell the Products to the general public, and for the use of the Marks during the Term, Franchisee shall pay to Franchisor, in addition to the Initial Franchise Fee, a royalty fee equal to six percent (3%) of Net Sales (“**Royalty Fee**”).

5.3 For the purposes of determining the royalties to be paid, “Net Sales” shall mean the total amount of all revenue from the sale of Products as well as any other income related to the operation of your JKJ Store during the applicable period, whether for cash or credit and regardless of collection in the case of credit, except sales taxes. Net Sales shall not include any returns to Franchisor for defective Products.

5.4 Royalty Fees and Marketing Fees are due and payable on the Wednesday of each

week (“**Payment Date**”), relating to the week ending on the preceding Sunday. Franchisee shall remit Royalty Fees, Marketing Fees, and/or any other monies owed to Franchisor under this Agreement via electronic funds transfer.

Franchisee shall comply with the procedures established by Franchisor and/or to perform such acts and deliver and execute the Authorization to Honor Charges Drawn By and Payable To Franchisor including Checks and Electronic Transfers (Exhibit “F”) and any other documents as may be necessary to assist in or accomplish such electronic method of payment. In the event any electronic funds transfer is not honored by Franchisee’s bank for any reason, Franchisee shall be responsible for that payment, plus a service charge applied by Franchisor and the bank, if any.

5.5 Royalty Fees or any and all other payments provided for in this Agreement not received by Franchisor within thirty (30) days of the Payment Date shall be subject to interest on a daily basis at a rate equal to 0.8 percent per month, or the then highest legal rate, whichever is less.

5.6 Acceptance by Franchisor of the payment of any Royalty Fee or any and all other payments provided for in this Agreement shall not be conclusive or binding on Franchisor with respect to the accuracy of such payment until two (2) years after the effective date of termination of this Agreement. Acceptance of any payment on account of Royalty Fees or any and all other payments provided for in this Agreement does not constitute any waiver of Franchisor’s rights under Article XVIII below.

5.7 Franchisee’s obligations for the full and timely payment of the Royalty Fees and all other amounts provided for in this Agreement shall be absolute, unconditional and fully earned by Franchisor, except in those instances where Franchisor is in breach under this Agreement and has failed to cure such breach although obligated to do so. Franchisee shall not delay or withhold the payment of all or any part of the fees for any reason, put the fees in escrow, or set-off same against any and all claims or alleged claims Franchisee may allege against Franchisor.

ARTICLE VI

TRAINING AND COMMENCEMENT OF BUSINESS

6.1 Prior to starting construction of Franchisee’s Store, Franchisee shall complete Franchisor’s initial training program to Franchisor’s satisfaction. If travel is required, Franchisee shall be responsible for all travel and living expenses which Franchisee and Franchisee’s managers incur in connection with the initial training program. During the training program, Franchisee shall receive instruction, training and education in the operation of the Store and indoctrination into the System.

6.2 Franchisee shall attend such periodic refresher and supplemental training programs or meetings at such locations as Franchisor may from time to time direct. All expenses of Franchisee incurred in connection with attendance at any such refresher or supplemental training programs or meetings shall be borne solely by Franchisee.

6.3 At all times during the term of this Agreement, Franchisee shall have a supervisor managing the operation of the Store who has successfully completed Franchisor’s training program and is able to operate the Store in accordance with this Agreement and Franchisor’s standards.

ARTICLE VII
OBLIGATIONS OF FRANCHISOR

7.1 In order to assist Franchisee in constructing Franchisee's Store, Franchisor shall furnish to Franchisee a set of prototype or proto-style plans and specifications for a typical Store, including requirements for exterior and interior design, layout, equipment and sign placement and decor scheme, all as included in the System.

7.2 Franchisor shall assist Franchisee in Franchisee's selection of and contracting with appropriate architects, engineers, contractors, and subcontractors for construction of all leasehold improvements at Franchisee's Store in accordance with the plans and specifications prepared by Franchisee's architect.

7.3 Franchisor shall make available to Franchisee any further assistance that Franchisor may deem is required, based on the experience and judgment of Franchisor, in pre-opening, opening and initial business operation of Franchisee's Store, which assistance shall conform to that furnished to other existing franchisees as further defined in the Confidential Operations Manual. Franchisor shall have the right to determine the time or times at which such assistance shall be available to Franchisee.

7.4 Franchisor shall assist Franchisee in the grand opening of the Store.

7.5 Franchisor shall maintain an advisory relationship with Franchisee, including ongoing telephone consultation to aid in the proper and effective operation of the System, the frequency and duration of which shall be in the sole discretion of Franchisor in accordance with Confidential Operations Manual. Such operating assistance may consist of advice and guidance with respect to:

- A. Methods and operating procedures utilized by Stores;
- B. Additional Products authorized for sale by Stores;
- C. Selection and purchasing of Products, and other approved products, materials and supplies; and
- D. The establishment and operation of administrative, bookkeeping, accounting, inventory control, sales and general operating procedures for proper operation of Stores.

7.6 Franchisor or its designees or agents shall visit and inspect, from time to time, Franchisee's Store and evaluate the proper execution of the System, and confer with Franchisee and Franchisee's employees in order to assist in the proper business operation of Franchisee's Store in accordance with Confidential Operations Manual. Franchisor or its designees or agents shall have the absolute right to make inspections at such times and frequencies, during normal business hours, as Franchisor may determine. Franchisee will cooperate with Franchisor's representative in such inspections, render such assistance to them as they may reasonably request and immediately correct any failure to comply with the System and this Agreement as brought to Franchisee's attention by

such representative.

7.7 Franchisor shall use its reasonable efforts to require maintenance of high and uniform standards in the execution of the System at all Stores utilizing the System, in order to protect and enhance the reputation of Franchisor and its Marks.

7.8 In order to insure that the distinguishing characteristics of the System are uniformly maintained, Franchisor may from time to time establish standards for certain proprietary Products, equipment, commodities and supplies to be used by Franchisee in the execution of the System and may, in conjunction therewith, develop new proprietary Products, programs and develop new equipment and new techniques which Franchisee shall be required to use and/or purchase in the operation of Franchisee's Store.

7.9 Neither Franchisor's approval of a specific location for Franchisee's Store, nor any other service provided by Franchisor pursuant to this Article shall be deemed a representation, warranty or judgment by Franchisor as to the likely success of Franchisee's Store at such location or as to the relative desirability of such location in comparison to others that might have been available to Franchisee.

ARTICLE VIII

OBLIGATIONS AND DUTIES OF FRANCHISEE

8.1 Franchisee shall make any grand opening advertising expenditures as may be required by Franchisee's landlord or by the terms of Franchisee's lease or sublease.

8.2 Franchisee or a designated and approved manager shall, during the term of this Agreement, devote full time, energy and best efforts to the management and operation of Franchisee's Store, except as otherwise approved in writing by Franchisor, including, but not limited to, keeping the Store operating and open for business at the times specified in this Agreement and the Confidential Operations Manuals or as required by Franchisee's lease or sublease.

8.3 At all times, Franchisee shall maintain, at Franchisee's own expense the interior and exterior of Franchisee's Store and all fixtures, furnishings, signs and equipment in the highest degree of cleanliness, orderliness, sanitation and repair, as determined by Franchisor. Franchisee shall make no material alteration, addition, replacement or improvement in or to the interior or exterior of the Store without the prior written consent of Franchisor, except that Franchisee shall be required to periodically renovate, refurbish and update Franchisee's Store so that it is in substantial conformity with Franchisor's then-current Store design, which renovations shall not place an excessive economic burden on Franchisee.

8.4 Franchisee will maintain a high moral and ethical standard in the operation and conduct of Franchisee's Store so as to create and maintain goodwill among the public for the name "JKJ" and supervise and evaluate the performance of its staff to insure that each renders competent, efficient and quality service to the general public.

8.5 Franchisee recognizes that it is essential to the proper marketing of the Store, and to the preservation and promotion of its reputation and acceptance by the public at large, that

standards of quality be maintained. As part of the consideration for this Agreement, Franchisee will at all times sell to retail customers only, or offer for sale to retail customers only, only those Products that meet the reasonable specifications and standards from time to time approved in writing by Franchisor, as permitted under this Agreement, and as permitted under the lease or sublease. In furtherance thereof, Franchisee shall be required to purchase only from Franchisor or its designee any Products and System assets, comprised of certain equipment and instruments which are proprietary in nature and unique to the Store, that are specified by Franchisor from time to time.

8.6 In connection with the operation of Franchisee's Store, Franchisee is required to purchase certain packaging supplies, paper goods and other product service items for sale and service of the Products which bear any of the Marks ("**Branded Products**") at then-current prices established from time to time. Franchisee is also required to purchase certain types, models and brands of equipment, fixtures and furniture, which are not specified as a System asset from Franchisor, its designee or Franchisor-approved vendor. In the event that Franchisee desires to purchase any Branded Products or System assets from sources other than Franchisor, its designee or Franchisor-approved vendor, Franchisee shall so request in writing, specifying the item or product Franchisee desires to purchase from another source not already approved by Franchisor, including samples, specifications and sufficient information on the source to enable Franchisor to determine whether the item or product meets with Franchisor's quality assurance requirements and specifications. Upon submission of the requested information to Franchisor, Franchisor shall conduct its evaluation, taking into consideration the product quality, delivery frequency and reliability, service standards as well as financial capability and credit of the identified supplier. Franchisor shall charge a reasonable fee to Franchisee for conducting this evaluation. Franchisor shall conduct its evaluation and advise Franchisee in writing of its decision within thirty (30) days from the date on which Franchisor received the requested information and materials sufficient to commence its evaluation. Franchisor and Franchisee acknowledge that Franchisor has no obligation to approve any request for a new supplier, product or item, but that Franchisor shall not unreasonably withhold its approval in this process.

8.7 In connection with the operation of Franchisee's Store, Franchisee may be required to purchase certain other products as set forth in the Confidential Operations Manual. Franchisee's obligation under this Section shall be satisfied so long as Franchisee purchases the stated products from sources of supply approved by Franchisor, subject to the same meeting the strict specifications of Franchisor which may be changed, modified or updated from time to time. Nothing in this Agreement shall be construed as an attempt to unreasonably limit the sources from which Franchisee may procure such products and other similar items. Rather, Franchisor intends that such items conform to Franchisor's strict standards and strict specifications of consistent quality and uniformity. Nothing contained in this Agreement shall be deemed to require Franchisor to approve an inordinate number of suppliers of a given item which, in the reasonable judgment of Franchisor, would result in higher costs generally to Franchisee or prevent effective and economical supervision of suppliers by Franchisor. Requests for approval of additional suppliers shall be in writing and shall contain such information as Franchisor may reasonably request. Franchisor shall charge a reasonable fee to Franchisee for considering requests for approval. Franchisor shall, within thirty (30) days, notify Franchisee whether or not such proposed supplier is approved. Franchisor may impose limits on the number of suppliers for any item used or served by the Store.

8.8 Franchisee acknowledges that in purchasing or leasing supplies, equipment and/or materials from Franchisor or from suppliers approved by Franchisor, **FRANCHISOR EXPRESSLY**

DISCLAIMS ANY WARRANTIES OR REPRESENTATIONS AS TO THE CONDITION OF SAME, INCLUDING WITHOUT LIMITATION, EXPRESS OR IMPLIED WARRANTIES AS TO MERCHANTABILITY OR FITNESS FOR ANY INTENDED PURPOSE. FRANCHISEE AGREES TO LOOK SOLELY TO THE MANUFACTURER OR SUPPLIER OF SAME FOR ANY REMEDY OR LIABILITY IN THE EVENT OF ANY DEFECTS THEREIN.

8.9 Franchisee shall not, during the term of this Agreement or thereafter, communicate, divulge, or use for the benefit of any other person, persons, partnership, association or corporation any confidential information, knowledge, recipes, preparation methods, or know-how concerning the methods of operation of the business franchised under this Agreement which may be communicated to Franchisee, or of which Franchisee may be apprised, by virtue of Franchisee's operation under the terms of this Agreement. Franchisee shall divulge such confidential information only to such of its employees as must have access to it in order to operate the Store. Any and all information, knowledge and know-how, and other data which Franchisor designates as confidential, shall be deemed confidential for purposes of this Agreement, except information which Franchisee can demonstrate came to Franchisee's attention prior to disclosure thereof by Franchisor; or which, at the time of disclosure by Franchisor to Franchisee, had become a part of the public domain, through publication or communication by others; or which, after disclosure to Franchisee by Franchisor, becomes a part of the public domain, through publication or communication by others.

8.10 Franchisee shall only sell or offer for sale such products as described in the prime lease, and Franchisee must obtain Franchisor's written approval for all contemplated changes and all additions to and/or deletions of Products sold in Franchisee's Store.

8.11 Franchisee shall comply with all the terms, conditions, requirements, covenants and agreements set forth in this Agreement and supply Franchisor with such information (in addition to that otherwise provided for in this Agreement) as may be reasonably requested by Franchisor.

8.12 Franchisee shall promptly pay when due all taxes levied or assessed, including, without limitation, federal income taxes, sales taxes, unemployment taxes and all indebtedness to Franchisor incurred by Franchisee in the conduct of the business licensed by this Agreement.

8.13 Franchisee shall comply with all federal, state and local laws, rules and regulations, and shall timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the business licensed by this Agreement, including, without limitation, operation licenses, licenses to do business and fictitious name registration.

8.14 Franchisee shall notify Franchisor, in writing, within five (5) days of the commencement of any action, claim, suit or proceeding, and of the issuance of any order, writ, injunction, suit or proceeding, award or decree of any court, agency or other governmental instrumentality which may adversely affect the operation or financial condition of the Store.

8.15 Franchisee shall not pledge Franchisor's credit or bind Franchisor to any obligation, nor shall it hold itself out as being authorized to do so.

8.16 Franchisor and Franchisee understand and agree that the operation of the Store, maintenance of its premises and equipment, conduct and appearance of its personnel, and the sale

of products are all regulated by governmental statutes and regulations. To this end, Franchisee owes an obligation to the patrons of Franchisee's Store, Franchisor, and to Franchisee, to fully and faithfully comply with all those applicable governing authorities. If any product dispensed at Franchisee's Store evidences adulteration from the standards of Franchisor's Products, or is in violation of applicable law or regulations, or in the event such items, premises, equipment, personnel or operation of the Store fail to be maintained in accordance with the governmental requirements referred to above, Franchisee shall immediately notify Franchisor and provide all relevant information requested by Franchisor, close Franchisee's Store, terminate selling operations at the Store, destroy all contaminated or adulterated products and eliminate the source thereof, and remedy all unsanitary conditions present, reopening for business only after Franchisor's inspection and provided that laboratory analysis from samples obtained for that purpose by Franchisor evidence a compliance with the applicable governmental requirements and with the standards of Franchisor. If Franchisee or any of Franchisee's agents or employees fails or refuses to comply with all of the above remedial measures or in the event of any repetition of any adulteration or palming off or failure of sanitation in the Store:

A. Franchisee shall pay the costs and expenses, including attorneys' fees, of both parties, incurred in enforcing the provisions of this Subsection or any provision of this Franchise Agreement in obtaining Franchisee's compliance with the Agreement. The remedies set forth in this paragraph are in addition to and not in substitution for those set forth in Article XXIII of this Franchise Agreement.

B. In furtherance of the foregoing, Franchisee must submit copies of all health, sanitation or other regulatory agency inspection reports to Franchisor immediately upon receipt thereof.

8.17 Franchisor may, from time to time, conduct market research and testing to determine consumer trends and the salability of new products. Franchisee will cooperate by participating in Franchisor's market research programs, test marketing new products in the Store, and providing Franchisor with timely reports and other relevant information regarding such market research. In connection with any such test marketing, Franchisee shall purchase a reasonable quantity of the tested products and effectively promote and make a reasonable effort to sell such products.

8.18 Franchisee shall be absolutely prohibited from having any vending machines, lottery games or games of chance, newspaper racks, juke boxes, gum or candy machines, games, pinball machines, pay telephones, video games, rides or other mechanical or electronic devices installed or operated at the Store.

8.19 Franchisor may establish and periodically revise reasonable minimum performance standards for the Store ("**Minimum Performance Standards**"), including standards relating to minimum sales, customer service, merchandising, inventory, staffing, reporting, cleanliness, compliance, and other operational metrics reasonably related to the proper operation of the System. Minimum Performance Standards shall be objective, lawful, and applied by Franchisor in a nondiscriminatory manner to similarly situated franchisees, taking into account relevant factors such as location, store format, tenure, and local market conditions. Franchisor shall communicate Minimum Performance Standards to Franchisee through the Confidential Operations Manual or other written system standards. No failure to satisfy Minimum Performance Standards shall

constitute a default unless: (i) Franchisee has completed an initial ramp-up period of six (6) months after the Store opening date; (ii) Franchisor has given Franchisee written notice describing the deficiency in reasonable detail; and (iii) Franchisee has failed to cure such deficiency within the period provided in Article XVII and applicable law.

ARTICLE IX

ADVERTISING AND PROMOTIONAL ACTIVITIES

9.1 Recognizing the value of marketing and the importance of the standardization of promotions and public relations programs to the furtherance of the goodwill and public image of the System and the Marks, Franchisee agrees to contribute to a system-wide advertising and promotional fund (the “**Marketing Fund**”) on a weekly basis during the term of this Agreement three percent (3%) of Net Sales.

9.2 The Marketing Fund will be maintained and administered as follows:

9.2.1 Franchisee will contribute to the Marketing Fund weekly by electronic transfer (as specified in the Confidential Operations Manual) based on Franchisee’s Net Sales for each preceding week. During any period of business interruption, Franchisee will continue to make weekly contributions based on Franchisee’s average weekly payment during the eight (8) week period immediately preceding the period of business interruption.

9.2.2 Any Franchisor-owned JKJ Stores will make contributions to the Marketing Fund on a basis at least equal to that described in Section 9.1.

9.2.3 Franchisor will direct all advertising and promotional programs, with the sole discretion of approval over agencies, spokespersons, creative concepts, materials, and media placements and allocations used in the programs. The Marketing Fund will establish and maintain an on-line presence. Franchisee agrees that the Marketing Fund is intended to maximize general public recognition and acceptance of the Marks for the benefit of the System, and that Franchisor and its designees undertake no obligation in administering the Marketing Fund to make expenditures for Franchisee that are equivalent or proportionate to Franchisee’s contributions, or to ensure that Franchisee benefits directly or pro rata from the placement of advertising.

9.2.4 Franchisee agrees that the Marketing Fund may be used to meet the costs of researching, preparing, maintaining, administering and directing advertising and promotional materials and programs (including the costs of preparing and conducting television, radio, magazine, newspaper, direct mail and coupon advertising campaigns and other public relations activities; employing advertising agencies; providing a toll-free number for prospective customers to call for referral purposes; and providing promotional brochures and other marketing materials to franchisees in the System). All sums contributed to the Marketing Fund will be maintained in a separate account from Franchisor’s general funds and will not be used to defray Franchisor’s general operating expenses, except for reasonable administrative costs and overhead incurred in activities related to the administration or direction of the Marketing Fund up to fifteen percent (15%).

9.2.5 If Franchisor spends less than the total of all contributions to the Marketing Fund during any fiscal year, it has the right to retain those contributions for use in

subsequent years. If Franchisor spends more than the contributions accumulated in the Marketing Fund during any fiscal year, it will have the right to receive from the Marketing Fund reimbursement or credit during the same or subsequent years to the extent of the excess expenditure.

9.2.6 An unaudited summary report on the operation of the Marketing Fund will be prepared annually and will be made available to Franchisee on request ninety (90) to one hundred twenty (120) days after fiscal year end.

9.2.7 Although the Marketing Fund is intended to be of perpetual duration, Franchisor retains the right to terminate the Marketing Fund. The Marketing Fund will not be terminated, however, until all contributions have been used for the purposes described above or returned to contributors on a pro rated basis.

9.2.8 Franchisee authorizes Franchisor to collect, for remission to the Marketing Fund, any advertising or promotional monies or credits offered by any supplier based upon Franchisee's purchases. Any advertising or promotional monies or credits Franchisor collects from any supplier based upon Franchisee's purchases will not be credited toward Franchisee's required contribution to the Marketing Fund.

9.2.9 Franchisor may establish an advertising council of franchisees. If established, the council will advise Franchisor on advertising policies, and Franchisees will elect the members of the council. The council will be advisory and have no operational or decision-making power. The council will operate under its own by-laws, but Franchisor will have the right to change or dissolve the council.

9.3 Franchisee must submit to Franchisor, for its approval, all materials to be used for local advertising, unless they have been approved before or they consist only of materials Franchisor provided. All materials containing the Marks must include the designation trademark TM, registered trademark [®], service mark SM, copyright [©], or any other designation Franchisor specifies. If Franchisee does not receive written or oral disapproval of any materials submitted within ten (10) days from the date Franchisor receives the materials, the materials are deemed approved. Franchisor may require Franchisee to withdraw and/or discontinue the use of any promotional materials or advertising, even if previously approved. Franchisor must make this requirement in writing, and Franchisee will have five (5) days after receipt of Franchisor's notice to withdraw and/or discontinue use of the materials or advertising. Franchisee must include in any significant display advertisements, and in marketing materials for the Store, in conformance with standards in the Confidential Operations Manual, a notice that the Store is individually owned and operated. Subject to any legal restrictions, Franchisee also must display or make available, in the reception area of the Store, marketing materials intended for general customers that Franchisor may provide to Franchisee from time to time.

9.4 Franchisee acknowledges and agrees that Franchisor will own all rights to and interest in each telephone number and telephone directory listing used by Franchisee that is associated in any manner with Franchisee's Store and/or with any Mark ("**Telephone Listing**"). Franchisee acknowledges and agrees that all goodwill arising from or in connection with the use of each Telephone Listing will inure to Franchisor's benefit. Promptly after the expiration, termination, repurchase or transfer of the franchise, and at Franchisee's own expense, Franchisee will notify all telephone companies with whom Franchisee has any Telephone Listing and direct them to transfer

the Telephone Listing to Franchisor or to any person(s) Franchisor designates, and Franchisee will execute any and all documents necessary to complete these transfer(s). Upon the execution of this Agreement, Franchisee will sign a telephone transfer consent and authorization, in a form substantially similar to Exhibit G, granting Franchisor the authority to change, transfer or terminate Franchisee's Telephone Listing(s) on Franchisee's behalf. Franchisor will use this authorization only if Franchisee does not comply fully with this Section after the expiration, termination, repurchase or transfer of the franchise.

9.5 Franchisee shall not maintain a World Wide Website or otherwise maintain a presence or advertise on the Internet or any other public computer network in connection with the Store without Franchisor's prior written approval, which Franchisor may withhold for any reason or for no reason. Franchisee will submit to Franchisor for approval before use, true and correct printouts of all Website pages Franchisee proposes to use in Franchisee's Website in connection with the Store. Franchisee understands and agrees that Franchisor's right of approval of all such Web materials is necessitated by the fact that such Web materials will include and be inextricably linked with Franchisor's Marks. Franchisee may only use material which Franchisor has approved. Franchisee's Website shall conform to all of Franchisor's Website requirements, whether set forth in the Confidential Operations Manuals or otherwise. Franchisee agrees to provide all hyperlinks or other links that Franchisor requires. If Franchisor grants approval for a Website, Franchisee may not use any of the Marks at the site except as Franchisor expressly permits. Franchisee may not post any of Franchisor's proprietary, confidential or copyrighted material or information on Franchisee's Website without Franchisor's prior written consent. If Franchisee wishes to modify the approved site, all proposed modifications must also receive Franchisor's prior written approval. Franchisee explicitly understands that Franchisee may not post on Franchisee's Website any material which any third party has any direct or indirect ownership interest in (including, without limitation, video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image in which any third party may claim intellectual property ownership interests). Franchisee will list on Franchisee's Website any Website maintained by Franchisor, and any other information Franchisor requires in the manner Franchisor dictates. Franchisee agrees to obtain Franchisor's prior written approval for any internet domain name and/or home page address. The requirement for Franchisor's prior written approval set forth in this Section will apply to all activities on the Internet or other communications network to be conducted by Franchisee, except that Franchisee may maintain one or more E-mail addresses and may conduct individual E-mail communication without Franchisor's prior approval as provided above if Franchisee proposes to send advertising to multiple addresses via E-mail.

ARTICLE X

REPORTS TO FRANCHISOR

10.1 Franchisee shall keep full, complete and accurate books and accounts in accordance with generally accepted accounting principles and in accordance with the System, and Franchisee shall submit to Franchisor:

A. Concurrently with the payment of the Royalty Fees, a verified statement of Net Sales in cash, credit and/or other charges;

B. Within sixty (60) days after the close of each twelve (12) month period, an

annual profit and loss statement for the Store for such year and a balance sheet for the Store as of the end of such year, reviewed by an independent certified public accountant. Franchisor may randomly select a franchisee or franchisees who will be required to have an audited financial statement prepared by a certified public accountant selected by the franchisee, but who shall be acceptable to Franchisor, which opinion may be qualified only to the extent reasonably acceptable to Franchisor;

C. Promptly when prepared or received, copies of all of Franchisee's Federal, State and Local tax returns and tax reporting documents of any kind or nature, including, without limitation, Forms 1099-K (or any successor form), sales and use tax returns, payroll tax filings, and a certificate from Franchisee's accountant that all Social Security payments, taxes and fees required to be paid by Franchisee have been paid, and that there is no reason to believe that Franchisee's corporate status, if Franchisee is a corporation, has been impaired; and

D. Such other periodic forms and reports as may be reasonably prescribed by Franchisor, including, without limitation, monthly and quarterly merchant processor statements, merchant account statements (including OTC merchant statements, if applicable), credit card processor statements, Forms 1099-K (or any successor form), chargeback reports, point-of-sale settlement reports, bank deposit summaries, and other sales-supporting documentation reasonably required to verify Net Sales and compliance with this Agreement.

10.2 Franchisee shall preserve, for a period of not less than three (3) years, all accounting records and supporting documents relating to Franchisee's business under this Agreement.

10.3 Franchisee shall record, in a manner approved and designated by Franchisor at the time of receipt, all sales of all products sold by Franchisee from Franchisee's Store in a computerized cash register of a type designated by Franchisor, or on any other machine or recording device recommended or approved in advance by Franchisor.

10.4 In order to determine whether Franchisee is complying with this Agreement, Franchisor or its designated agents shall have the right, at any time during reasonable business hours, to examine, at its expense, the books, records, cash control devices, income tax returns, bank statements, sales records of the Store, and the books and records of any corporation or partnership which owns the franchise. Franchisor shall also have the right, at any time, to have an independent audit made of the books of Franchisee. If an inspection or audit should reveal that Net Sales and/or payments have been understated in any report to Franchisor by more than two percent (2%), then Franchisee shall, upon fifteen (15) days' notice, pay to Franchisor the amount understated upon demand, and in addition reimburse Franchisor for any and all costs and expenses connected with the inspection or audit (including without limitation, reasonable accounting and attorneys' fees, travel expenses, room and board and compensation of employees or agents of Franchisor). The foregoing remedies shall be in addition to any other remedies Franchisor may have hereunder or under applicable law.

ARTICLE XI

CONFIDENTIAL OPERATIONS MANUAL

11.1 Franchisor shall lend to Franchisee a confidential operations manual published by Franchisor (the "**Confidential Operations Manual**") which shall include, in part, the business

procedures, technical advice and rules and regulations for operating the business.

11.2 Franchisee acknowledges and agrees that:

A. The Confidential Operations Manual is, and shall remain, the property of Franchisor throughout the term of this Agreement and thereafter;

B. The Confidential Operations Manual contains confidential information which Franchisee will protect as a trade secret, and its loss will cause substantial damage to Franchisor and other franchisees, although the amount of such loss would be incalculable with any degree of accuracy;

C. Franchisee shall not reprint or reproduce any portion of the Confidential Operations Manual for any reason; and

D. Upon termination of this Agreement for any reason, Franchisee will immediately return the Confidential Operations Manual to Franchisor.

11.3 Franchisor may reasonably add to or otherwise modify the Confidential Operations Manual, from time to time, whenever it considers such additions or modifications desirable to improve or maintain the standards of the System and its efficient operation, or to protect or maintain the goodwill associated with the “JKJ” name and Marks or to meet competition, provided such additions or modifications are system-wide in nature and do not substantially increase Franchisee’s economic burden except as otherwise expressly permitted by this Agreement or applicable law.

11.4 Franchisor may amend the Confidential Operations Manual by issuing revised pages, electronic updates, or written bulletins. Each such amendment shall become binding on Franchisee as of the effective date stated in the notice, without the need for a separate signed amendment to this Agreement, subject to Section 11.3 and applicable law.

ARTICLE XII

INSURANCE

12.1 Franchisee, at its sole cost and expense, shall obtain and place with an insurer who is authorized to do business in the state in which Franchisee’s Store is located, and to keep in full force and effect during the terms of this Agreement, insurance coverage on an “occurrence basis” naming Franchisor, its officers, directors and shareholders and any supplier of Products, and any designated primary and secondary lessor as co-insured’s (such insurance policies referred to below collectively as “**Insurance**”) as follows:

A. Broad Form Comprehensive General Liability with limits of no less than Two Million Dollars (\$2,000,000) in case of damage or injury to one or more persons, including indemnification coverage and property damage insurance of Five Hundred Thousand Dollars (\$500,000); both of which shall be considered primary policies;

B. All risk coverage on all personal property covering Franchisee’s Store and

premises and contents thereof, including, without limitation, all supplies, inventory, fixtures, and equipment and business interruption in amounts not less than is sufficient to meet the co-insurance requirements of Franchisee's policies, and which business interruption insurance covers at least six (6) months of rent, royalties and advertising fees, and contain a replacement value endorsement in an amount not less than ninety percent (90%) of the replacement value thereof, and any loss shall be payable to Franchisor and Franchisee as their interests may appear;

C. Worker's Compensation and Disability Insurance as may be required by law;

D. Products Liability Insurance in an amount not less than Two Million Dollars (\$2,000,000), which policy shall be considered primary; and

E. Any other insurance coverage as required by the State, Federal or local municipality in which the franchised premises are located.

12.2 The insurance shall cover the acts or omissions of each and every one of the persons who perform services of any nature at Franchisee's Store, and shall protect against all acts of any persons who patronize the Store and shall contain a waiver of subrogation against Franchisor.

12.3 Prior to the opening of Franchisee's Store, Franchisee will deliver to Franchisor certificates of the Insurance, together with the copies of the actual policies issued, and will promptly pay all premiums thereon as and when the same become due. All policies shall provide that they are non-cancelable as to Franchisor unless Franchisor receives at least thirty (30) days' prior written notice of cancellation. Franchisor shall have the right, but shall not be obligated, to pay premiums due and unpaid by Franchisee or else to obtain substitute coverage in the case of cancellation. Any cost thereof to Franchisor shall be added to the Royalty Fees otherwise payable to Franchisor under this Agreement, provided, however, that same shall be due and payable to Franchisor by Franchisee within five (5) days of demand therefor.

12.4 Franchisor reserves the right to demand that Franchisee obtain Insurance from time to time which is different in coverage, risks, amount or otherwise from the foregoing in order to protect fully the parties having insurable interests in Franchisee's Store, provided such Insurance is reasonably common in the area for similar operations.

12.5 Franchisee shall immediately notify Franchisor, in writing, of any accidents, injury, occurrence or claim that might give rise to a liability or claim against Franchisor or which could materially affect Franchisee's business, and such notice shall be provided no later than the date upon which Franchisee notifies Franchisee's insurance carrier.

ARTICLE XIII

RELATIONSHIP OF THE PARTIES; INDEMNIFICATION

13.1 The relationship between Franchisor and Franchisee is strictly that of a franchisor and franchisee, and Franchisee shall be deemed to be an independent contractor. This Agreement does not create a fiduciary relationship between Franchisor and Franchisee, joint venture, partnership, or agency, and any act or omission of either party shall not bind or obligate the other

except as expressly set forth in this Agreement.

13.2 Franchisee recognizes that Franchisor has entered into this Agreement in reliance upon and in recognition of the fact that Franchisee will have full responsibility for the management and operation of the business, and that the amount of profit or loss resulting from the operation of the business will be directly and solely attributable to the performance of Franchisee.

13.3 Except as expressly granted in this Agreement, Franchisee recognizes that nothing contained in this Agreement shall be construed as giving to Franchisee or to any other person or entity, any right or interest in Franchisor's names, Marks, trade secrets, methods, procedures or techniques developed by Franchisor and used in the System. Further, except as specifically set forth in Article I above, nothing contained in this Agreement shall be construed as limiting Franchisor's right, title or interest in the "JKJ" name, Marks, trade secrets, methods, procedures and techniques which are a part of the System or Franchisor's sole and exclusive right to register trade secrets, methods, procedures and techniques.

13.4 In all public records and prominently displayed in Franchisee's Store and in Franchisee's relationship with third parties, as well as on letterheads and business forms, Franchisee shall indicate clearly the independent ownership of Franchisee's Store, and that the operations of same are separate and distinct from the operation of Franchisor's business. Franchisor shall have the absolute right to approve and/or supply any sign displays containing the foregoing.

13.5 Franchisor shall have no liability for any sales, use, excise, gross receipts, property or other taxes, whether levied upon Franchisee, the Store or its assets, or upon Franchisor in connection with sales made, services performed or business conducted by Franchisee.

13.6 Franchisee shall indemnify and hold Franchisor and its subsidiaries, affiliates, stockholders, directors, officers, employees, agents, attorneys and assignees harmless against, and to reimburse them for any loss, liability, taxes or damages (actual or consequential) and all reasonable costs and expenses of defending any claim brought against any of them or any action in which any of them is named as a party (including, without limitation, reasonable accountants', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses) which any of them may suffer, sustain or incur by reason of, arising from or in connection with Franchisee's ownership or operation of the Store, which is due to Franchisee's negligence, breach of contract or other civil wrongs, unless such loss, liability or damage is solely due to the negligence of Franchisor (or any of its affiliates, i.e., any company controlling, controlled by, or under common control with Franchisor) in producing, handling or storing the proprietary Products sold to Franchisee (provided Franchisor shall have established that Franchisee inspected such proprietary Products in accordance with the procedures set forth in the Confidential Operations Manual and could not have reasonably discovered the adulteration or other defect in such proprietary Products which was the case of such loss, liability or damage). Franchisee acknowledges and agrees that any action or inaction by any third party (e.g., an independent carrier) which is not an affiliate of Franchisor in connection with handling or storing the Products shall not be attributable to or constitute negligence of Franchisor.

13.7 Franchisor shall indemnify and hold Franchisee harmless against, and to reimburse Franchisee for, any loss, liability or damage (actual or consequential) and all reasonable costs and expenses of defending any claim brought against Franchisee or any action in which Franchisee is

named as a party (including, without limitation, reasonable accountants' attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses) which Franchisee may suffer, sustain or incur solely by reason of, arising from or in connection with the negligence of Franchisor (or any of its affiliates, i.e., any company controlling, controlled by or under common control with Franchisor) in producing, handling or storing the Products (provided Franchisee shall have established that Franchisee inspected such Products in accordance with the procedures set forth in the Confidential Operations Manual and could not have reasonably discovered the adulteration or other defect in such Products which was the cause of such loss, liability or damage). Franchisee acknowledges and agrees that any action or inaction by any third party (e.g., an independent carrier) which is not an affiliate of Franchisor in connection with handling or storing proprietary Products shall not be attributable to or constitute negligence of Franchisor.

ARTICLE XIV

COVENANTS NOT TO COMPETE

14.1 During the term of this Agreement, or any extension thereof, neither Franchisee, nor any partner, if Franchisee is a partnership, nor any shareholder, if Franchisee is a corporation, shall either directly or indirectly for himself or herself or on behalf of, or in conjunction with any other person, persons, partnership, association or corporation, own, maintain, engage in, participate or have any interest in the operation of any enterprise which is the same or substantially similar to the JKJ franchise, or any other business which distributes, produces or sells the Products (where the cumulative sales of such Products comprise at least 50% of total sales of such business), provided, however, that this prohibition should not apply to the ownership by Franchisee of additional JKJ Stores.

14.2 For a period of two (2) years following termination or expiration of this Agreement, except where the termination occurs due to the fault or action of Franchisor and not due to default of Franchisee or any partner, if Franchisee is a partnership, or any shareholder, if Franchisee is a corporation, Franchisee shall not, except with respect to the ownership or operation by Franchisee of additional Stores:

A. Engage, employ or compensate or seek to employ any person who is at that time engaged, operating or employed by or at any other Stores, or to otherwise directly or indirectly induce such person to leave employment at any Store;

B. Either directly or indirectly for himself or on the behalf of, or in conjunction with, any other person, persons, partnership, association or corporation, own, maintain, engage in, participate in, or have any interest in the operation of any enterprise which directly or indirectly competes with or is the same or substantially similar to the franchise covered by this Agreement, or which distributes, produces or sells the Products within the "Minimum Area of Competition". The "**Minimum Area of Competition**" shall be deemed to be that area which is within a radius of twenty (20) miles from Franchisee's Store, or any other Store in operation on the effective date of termination or expiration, whether franchised or company-owned.

14.3 If Franchisee fails or refuses to comply with any covenants of this Article, even if such failure or refusal is based upon a claim that the laws of any particular jurisdiction excuse such

non-compliance, or make the provisions unenforceable in whole or in part, and provided that the jurisdiction in which Franchisee's Store is located permits, Franchisee separately covenants and agrees that while this Agreement is in effect and for two (2) years after its termination, except where termination occurs due to the fault or action of Franchisor and not due to default of Franchisee, Franchisor shall have the right to require that all sales made in the operation of any business which directly or indirectly competes with: (a) Franchisor; (b) a Store; or (c) the System, or which distributes, produces or sells any of the Products (i) anywhere, if this Agreement is then in effect, or (ii) within the Minimum Area of Competition, if this Agreement has been terminated, shall be reported to Franchisor. Franchisee agrees to pay Franchisor upon demand, the weekly fee of Five Hundred Dollars (\$500) at the times and in the manner specified in Article V above, all without being deemed to revive, modify or expand this Agreement. The covenants of this Article shall survive the termination or expiration of this Agreement.

14.4 Franchisee shall not, during the term of this Agreement or after its termination, communicate or divulge to any other person, persons, partnership or corporation, any information or knowledge concerning the methods of operation used in a Store franchise, nor shall Franchisee disclose or divulge, in whole or in part, any trade secrets of Franchisor or its affiliated companies or subsidiaries.

14.5 The covenants contained in Sections 14.2, 14.3 and 14.4 above shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Article is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed with the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated and made a part of this Article.

14.6 Franchisee acknowledges that the foregoing restrictions are reasonable, are not vague or indefinite, and are designed to protect the legitimate business interests of Franchisor, and that in the event of a breach of covenants contained in this paragraph, the damage to Franchisor would be difficult to ascertain. In addition to the liquidated damages payable to Franchisor as provided below for the breach of any or all of the above covenants, Franchisor shall be entitled to seek injunctive and/or other equitable relief against the violation of any of those covenants, together with reasonable attorneys' fees and costs.

14.7 Covenants contained in this Article shall be construed as severable and independent and shall be interpreted and applied consistent with the requirements of reasonableness and equity. Any judicial reformation of these covenants consistent with this interpretation shall be enforceable as though contained in this Agreement and shall not affect any other provisions or terms of this Agreement.

ARTICLE XV

MODIFICATION OF THE SYSTEM

Franchisee understands and agrees that the System must not remain static if it is to meet, without limitation, presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, societal trends, other market place variables and the needs of customers, and to best serve the interests of Franchisor, Franchisee and all other franchisees.

Accordingly, Franchisee expressly understands and agrees that Franchisor may from time to time change the components of the System, including, but not limited to, altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition, other business combination or for other reasons; adding to, deleting from or modifying those programs and services which Franchisee's Store is authorized to offer; modifying or substituting entirely the building, premises, equipment, signage, trade dress, décor, color schemes and uniform specifications and all other unit construction, design, appearance and operation attributes which Franchisee is required to observe hereunder; and changing, improving or modifying the Marks. Subject to the other provisions of this Agreement, Franchisee expressly agrees to abide by any such modifications, changes, additions, deletions and alterations, provided, however, that those changes do not materially and unreasonably increase Franchisee's obligations under this Agreement.

Franchisee shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed.

Franchisor may amend the System and the Confidential Operations Manual from time to time on a system-wide or otherwise reasonable basis to preserve brand standards, adapt to changes in law, technology, market conditions, consumer preferences, supply conditions, and other legitimate business needs. No such amendment shall materially and unreasonably increase Franchisee's obligations under this Agreement, including economic requirements, except as otherwise expressly permitted by this Agreement or applicable law. Nothing in this Article XV waives any claim or remedy that may not be waived under applicable law.

Except as provided in this Agreement, Franchisor shall not be liable to Franchisee for any expenses, losses or damages sustained by Franchisee as a result of any of the modifications contemplated hereby.

ARTICLE XVI

FRANCHISEE

The term "**Franchisee**" shall include all persons who succeed to the interest of the original Franchisee by transfer or operation of law, and shall be deemed to include not only the individual or entity defined as "**Franchisee**" in the introductory paragraph of this Agreement, but shall also include partners of the entity that execute this Agreement in the event the entity is a partnership, and all shareholders, officers and directors of the entity that execute this Agreement in the event the entity is a corporation. By their signatures to this Agreement, all partners, shareholders, officers and directors of the entity that signs this Agreement as Franchisee acknowledge and accept, jointly and severally, the duties and obligations imposed upon each of them, individually, by the terms of this Agreement. The singular usage includes the plural and the neuter and masculine usages include the other and the feminine.

ARTICLE XVII
TERMINATION

17.1 Franchisor may terminate this Agreement upon the occurrence of any of the following events of default:

A. Failure to comply with the reporting or record keeping requirements of this Agreement;

B. A breach by Franchisee of any provision of this Agreement, any material provision of the Confidential Operations Manual, or any other agreement between Franchisor and Franchisee or any of its subsidiary or affiliated corporations;

C. Failure by Franchisee to make good faith efforts to carry out the provisions of this Agreement;

D. Failure by Franchisee, after completion of the initial ramp-up period described in Section 8.19, to satisfy the Minimum Performance Standards applicable to the Store, provided that Franchisor has first given Franchisee written notice describing the deficiency in reasonable detail and Franchisee has failed to cure such deficiency within sixty (60) days after receipt of such notice; provided, however, that if the deficiency is not reasonably capable of complete cure within such sixty (60)-day period, Franchisee shall not be deemed in default if Franchisee commences cure within such period and thereafter diligently prosecutes cure to completion pursuant to a written corrective action plan approved by Franchisor, to the extent permitted by applicable law.

E. Franchisee's engaging in any conduct or practice that is a fraud upon consumers, or is an unfair, unethical, or deceptive trade, act or practice;

F. Any pledge or attempted pledge of Franchisor's credit by Franchisee, or an attempt by Franchisee to bind Franchisor to any obligation;

G. Failure by Franchisee to participate in the advertising, promotional, or marketing activities, services, and programs that are established by Franchisor or Franchisor's Marketing Fund;

H. Unauthorized or improper use by Franchisee of Franchisor's Marks;

I. Misuse or unauthorized disclosure by Franchisee of the Confidential Operations Manual, information or materials;

J. Failure to use or sell any of the proprietary Products to the exclusion of those of any competitors and the failure to perform all of the services required by Franchisor, including but not limited to the forwarding of copies of all health or sanitation or other regulatory agency reports to Franchisor immediately upon receipt thereof;

K. Failure to open Franchisee's Store at the location designated by Franchisee within the time specified in the lease or sublease;

L. Except as otherwise provided herein, failure by Franchisee to purchase Franchisee's entire requirement of any of the proprietary Products either from Franchisor or from sources of supply designated by Franchisor and to sell the same to the consuming public using Franchisee's best efforts; or

M. Sale of any proprietary Products to other than the retail customer (ultimate consumer), without Franchisor's prior consent.

17.2 To terminate Franchisee for default of this Agreement pursuant to Section 17.1 above, Franchisor shall first provide Franchisee with written notice of termination, which notice shall specify the reason for and the Effective Date of Termination. This Agreement shall terminate on the date specified in the notice, which shall not be less than sixty (60) days from the date of the notice (or such longer period as provided by State law), unless:

A. Franchisee cures the default or reason for termination during the notice period; or

B. Franchisee has in good faith initiated a cure of the default or reason for termination within the notice period, and such default or reason cannot be completely cured during the notice period because of factors reasonably beyond the exclusive control of Franchisee, in which event Franchisor, by notice, shall permit Franchisee a reasonable opportunity, in light of such factors, to effect a complete cure.

17.3 Upon written notice to Franchisee, Franchisor may, without right to cure, immediately terminate this Agreement if any of the following events of default occur:

A. Any action by Franchisee, any of Franchisee's partners, if Franchisee is a partnership, or any of its officers, directors or stockholders, if Franchisee is a corporation, which results in:

(i) An affirmative act of insolvency;

(ii) An assignment for the benefit of creditors; or

(iii) The filing of a petition under any bankruptcy, reorganization, insolvency, or moratorium law, or any law for the relief of, or relating to, debtors, except with respect to any relief permitted under the Federal Bankruptcy Code.

B. The filing of any involuntary petition under any bankruptcy statute against Franchisee, any of its partners, or any of its stockholders owning at least twenty-five (25%) percent of any class of stock, or the appointment of any receiver or trustee to take possession of property of Franchisee, any of its partners, or any of its stockholders owning at least twenty-five (25%) percent of any class of stock of Franchisee;

C. Failure by Franchisee to satisfy fully a civil judgment obtained against Franchisee for a period of more than thirty (30) days after all rights of appeal have been exhausted, or execution of such a judgment, execution of a lien, or foreclosure by a secured party or mortgage

against Franchisee's property, which judgment, execution of a lien, or foreclosure by a secured party or mortgage would have an adverse or detrimental effect upon Franchisee's franchised operation;

D. Conviction of Franchisee, or any partner of Franchisee, or any officer, director, or stockholder owning at least twenty-five (25%) percent of any class of stock of Franchisee, or the manager of Franchisee's franchise, of a felony or any other criminal misconduct which is relevant to the operation of the Franchise Store;

E. The uncured default by Franchisee under any lease or sublease of Franchisee's Store which could possibly result in the loss by Franchisee of the right to possess for any reason whatsoever;

F. A final judgment or the unappealed decision of a court, regulatory officer, agency, or quasi-regulatory agency that results in the temporary or permanent suspensions or revocation of any permits or licenses, possession of which is a prerequisite to the operation of Franchisee's business or is required under applicable law;

G. The direct or indirect assignment, transfer, sale or encumbrance by Franchisee of this Agreement or franchise or any of Franchisee's rights or privileges contrary to this Agreement, or any attempt by Franchisee to sell, assign, transfer or encumber the Store contrary to the terms of this Agreement;

H. Failure by Franchisee to remain open for business as required by this Agreement or as may be required by the Confidential Operating Manual, as may be limited by local law or the prime landlord, or the abandonment or vacating by Franchisee of Franchisee's Store for five (5) or more consecutive days (or for such other period as would be grounds for termination of Franchisee's sublease);

I. Dissolution, judicial or otherwise, or liquidation of Franchisee, if Franchisee is a corporation or partnership;

J. The Franchisor and Franchisee agree in writing to terminate this Agreement;

K. The Franchisee makes any material misrepresentations relating to the acquisition of the franchise or the Franchisee engages in conduct which reflects materially and unfavorably upon the operation and reputation of the Franchisor's business or the System;

L. The Franchisee fails, for a period of ten (10) days after notification of noncompliance, to comply with any federal, state, or local law or regulation, including, but not limited to, all health, safety, building, and labor laws or regulations applicable to the operation of the franchise;

M. The Franchisee repeatedly fails to comply with one or more requirements of this Agreement, whether or not corrected after notice;

N. The Franchisee fails to pay any fees or other amounts due to the Franchisor within five (5) days after receiving written notice that such fees are overdue; or

O. The Franchisor makes a reasonable determination that continued operation of the Franchise Store by the Franchisee will result in an imminent danger to public health or safety.

ARTICLE XVIII
RIGHTS AND DUTIES OF THE PARTIES
UPON EXPIRATION OR TERMINATION

18.1 For the purpose of this Agreement, the “**Effective Date of Termination**” shall be the date indicated in any notice of termination sent pursuant to Section 17.2 or 17.3 of this Agreement or the day after the Term, as set forth in Section 4.1 of this Agreement.

18.2 Upon the Effective Date of Termination, Franchisee shall no longer be an authorized franchisee, and Franchisee shall pay all sums of money due Franchisor or any of its subsidiary or affiliated corporations within fifteen (15) days of the Effective Date of Termination, unless Franchisor gives written notice of an extension of this period.

18.3 Upon the Effective Date of Termination, Franchisee shall discontinue the use of all Marks owned by or associated with Franchisor and all similar names and marks, or any other designation or mark associating Franchisee with the System. If Franchisee is a corporation or partnership and, notwithstanding the prohibition of utilizing the “JKJ” name in its corporate or partnership name, has used the “JKJ” name or any names, marks or designations that associate Franchisee with Franchisor in its corporate or partnership name, Franchisee shall, within fifteen (15) days of the Effective Date of Termination, take all necessary steps to eliminate “JKJ” from its corporate or partnership name, at Franchisee’s own cost and expense.

18.4 Upon the Effective Date of Termination, Franchisee shall cease displaying and using all signs, stationery, letterheads, forms, manuals, printed matter, advertising, and other material containing the Marks, “JKJ” or any other names, marks, or designations that associate Franchisee with the System.

18.5 After the Effective Date of Termination, Franchisee shall not take any action indicating or implying that Franchisee is an authorized franchisee.

18.6 Franchisee shall maintain all financial records and reports required pursuant to this Agreement or the Confidential Operations Manual for a period of not less than three (3) years after the Effective Date of Termination. Franchisee shall permit Franchisor to make final inspection of Franchisee’s financial records, books, tax returns, and other accounting records at any time in the three (3) year period following the Effective Date of Termination.

18.7 Upon the Effective Date of Termination, Franchisee shall, pursuant to the lease or sublease or conditional lease assignment **and** upon written demand of Franchisor, vacate and surrender the Store premises in accordance with the terms and conditions under the terms of the lease, sublease and/or conditional lease assignment. Where no such written demand is made by Franchisor, Franchisee shall retain exclusive control of the leased premises.

18.8 Upon the Effective Date of Termination, Franchisee shall cease all use of telephone numbers used by Franchisee while conducting business as a “JKJ” franchise and shall promptly execute such documents or take such steps necessary to remove Franchisee’s listing as a “JKJ” franchise from the “Yellow Pages”, all other telephone directories, and all other trade or other business directories.

18.9 Within fifteen (15) days from the Effective Date of Termination of this Agreement, Franchisee shall immediately turn over to Franchisor all manuals, including the Confidential Operations Manual, records, files, instructions, recipes, correspondence, any and all materials relating to the operation of the Franchised Business in Franchisee’s possession, and all copies of such written materials (all of which are acknowledged to be Franchisor’s property), and shall retain no copy or record of any of the foregoing, except only Franchisee’s copy of this Agreement, and of any correspondence between the parties, and any other documents which Franchisee reasonably needs for compliance with any provision of law and the records described in Section 18.6 above.

18.10 If Franchisor notifies Franchisee of its intent to do so within ten (10) days after the Effective Date of Termination, Franchisor shall have the right (but not the duty) to purchase any or all of the signs, advertising material, supplies, equipment and any items bearing Franchisor’s Marks at Franchisee’s cost or fair market value, whichever is less. If the parties cannot agree on fair market value within a reasonable time, each party shall designate an independent qualified appraiser, and their joint determination shall be binding on both parties. If these appraisers are unable to agree upon a fair market value, they will designate a third, approved appraiser whose determination shall be binding upon both parties. If Franchisor elects to exercise its option to purchase, it shall have the right to set off all amounts due from Franchisee under this Agreement, and the cost of the appraisal, if any, against any payment therefor.

18.11 No right or remedy conferred upon or reserved to Franchisor in this Agreement is exclusive of any other right or remedy contained in this Agreement, or provided or permitted by law or equity, but each shall be cumulative of every other right or remedy.

18.12 Nothing contained in this Agreement shall be deemed to relieve Franchisee of any obligations or responsibilities or liabilities incurred by Franchisee during the term of this Agreement or Franchisee’s lease or sublease and which obligations, responsibilities or liabilities shall survive the termination or expiration of this Agreement, Franchisee’s lease or sublease.

18.13 If this Agreement is terminated by Franchisor before the expiration of the Term due to Franchisee’s default under Article XVII, Franchisee shall pay to Franchisor, as liquidated damages and not as a penalty, an amount equal to the present value, discounted at the Prime Rate published in The Wall Street Journal on the Effective Date of Termination, of: (x) the average monthly Royalty Fee and Marketing Fee actually paid or due under this Agreement during the twelve (12) full calendar months immediately preceding the Effective Date of Termination; or, if the Store has operated for fewer than twelve (12) full calendar months, the average monthly Royalty Fee and Marketing Fee actually paid or due during the full calendar months the Store operated; multiplied by (y) the number of whole and partial months remaining in the Term as of the Effective Date of Termination.

The parties acknowledge that, at the time this Agreement is entered into, the actual damages Franchisor would sustain from an early termination for Franchisee default would be impracticable and extremely difficult to determine with precision, and that the foregoing formula represents the

parties' reasonable pre-estimate of such damages.

The liquidated damages described in this Section are in addition to: (i) all amounts accrued and unpaid through the Effective Date of Termination; and (ii) Franchisee's other post-termination obligations under this Agreement. Franchisor shall not recover duplicate amounts for the same post-termination period as both liquidated damages and continuing Royalty Fees or Marketing Fees.

ARTICLE XIX

COMMENCEMENT AND HOURS OF OPERATIONS

Franchisee recognizes that continuous and regular availability of the Products to the public is important to the operation of the Store and the System. Franchisee shall keep the Store open for business from 10:00 a.m. to 7:00 p.m. local time, seven (7) days per week (i.e. including Sunday), except on , except on New Years Day (January 1), Independence Day (July 4), Thanksgiving Day (fourth Thursday of November), and Christmas Day (December 25), and any other designated holidays identified by Franchisor in the Confidential Operations Manual or other written system standards, or as otherwise required by applicable law, the lease or sublease, or Franchisor's prior written approval. Franchisor may modify the required days or hours of operation from time to time upon reasonable prior notice, on a system-wide or otherwise reasonable basis, taking into account local conditions, lease requirements, shopping-center requirements, and applicable law, provided that any such change shall not materially and unreasonably increase Franchisee's obligations except as otherwise permitted by this Agreement or applicable law.

ARTICLE XX

TRANSFERABILITY OF INTEREST

20.1 Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee, and that neither this Agreement nor the franchise granted shall be assignable or transferable by Franchisee, nor may the same be mortgaged, pledged or encumbered by him without the express prior written consent of Franchisor. Any purported assignment, mortgage, pledge or encumbrance of any rights under this Agreement or the franchise, without the prior written consent of Franchisor, shall be null and void. The issuance or transfer of any stock (including by way of any public stock offering) or partnership interest(s) in Franchisee, or its merger, a consolidation or dissolution, if Franchisee is a corporation or a partnership, shall be deemed an assignment of this Agreement and of the franchise.

20.2 If Franchisee is an individual, Franchisor hereby consents, upon thirty (30) days' prior written notice, to the assignment by Franchisee of all of Franchisee's rights and benefits under this Agreement to a corporation of which Franchisee owns at least a majority of the voting and equity stock, provided that:

A. Such corporation is newly organized and its activities and corporate purposes are confined exclusively to acting as a Store franchised under this Agreement;

B. Such corporation and all of its stockholders execute a Transfer of Franchise to a Corporation form, or such other form as shall be provided or approved by Franchisor, in which they jointly and severally assume all of the past and future obligations of Franchisee under this Agreement, to the same extent as if they had originally executed this Agreement as Franchisee;

C. Franchisee or Franchisee's designated manager actively manages such corporation and continues to devote Franchisee's best efforts and full and exclusive time to the day-to-day operation and development of the franchise and the business of the Store and Franchisee shall remain personally liable in all respects under this Agreement, including but not limited to payment for the purchase of any of the Products, jointly and severally with such corporation and any and all other stockholders thereof; and

D. All stock certificates of such corporation bear a legend substantially in the following form, which shall be printed legibly and conspicuously on the front of each such stock certificate:

"The transfer of this stock certificate is subject to the terms and conditions of a certain Franchise Agreement entered into with Korean Red Ginseng Corp., Inc. dated _____, 20__".

20.3 **First Right of Refusal to Franchisor.** If Franchisee, any stockholder or partner of a corporate or partnership Franchisee, or any legal heir or legatee of any deceased Franchisee, or of any deceased stockholder or partner of any corporate or partnership Franchisee, desires to effect any sale or assignment of any partnership interest, stock or other interest in this Agreement, or of Franchisor's rights and benefits under this Agreement, including, without limitation, the franchise granted by this Agreement, and/or the ownership or sublease for the Store franchised by this Agreement, Franchisee or such other authorized person or party shall give Franchisor written notice of all of the terms of any such bona fide offer within fifteen (15) days after receipt of such offer, and providing Franchisor with all other documents and data required prior to Franchisor approving the sale. Franchisor shall have the right of first refusal, for a period of fifteen (15) days after receipt of such notice, to notify Franchisee or such other authorized person or party of Franchisee's desire to exercise such option under the same terms and conditions as the bona fide offer. If Franchisor fails to exercise such option in the time period allotted, then Franchisee shall be free to contract with the person who made such bona fide offer solely on the same terms and conditions, subject to Franchisee's compliance with all of the other terms and provisions of this Agreement. In the event the terms of such bona fide offer change at any time, then at the time of any change, Franchisee must re-offer the franchise to Franchisor for an additional fifteen (15) day period.

20.4 In addition to all of the other conditions set forth in Sections 20.2 and 20.3 above that pertain to the right of Franchisee to assign, transfer or sell the license created hereunder, Franchisee agrees that any and all rights of assignment, transfer or sale by Franchisee of this franchise and the its rights are conditioned upon compliance with each of the following:

A. Any such assignment, transfer, or sale shall be subject to the approval by Franchisor of such assignee, and of the moral and credit background of such assignee and any and all stockholders or partners of assignee, which approval shall not be unreasonably withheld;

B. The assignee, transferee, or purchaser, and all stockholders or partners thereof, if same is a corporation or partnership, shall at Franchisor's option either personally assume in writing all of the obligations of Franchisee, disclosed or undisclosed including all obligations under this Agreement, or execute the then-current Franchise Agreement, in the form used by Franchisor, except that the Royalty Fee and Advertising Fee under the then-current Franchise Agreement shall not be greater than that provided by Article V and IX above for the remainder of the term of this Agreement;

C. Franchisee, such assignee, transferee or purchaser and any and all stockholders or partners thereof, shall execute a general release in favor of Franchisor, its officers, directors, and employees, of any and all claims and causes of action that they may have against Franchisor or its subsidiary or affiliated corporations in any way relating to this Agreement or the performance or non-performance under this Agreement by Franchisor;

D. All prior obligations and debts of Franchisee or corporate assignee of Franchisee owed to Franchisor under or in connection with this Agreement shall be paid concurrently with such assignment;

E. Franchisee must not be in default under this Agreement or of any lease or sublease agreement to which Franchisee is a party;

F. Assignee, transferee or purchaser shall not be in the same business as Franchisor either as a franchisor, licensor, independent operator or franchisee of any chain or network which is similar in nature or in competition with Franchisor except that the assignee, transferee or purchaser may be an existing franchisee of Franchisor;

G. Prior to the effective date of the assignment, transfer or sale, the assignee, transferee, or purchaser must satisfactorily complete Franchisor's training program required of all new franchisees;

H. Assignee, transferee, or purchaser shall, prior to any such assignment, pay to Franchisor a non-refundable training and transfer fee equal to fifty percent (50%) of the then-current Initial Franchise Fee ("**Transfer Fee**"), to reimburse Franchisor for its legal and accounting fees, credit investigation, training expenses, and other charges and expenses in connection with such assignment, transfer or sale; and

I. Franchisee shall enter into an agreement with Franchisor agreeing to subordinate such assignee's, transferee's or purchaser's obligations to Franchisor, including, without limitation, any Royalty Fees and Advertising Fees, and any obligations of such assignee, transferee or purchaser to make installment payments of the purchase price to Franchisee.

20.5 Franchisor shall have the right, without the need for Franchisee's consent, to assign, transfer or sell its rights under this Agreement to any person, partnership, corporation or other legal entity, provided that the transferee agrees in writing to assume all obligations undertaken by Franchisor in this Agreement and Franchisee receives a statement from both Franchisor and its transferee to that effect. Upon such assignment and assumption, Franchisor shall be under no further

obligation hereunder, except for accrued liabilities, if any. Franchisee further agrees and affirms that Franchisor may go public; may engage in a private placement of some or all of its securities; may merge, acquire other corporations, or be acquired by another corporation; and/or may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. With regard to any of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or related to the loss of Franchisor's name, Marks (or any variation thereof) and System and/or the loss of association with or identification of Korean Red Ginseng Corp., Inc. as Franchisor under this Agreement. Franchisee specifically waives any and all other claims, demands or damages arising from or related to the foregoing merger, acquisition and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract or breach of the implied covenant of good faith and fair dealing.

Franchisee acknowledges and agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business, regardless of the location of that chain's or business's facilities, and to operate, franchise or license those businesses and/or facilities as JKJ Stores operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of these facilities, which Franchisee acknowledges may be near to any of Franchisee's locations.

If Franchisor assigns its rights in this Agreement, nothing in this Agreement shall be deemed to require Franchisor to remain in the "JKJ" business or to offer or sell any products or services to Franchisee.

20.6 In addition to the requirements of this Article, Franchisee must, within fifteen (15) days of receipt of an offer to buy, give Franchisor additional written notice whenever Franchisee has received an offer from a third party to buy Franchisee's business franchised under this Agreement. Franchisee must also give Franchisor written notice simultaneously with any offer to sell Franchisee's Store made by, for, or on behalf of Franchisee. The purpose of this Subsection is to enable Franchisor to comply with any applicable state or federal franchise disclosure law or rules. Franchisee will indemnify and hold Franchisor harmless for Franchisee's failure to comply with this Subsection.

20.7 Franchisor's consent to an assignment of any interest subject to the restrictions of this Agreement shall not constitute a waiver of any claims it may have against the assignor, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms or conditions of this Agreement by the assignee, transferee or purchaser.

20.8 If, subject to the restrictions and conditions of transfer contained in this Article, Franchisee shall attempt to raise or secure funds by the sale of securities (including, without limitation, common or preferred stock, bonds, debentures or general or limited partnership interests) in Franchisee or any affiliates of Franchisee, Franchisee, recognizing that the written information used with respect thereto may reflect upon Franchisor, will submit any such written information to Franchisor prior to its inclusion in any registration statement, prospectus or similar offering circular or memorandum and will obtain the written consent of Franchisor to the method of financing prior to any offering or sale of such securities. For each proposed offering, Franchisee shall pay Franchisor a non-refundable fee in an amount equal to Five Thousand Dollars (\$5,000) in order to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering,

including, without limitation, legal and accounting fees. The written consent of Franchisor pursuant to this Section 20.8 shall not imply or constitute the approval of Franchisor with respect to the method of financing, the offering literature submitted to Franchisor or any other aspect of the offering. No information respecting Franchisor or any of its affiliates shall be included in any securities disclosure document, unless such information has been furnished by Franchisor, in writing, pursuant to the written request of Franchisee, in which Franchisee states the specific purpose for which the information is to be used. Should Franchisor, in its sole discretion, object to any reference to Franchisor or any of its affiliates or any of their businesses in such offering literature or prospectus, such literature or prospectus shall not be used unless and until the objections of Franchisor are withdrawn. Franchisor assumes no responsibility for any offering.

The prospectus or other literature utilized in any such offering shall contain the following language in bold-face type on the first textual page thereof:

“NEITHER KOREAN RED GINSENG CORP., INC. NOR ANY OF ITS AFFILIATES ASSUMES ANY RESPONSIBILITY WITH RESPECT TO THIS OFFERING AND/OR THE ADEQUACY OR ACCURACY OF THE INFORMATION SET FORTH HEREIN, INCLUDING ANY STATEMENTS MADE WITH RESPECT TO ANY OF THEM. NEITHER KOREAN RED GINSENG CORP., INC. NOR ANY OF ITS AFFILIATES ENDORSES OR MAKES ANY RECOMMENDATION WITH RESPECT TO THE INVESTMENT CONTEMPLATED BY THIS OFFERING.”

Franchisee and each of its owners agrees to indemnify, defend and hold harmless Franchisor and its affiliates, and their respective officers, directors, employees and agents, from any and all claims, demands, liabilities, and all costs and expenses (including, without limitation, reasonable attorneys’ fees) incurred in the defense of such claims, demands or liabilities, arising from the offer or sale of such securities, whether asserted by a purchaser of any such security or by a governmental agency. Franchisor shall have the right (but not the obligation) to defend any such claims, demands or liabilities and/or to participate in the defense of any action to which Franchisor or any of its affiliates or any of their respective officers, directors, employees or agents is named as a party.

ARTICLE XXI

DEATH OR INCAPACITY OF FRANCHISEE

21.1 In the event of the death or permanent incapacity or disability of Franchisee, i.e., Franchisee is unable to operate the Store as an individual franchisee, or any partner of a Franchisee which is a partnership, or any shareholder owning fifty percent (50%) or more of the capital stock of a Franchisee which is a corporation, Franchisor shall consent to a transfer of that Franchisee’s interest to Franchisee’s heirs, beneficiaries or family designees (referred to in this Article as “**Transferee**”) without payment of a transfer fee, subject to the following conditions:

A. Transferee must complete, and be approved through, Franchisor’s standard franchise selection process, including satisfactorily demonstrating to Franchisor that Transferee meets the financial character and managerial criteria as Franchisor shall then be applying in considering applications for new franchisees;

B. Transferee shall agree, in writing, to personally assume liability for and to perform all the terms and conditions of this Agreement to the same extent as the original Franchisee; and

C. If Transferee is not approved, Franchisee or Franchisee's legal representative shall use that person's best efforts to sell the Store to a party acceptable to Franchisor within twelve (12) months from the date of Franchisee's death or permanent incapacity or disability and Franchisor shall have the option, but not the obligation, to operate and/or manage the Store for the account of Franchisee's estate until the deceased or incapacitated Franchisee's interest is transferred to another party acceptable to Franchisor. Should Franchisor elect to operate and/or manage the franchised Store, Franchisor shall make a complete accounting and shall forward fifty percent (50%) of the net income for the operation of the Store to Franchisee's estate. If the conveyance of the Store to a party acceptable to Franchisor has not taken place within the twelve (12) month period, Franchisor shall have the option, but not the duty, to purchase the Store and its equipment at the fair market value thereof as determined by independent qualified appraisers selected by Franchisor and the estate. In the event that these appraisers cannot agree on a fair market value, a third appraiser shall be selected by the other two appraisers and that appraiser's determination shall be binding on both parties. However, if Franchisor chooses not to repurchase the Store, then it may elect to terminate this Agreement, in which event the business franchised under this Agreement will automatically revert back to Franchisor, with Franchisor being obligated to purchase the equipment and trade fixtures at their book value, as set forth in the last certified financial statement of Franchisee.

ARTICLE XXII

OPERATION IN THE EVENT OF ABSENCE OR DISABILITY

In order to prevent any interruption of the Store operations which would cause harm to the Store, thereby depreciating its value, if Franchisee is absent for any reason or is incapacitated by reason of illness and is unable, in the sole and reasonable judgment of Franchisor, to operate the Store, Franchisee authorizes Franchisor, who may, at its option, operate the Store for so long as Franchisor deems necessary and practical, and without waiver of any other rights or remedies Franchisor may have under this Agreement. All monies from the operation of the Store during such period of operation by Franchisor shall be kept in a separate account, the expenses of the Store, including reasonable compensation and expenses for Franchisor's representative, shall be charged to that account. If, as provided in this Article, Franchisor temporarily operates the Store for Franchisee, Franchisee will indemnify and hold harmless Franchisor and any representative of Franchisor who may act under this Agreement, from any and all acts which Franchisor may perform, as regards the interests of Franchisee or third parties.

ARTICLE XXIII

INJUNCTIVE RELIEF

23.1 If Franchisee is in default, except for default with respect to monies required to be paid by Franchisee to Franchisor, under any provisions of this Agreement, Franchisor shall be entitled to seek a permanent injunction and any preliminary or temporary equitable relief in order

to restrain the violation of this Agreement by Franchisee or any person acting for Franchisee or in Franchisee's behalf. Franchisor shall be entitled to its reasonable attorneys' fees and courts costs in connection with taking such action or in connection with any other remedy sought by Franchisor, provided Franchisor is the prevailing party. This remedy shall be cumulative to any other remedy available to Franchisor.

23.2 Franchisee agrees that it is impossible to measure in money the damages which Franchisor will sustain in the event of Franchisee's breach of this Agreement and, therefore, in the event Franchisor institutes injunctive proceedings under this Article, Franchisee waives the defense that Franchisor has an adequate remedy at law.

ARTICLE XXIV

OTHER OBLIGATIONS

Nothing contained in this Agreement shall inhibit or limit the unrestricted right of Franchisor to enter into or engage in any business or in the sale itself, or the licensing to others for the sale, of the proprietary Products other than the limitations imposed upon Franchisor by Article I above; Franchisee shall have no rights, benefits or entitlement with respect thereto.

ARTICLE XXV

FORCE MAJEURE

Neither party shall be responsible to the other for non-performance or delay in performance occasioned by causes beyond its control, including without limitation, the generality of the foregoing acts or omission of other party, acts of civil or military authority, strikes, lockouts, embargoes, insurrections or acts of God, inability of Franchisor to purchase, deliver and/or manufacture of any of the proprietary Products, provided that inability of a party to obtain funds shall be deemed to be a cause within the control of such party. If any such delay occurs, any applicable time period shall be automatically extended for a period equal to the time lost, provided that the party affected makes reasonable efforts to correct the reason for such delay and gives to the other party prompt notice of any such delay.

ARTICLE XXVI

WAIVER OF VIOLATION OR DEFAULT

Waiver by Franchisor or Franchisee of any violation or default hereunder shall not alter or impair either party's right with respect to any subsequent violation or default, nor shall any delay or omission on the part of either party to exercise any right arising from such violation of default alter or impair such party's rights as to the same or any future violation or default. An acceptance by Franchisor of any payment from Franchisee after the date on which such payment is due shall not operate as a waiver of Franchisee's default or violation hereunder, nor alter or impair Franchisor's rights with respect to such violation or default.

ARTICLE XXVII
NOTICE AND TIME

27.1 All communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when delivered personally or by fax transmission, or one (1) business day after being sent by overnight commercial courier service for next business day delivery, or five (5) days after being deposited in the United States mail, for certified or registered delivery, return receipt requested, postage prepaid. Notice to Franchisor shall be addressed to:

Notices to Franchisor:

Korean Red Ginseng Corp., Inc.

12750 Center Court Drive, Suite 100
Cerritos, CA 90703
Tel: (562) 860-2323
Attention: President

Notice to Franchisee shall be addressed to:

Either party may designate another address at any time by written notice to the other. Additionally, all payments and reports, required to be made, by Franchisee under this Agreement shall be given to Franchisor at the above address, except that regular reports may be sent by regular mail.

27.2 Time is of the essence in this Agreement with respect to each and every provision in which time is a factor. Whenever this Agreement refers to a period of days, the first day to be counted shall be the first day following the designated action or event. For any period of five (5) or fewer days, only business days (excluding Saturdays, Sundays and national holidays) shall be counted. Unless expressly stated otherwise, any period longer than five (5) days shall be measured by calendar days, except that if the last day of any such period is not a business day, the period shall automatically be extended to the next business day.

ARTICLE XXVIII
APPLICABLE LAW AND VENUE

28.1 This Agreement takes effect upon its acceptance and execution by Franchisor in California, and shall be interpreted and construed under the laws of California, which laws shall prevail in the event of any conflict of law.

28.2 No right or remedy conferred upon or reserved to Franchisor or Franchisee by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy in this

Agreement or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

28.3 Nothing contained in this Agreement shall bar Franchisor's right to seek injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

28.4 Franchisee acknowledges that Franchisee has and will continue to develop a substantial and continuing relationship with Franchisor at its principal offices in the State of California, where Franchisor's decision-making authority is vested and franchise operations are conducted and supervised. Therefore, the parties irrevocably agree and consent that in any action or proceeding brought by either party to this Agreement, each will submit to the exclusive jurisdiction and venue of any local, state or federal court located in Los Angeles County, California.

28.5 The parties agree to waive, now and forever, any and all rights either may have under the federal RICO statute.

28.6 The parties waive to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other, and agree that in the event of a dispute between them, each shall be limited to the recovery of any actual damages sustained by it. The parties irrevocably waive trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either of them.

28.7 In the event Franchisor employs legal counsel or incurs other expense to enforce any obligation of Franchisee under this Agreement, or to defend against any claim, demand, action or proceeding by reason of Franchisee's failure to perform any obligation imposed upon Franchisee by this Agreement, Franchisor shall be entitled to recover from Franchisee the amount of all reasonable attorneys' fees of such counsel and all other expenses incurred in enforcing such obligation or in defending against such claim, demand, action, or proceeding, whether incurred prior to or in preparation for or contemplation of the filing of such action or thereafter.

28.8 Franchisee agrees that he will not, on grounds of the alleged non-performance by Franchisor of any of its obligations under this Agreement, withhold payment of any Royalty Fee, advertising contributions or any other amounts due to Franchisor.

ARTICLE XXIX

ARBITRATION

29.1 IF ANY PARTY IS REQUIRED TO EMPLOY LEGAL COUNSEL OR TO INCUR OTHER REASONABLE EXPENSES TO ENFORCE ANY OBLIGATION OF ANOTHER PARTY, OR TO DEFEND AGAINST ANY CLAIM, DEMAND, ACTION, OR PROCEEDING BY REASON OF ANOTHER PARTY'S FAILURE TO PERFORM ANY OBLIGATION IMPOSED UPON SUCH PARTY BY THIS AGREEMENT, AND PROVIDED THAT LEGAL ACTION IS FILED BY OR AGAINST THE FIRST PARTY AND SUCH ACTION OR ITS SETTLEMENT ESTABLISHES THE OTHER PARTY'S DEFAULT, THEN THE PREVAILING PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY THE AMOUNT OF ALL REASONABLE ATTORNEYS' FEES OF SUCH COUNSEL AND ALL OTHER EXPENSES REASONABLY INCURRED IN ENFORCING SUCH OBLIGATION OR

IN DEFENDING AGAINST SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING, WHETHER INCURRED PRIOR TO OR IN PREPARATION FOR OR CONTEMPLATION OF THE FILING OF SUCH ACTION OR THEREAFTER. NOTHING CONTAINED IN THIS PARAGRAPH SHALL RELATE TO ARBITRATION PROCEEDINGS PURSUANT TO THIS AGREEMENT.

29.2 EXCEPT AS SPECIFICALLY OTHERWISE PROVIDED IN THIS AGREEMENT, THE PARTIES AGREE THAT ALL CONTRACT DISPUTES THAT CANNOT BE AMICABLY SETTLED BETWEEN THEM SHALL BE DETERMINED SOLELY AND EXCLUSIVELY BY ARBITRATION UNDER THE FEDERAL ARBITRATION ACT, AS AMENDED, AND IN ACCORDANCE WITH THE RULES OF THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THEREOF. ARBITRATION SHALL TAKE PLACE IN LOS ANGELES COUNTY, CALIFORNIA.

29.3 EACH PARTY SHALL SELECT ONE (1) ARBITRATOR (WHO SHALL NOT BE COUNSEL FOR THE PARTY), AND THE TWO (2) SO DESIGNATED SHALL SELECT A THIRD ARBITRATOR. IF EITHER PARTY SHALL FAIL TO DESIGNATE AN ARBITRATOR WITHIN SEVEN (7) DAYS AFTER ARBITRATION IS REQUESTED, OR IF THE TWO ARBITRATORS SHALL FAIL TO SELECT A THIRD ARBITRATOR WITHIN FOURTEEN (14) DAYS AFTER ARBITRATION IS REQUESTED, THEN AN ARBITRATOR SHALL BE SELECTED BY THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THERETO UPON APPLICATION OF EITHER PARTY. JUDGMENT UPON ANY AWARD OF THE MAJORITY OF THE ARBITRATORS SHALL BE BINDING AND SHALL BE ENTERED IN A COURT OF COMPETENT JURISDICTION. THE AWARD OF THE ARBITRATORS MAY GRANT ANY RELIEF WHICH MIGHT BE GRANTED BY A COURT OF GENERAL JURISDICTION, INCLUDING, WITHOUT LIMITATION, BY REASON OF ENUMERATION, AWARD OF DAMAGES (BUT EXCLUDING INJUNCTIVE RELIEF), AND MAY, IN THE DISCRETION OF THE ARBITRATORS, ASSESS, IN ADDITION, THE COSTS OF ARBITRATION, INCLUDING THE REASONABLE FEES OF THE ARBITRATORS AND REASONABLE ATTORNEYS' FEES, AGAINST EITHER OR BOTH PARTIES, IN PROPORTIONS AS THE ARBITRATORS SHALL DETERMINE.

29.4 NOTHING CONTAINED IN THIS AGREEMENT SHALL BAR EITHER PARTY FROM SEEKING AND OBTAINING TEMPORARY AND PERMANENT INJUNCTIVE RELIEF FROM A COURT OF COMPETENT JURISDICTION CONSISTENT WITH THIS ARTICLE XXIX IN ACCORDANCE WITH APPLICABLE LAW AGAINST THREATENED CONDUCT THAT WILL, IN SUCH PARTY'S DISCRETION, CAUSE SUCH PARTY LOSS OR DAMAGE.

29.5 THE PARTIES INTEND THAT ANY ARBITRATION BETWEEN FRANCHISEE AND FRANCHISOR REGARDING A CLAIM OF FRANCHISEE SHALL BE OF FRANCHISEE'S INDIVIDUAL CLAIM, AND THAT NO SUCH CLAIM SUBJECT TO ARBITRATION SHALL BE ARBITRATED ON A CLASS-WIDE BASIS.

29.6 FRANCHISEE SHALL NOT ASSERT ANY CLAIM OR CAUSE OF ACTION AGAINST FRANCHISOR, ITS OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES OR AFFILIATES AFTER ONE (1) YEAR FOLLOWING THE EVENT GIVING RISE TO SUCH CLAIM OR CAUSE OF ACTION.

ARTICLE XXX
ACKNOWLEDGMENTS

30.1 FRANCHISOR EXPRESSLY DISCLAIMS THE MAKING OF, AND FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS NOT RECEIVED, ANY WARRANTY OR GUARANTEE, EXPRESS OR IMPLIED, AS TO THE POTENTIAL VOLUME, PROFITS, OR SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED BY THIS AGREEMENT.

30.2 FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE HAS RECEIVED A COMPLETE COPY OF FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENTS, THIS AGREEMENT, THE EXHIBITS REFERRED TO IN THIS AGREEMENT, AND ANY OTHER AGREEMENTS RELATING HERETO, IF ANY, AT LEAST FOURTEEN (14) CALENDAR DAYS PRIOR TO THE DATE ON WHICH THIS AGREEMENT WAS EXECUTED.

30.3 FRANCHISEE ACKNOWLEDGES AND IS AWARE OF THE FACT THAT SOME FRANCHISEES OF FRANCHISOR MAY OPERATE UNDER DIFFERENT FORMS OF AGREEMENTS AND, CONSEQUENTLY, THAT FRANCHISOR'S OBLIGATIONS AND RIGHTS IN RESPECT TO ITS VARIOUS FRANCHISEES MAY DIFFER MATERIALLY IN CERTAIN CIRCUMSTANCES.

ARTICLE XXXI
ENTIRE AGREEMENT

This Agreement, together with the Area Development Agreement, if applicable, and any other Franchise Agreements thereunder, constitutes the entire agreement between Franchisor and Franchisee with respect to the subject matter hereof, and this Agreement supersedes all prior and contemporaneous agreements between Franchisor and Franchisee in connection with its subject matter. In the event of any conflict between the terms of this Agreement and the terms of the Area Development Agreement, if applicable, or any other Franchise Agreement, the terms of this Agreement shall prevail. No officer, employee or other servant or agent of Franchisor or Franchisee is authorized to make any representation, warranty or other promise not contained in this Agreement. No change, termination or attempted waiver of any of the provisions of this Agreement shall be binding upon Franchisor or Franchisee unless in writing and signed by Franchisor and Franchisee. Nothing in this or in any related agreement, however, is intended to disclaim the representations made by Franchisor in the franchise disclosure document that is furnished by Franchisor to Franchisee.

ARTICLE XXXII
JOINT AND SEVERAL OBLIGATION

If Franchisee consists of more than one (1) person, their liability under this Agreement shall be deemed to be joint and several.

ARTICLE XXXIII
SECURITY INTEREST

Franchisee grants to Franchisor a security interest in all of Franchisee's interest in all leasehold improvements, furniture, furnishings, fixtures, equipment, inventory and supplies located at or used in connection with the Store, now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions and replacements therefore, and all cash and non-cash proceeds derived from insurance or the disposition of such collateral, to secure payment and performance of all debts, liabilities and obligations of any kind, whenever and however incurred, of Franchisee to Franchisor. Franchisee agrees to execute and deliver to Franchisor in a timely manner all financial statements and other documents necessary or desirable to evidence, perfect and continue the priority of such security interests under the Uniform Commercial Code. For such purposes, the address of Franchisee and Franchisor are set forth in Article XXVII of this Agreement. If Franchisee is in good standing, Franchisor will, upon request, execute subordinations of its security interest to suppliers, lenders and/or lessors furnishing equipment or financing for the Store.

ARTICLE XXXIV
COUNTERPART; PARAGRAPH HEADINGS; PRONOUNS

This Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one and the same instrument. The paragraph headings in this Agreement are for convenience only, and shall not be deemed to alter or affect any of its provisions. Each pronoun used in this Agreement shall be deemed to include the other number of genders.

ARTICLE XXXV
SEVERABILITY AND CONSTRUCTION

35.1 Each section, part, term and provision of this Agreement shall be considered severable, and if, for any reason, any section, part, term or provision is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation, that shall not impair the operation of, or affect the remaining portions, parts, terms or provisions of this Agreement, and the latter will continue to be given full force and effect and bind the parties, and the invalid sections, parts, terms or provisions shall be deemed not to be a part of this Agreement; provided, however, that if Franchisor determines that the finding of illegality adversely affects the basic consideration of this Agreement, Franchisor and Franchisee may terminate this Agreement.

35.2 Anything to the contrary in this Agreement notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity, other than Franchisor or Franchisee and such of their respective successors and assigns as may be contemplated by this Agreement, any rights or remedies under or by reason of this Agreement.

35.3 Franchisee expressly agrees to be bound by any promise or covenant imposing the maximum duty permitted by law, which is subsumed within the terms of any provision hereof as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions of this Agreement any portion or portions which a court may hold

to be unreasonable and unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order.

35.4 All captions in this Agreement are intended solely for the convenience of the parties, and none shall be deemed to affect the meaning or construction of any provision.

35.5 This Agreement shall be executed in two or more counterparts, and each copy so executed shall be deemed a duplicate original.

The parties have executed this Agreement on the date first written above.

THE FRANCHISOR:

THE FRANCHISEE:

By: _____

By: _____

KOREAN RED GINGSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "A"

LOCATION

Franchisee's Location shall be as follows:

FRANCHISOR

By: _____

FRANCHISEE

By: _____

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "B"

CONDITIONAL LEASE ASSIGNMENT PROVISIONS

The clauses referred to in Article 2.1 of the attached Franchise Agreement are as follows:

(i) The premises being leased hereunder shall be used solely for the operation of a JKJ Store.

(ii) Lessor has examined Franchisor's standard design concepts and specifications and consents to Lessee's use of same and of Franchisor's Marks and such signage as Franchisor may prescribe for the Store.

(iii) Lessee may not sublease or assign all or any part of its occupancy rights, or extend the term or renew the lease, without Franchisor's prior written consent.

(iv) Lessor shall furnish Franchisor a copy of the executed lease, including all attachments thereto and related agreements, if any, within five (5) days after its execution, and no change or amendment to such lease affecting the above terms and conditions shall be effective without Franchisor's prior written approval.

(v) Notwithstanding anything to the contrary contained in this Lease, it is expressly understood and agreed that if the Franchise Agreement dated the ____ day of _____, 20__ between the Lessee and Franchisor expires or is terminated for any reason whatsoever, the Lessee's rights hereunder shall, **at the option of Franchisor**, be transferred and assigned to Franchisor. Said option may be exercised by Franchisor giving the Lessor a notice in writing within thirty (30) days following the expiration or termination of the said Franchise Agreement, such notice to specify, inter alia, the date of such expiration or termination. It is further agreed that such notice shall, without further act or formality, operate as an effective assignment of the Lessee's right hereunder to Franchisor and the assumption by Franchisor of the covenants herein required to be observed or performed by the Lessee.

(vi) In the event Franchisor elects not to exercise the above option, Lessor shall permit Franchisor to enter the premises in order to make any modification necessary to protect Franchisor's Marks.

(vii) The Lessor shall give written notice to Franchisor (concurrently with the giving of such notice to the Lessee) of any default by the Lessee under the Lease, and Franchisor shall have, after the expiration of the period during which the Lessee may cure such default, an additional fifteen (15) days to cure, at its sole option, any such default, providing that if such default arises by reason of the bankruptcy or insolvency of the Lessee or the appointment of a receiver over the Lessee's assets or part thereof, Franchisor shall have the right to assume this Lease upon payment of any arrears of rental to such date. In the event of any such assumption, the Lessee shall cease to have any further rights hereunder.

(viii) The Lessor acknowledges that the said Franchise Agreement contains a right on the part of Franchisor, in the event of expiration or termination of the said Franchise Agreement for any reason whatsoever, to enter the premises hereby demised and to operate the Store for the account of the Lessee for a period as set forth in the said Franchise Agreement. The Lessor further acknowledges that such entry by Franchisor shall not constitute an assignment of this Lease, nor a subletting of the premises hereby demised.

(ix) The Lessor acknowledges that Franchisor is executing this Lease solely for the purpose of acknowledging the provisions contained in the foregoing clauses and agrees that such execution by Franchisor shall in no way be construed so as to obligate Franchisor for the performance of any of the terms, conditions, obligations and covenants contained herein, except as specifically set forth in clause (i).

The foregoing provisions shall be incorporated into Franchisee's lease or sublease agreement.

FRANCHISOR

By:_____

FRANCHISEE

By:_____

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "C"

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

THIS AGREEMENT is made by and between Korean Red Ginseng Corp., Inc., a California corporation (the "**Franchisor**"), and _____ (the "**Franchisee**").

WHEREAS, Franchisor has developed an established business and is engaged in the development, marketing and sale to franchisees of an efficient and distinctive system of training employees, preparing, serving, merchandising, and selling products typically sold in a JKJ Store, served by a distinctively uniformed staff, and well trained, in distinctively designed, furnished, decorated and equipped Stores under the name JKJ; and

WHEREAS, Franchisor has developed and uses the name "JKJ" and associated service marks, trademarks, designs, and symbols in the design and appearance of its Stores (collectively referred to as the "**Marks**"), identifying the goodwill which Franchisor has developed in connection with the operation of JKJ Stores by Franchisor and its franchisees (all of which is hereinafter referred to as the "**System**"); and

WHEREAS, Franchisor desires to preserve the Marks and the System, and has plans, where profitable, to increase the number of JKJ Stores within the United States and elsewhere; and

WHEREAS, Franchisee desires to be a JKJ franchisee; and

WHEREAS, Franchisee's Manager has been hired by Franchisee to run the day-to-day activities of Franchisee's Store and such Manager must therefore be bound by the same confidentiality and non-competition agreement that Franchisee is bound by.

IN CONSIDERATION of these premises, and the conditions stated herein, the parties agree as follows:

1. Purpose of Agreement. Franchisor is placing Franchisee in a position of trust and confidence in the development, marketing, sale and expansion of the System. As a precondition of the grant of the right to own and operate a JKJ Store, Franchisor desires to receive from Franchisee (i) an agreement not to disclose certain information relating to Franchisor's business, (ii) an agreement not to compete against Franchisor for a certain period of time, and (iii) an agreement concerning the ownership of certain information. This Agreement sets forth the terms of their agreements and understandings.

2. Franchisor Ownership of Materials. All information, ideas, research, methods, techniques, specifications, guidelines, secret recipes, manuals, procedures, systems, improvements, notes, data, tapes, reference items, financial information, literature, files, supplier lists, notebooks, calendars, sketches, drawings, memoranda, records and copyrighted and other materials, including Franchisor's Confidential Operating Manual, and the goodwill associated with them, which in any

way relate to Franchisor's past, present or potential business or which were prepared or received by Franchisee as a franchisee of Franchisor and a participant in the System (collectively referred to as "**Confidential Information**") are the exclusive property of Franchisor. Franchisee agrees to deliver to Franchisor all copies of such materials including Franchisee's own personal work papers, which are in Franchisee's possession or under Franchisee's potential control at the request of Franchisor or, in the absence of such a request, upon the termination of that certain Franchise Agreement dated even date herewith between Franchisor and Franchisee (the "**Franchise Agreement**").

3. Confidential Information. Franchisee acknowledges that Franchisor's Confidential Information is a valuable and unique asset which Franchisee holds in trust for Franchisor's sole benefit. Franchisee agrees that Franchisee shall not, at any time during and for a period of fifty (50) years after Franchisee ceases to be a franchisee of Franchisor or a participant in the System, use for itself or for others, or disclose to any person, corporation or other entity for any reason, any of Franchisor's Confidential Information, without the prior written consent of Franchisor.

4. Trade Secrets. Franchisee acknowledges that Franchisor's Confidential Information and its methods and techniques of operation, and preparation, merchandising, recipes, specifications, its financial condition, customer service, marketing and pricing strategies, as well as the information compiled and developed regarding improvements or enhancements to the System, including the Confidential Operating Manual, are uniquely valuable to Franchisor and have been developed through considerable expense and effort, and thus are not usually ascertainable by a competitor without considerable investment of effort and expense ("**Trade Secrets**").

In light of the need to protect and preserve the confidentiality of these Trade Secrets and in consideration of Franchisee's continued right to own and operate a JKJ Store, Franchisee agrees, at all times while a franchisee of Franchisor and for as long as Franchisor remains in business anywhere in the world, to respect the confidentiality of Franchisor's Trade Secrets, to use them solely for the benefit of Franchisor's business, and to refrain from disclosing or making available the Trade Secrets to any third party without the prior written consent of Franchisor. Franchisee further agrees to take all reasonable security measures to ensure that Franchisee's employees comply with this Agreement and such other security measures as are reasonably requested by Franchisor to prevent accidental disclosure.

5. Assignment of Inventions. All ideas, improvements, Products, processes, names, menu items, and enhancements to the System or which relate to or are useful to Franchisor's business which Franchisee, alone or with others, may invent, discover, make or conceive ("**Inventions**") are the exclusive property of Franchisor, and Franchisee shall promptly and fully disclose them to Franchisor. At any time, at Franchisor's request and expense, Franchisee shall, without further compensation: (i) promptly record such Inventions with Franchisor; (ii) execute any assignments and other documents Franchisor deems desirable to protect its rights in the Inventions; and (iii) assist Franchisor in enforcing its rights with respect to these Inventions.

6. Restrictions on Unfair Competition. It is recognized by Franchisee that as the natural result of Franchisee's participation in the System as a franchisee of Franchisor, Franchisee will gain access to Franchisor's Trade Secrets and Confidential Information, and will gain the trust, confidence and respect of Franchisor's landlords, customers and suppliers. Franchisee acknowledges that Franchisor has a legitimate need to protect itself against unfair competition by its franchisees and their employees. Therefore, in consideration for Franchisee's participation in the System as a franchisee of Franchisor, Franchisee agrees that while it is a franchisee of Franchisor and for two (2)

years after termination of the Franchise Agreement, regardless of the circumstances giving rise to the termination, or after Franchisee ceases to be a participant in the System, and within the Area of Minimum Competition as defined in Article XIV of the Franchise Agreement, Franchisee shall not:

(a) Have or acquire an interest in a similar business to that offered or developed by Franchisor which provides the same or substantially similar products as those sold, distributed, manufactured or furnished by Franchisor during the term of the Franchise Agreement. For purposes of this Agreement, "similar business" means a retail store that sells the same or substantially similar products as Products, as such term is defined in the Franchise Agreement, where the cumulative sales of such products comprise at least 50% of total sales of such business;

(b) Engage, directly or indirectly, on Franchisee's own behalf, or on behalf of any other person, firm, partnership or corporation, in providing, assisting, instructing or supervising the marketing, distribution or sale of the Products of any similar business to those offered and provided or manufactured by Franchisor as of the termination of this Agreement;

(c) Compete, directly or indirectly, with Franchisor in the offering, distribution or sale of products similar to the Products offered or provided or manufactured by Franchisor as of the termination of this Agreement. Prohibited competition under this subsection (c) may include, but is not limited to, the solicitation of, attempted solicitation, or other contacts with franchisees, landlords, suppliers and customers of Franchisor for the purpose of offering, providing or delivering Products or services similar to those offered and provided by Franchisor to the public; or the request, suggestion or advice to Franchisees, landlords, suppliers or customers, either directly or indirectly, to withdraw, curtail, limit or cancel their business with Franchisor; or to disclose, directly or indirectly, to any other person the names and addresses of franchisees, landlords, suppliers and customers of Franchisor; or the terms and conditions of Franchisor's contracts with suppliers of these Products;

(d) Hire or engage, or attempt to hire or engage, directly or indirectly, any individual who is an employee of Franchisor at the time of such solicitation, or was an employee during the calendar year immediately preceding Franchisee's termination as a participant in the System as a franchisee of Franchisor, whether such actions are undertaken on behalf of Franchisee or on behalf of another entity; or

(e) Otherwise take direct actions to disrupt the operations of Franchisor or interfere with Franchisor's performance of its contracts with third parties.

7. Enforcement.

(a) Injunction. Franchisee understands and agrees that Franchisor will suffer irreparable harm if Franchisee breaches any of Franchisee's obligations under this Agreement, and that monetary damages shall be inadequate to compensate Franchisor for any such violation. Accordingly, Franchisee agrees that in the event Franchisee violates or threatens to violate any of the provisions of this Agreement, Franchisor, in addition to all other remedies or damages which

it may have, shall be entitled to seek an injunction to prevent or to restrain any such violation by Franchisee or by any or all of Franchisee's directors, stockholders, officers, partners, employees, agents or any other person directly or indirectly acting for, on behalf of or with Franchisee. Franchisee consents to the seeking of the injunction as being a reasonable measure to protect Franchisor's rights.

(b) Jurisdiction. Franchisee agrees that any lawsuit brought by Franchisor to enforce its rights under this Agreement shall be brought in the appropriate court located in the State of California, County of Los Angeles, and Franchisee agrees and consents to the jurisdiction of such court to resolve all disputes which arise out of this Agreement or any alleged breach thereof in a state court, regardless of Franchisee's residency at the time such suit is filed. Any lawsuit brought against Franchisor or its officers, directors or agents arising out of this Agreement, or any alleged breach thereof, must be brought within one (1) year of the event giving rise to the cause of action. The failure to commence such action by or on behalf of Franchisee within this time period shall serve to bar any rights Franchisee may have against Franchisor or its officers, directors and agents.

(c) Costs. Franchisee further agrees that if Franchisee acts in any manner which causes Franchisor to seek any form of judicial relief or remedy against Franchisee, and the court determines Franchisee has or is violating any of the provisions of this Agreement, Franchisor, in addition to its other remedies, shall be entitled to recover from Franchisee all costs incurred, including its attorneys' fees.

8. Reasonableness of Restrictions; Severability. Franchisee has read and considered carefully the provisions of Sections 1 through 7 of this Agreement, and agrees that the restrictions are fair and reasonably required for the protection of the interests of Franchisor, its business and its officers, directors and employees, even though no geographic limitation is included because of the national nature of the franchise business. Franchisee further agree that the restrictions set forth in this Agreement shall not impair Franchisee's ability to secure employment or acquire an interest in a business in another field of choice, other than the restricted field described in Section 6.

9. Miscellaneous.

(a) All agreements and covenants contained herein are severable. If any of them, or any part or parts of them, shall be held invalid by any court of competent jurisdiction for any reason, then Franchisee agrees that the court shall have the authority to reform and modify that provision in order that the restriction shall be the maximum necessary to protect Franchisor's legitimate business needs as permitted by applicable law and public policy. In so doing, Franchisee agrees that the court shall impose the provision with retroactive effect as close as possible to the provision held to be invalid. Further, Franchisee agrees that a breach or alleged breach by Franchisor of any obligation owed by Franchisor shall not affect the validity or enforceability of the provisions of this Agreement.

(b) This Agreement was entered into and shall be governed by the laws of the State of California.

(c) No delay or failure by Franchisor to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any

other right provided herein, and no waiver of any violation of any terms and provisions of this Agreement shall be construed as a waiver of any succeeding violation of the same or any other provision of this Agreement.

(d) In the event that any provision of this Agreement, or a portion thereof, shall be held to be invalid or unenforceable, this ruling shall not affect in any manner the validity of the remaining provisions.

(e) The rights and obligations of Franchisor under this Agreement shall inure to the benefit of and shall be binding upon the parties hereto, as well as the affiliates of Franchisor and any future successors and assigns of Franchisor.

(f) No modification of this Agreement shall be valid unless it is in writing and signed by both Franchisee and an authorized representative of Franchisor. This Agreement contains the entire agreement between the parties and is expressly intended by Franchisee and Franchisor to supersede and replace any prior agreements on these issues between the parties.

(g) The Manager, if any, hereby executes this Agreement to evidence his/her or their consent to be bound by each and every provision.

IN WITNESS WHEREOF, Franchisor and Franchisee attest that each has read and understands the terms of this Agreement, and voluntarily signed this Agreement on this ____ day of _____, 20__.

FRANCHISOR

By: _____

FRANCHISEE:

By: _____
(Franchisee)

By: _____
(Manager)

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "D"

TRANSFER OF FRANCHISE TO A CORPORATION

The undersigned, as Franchisee of the Store under a Franchise Agreement executed on the date set forth below between Franchisee and Korean Red Ginseng Corp., Inc., as Franchisor, granting Franchisee a franchise to operate at the location set forth below, and the other undersigned shareholders or members of the Corporation, who together with Franchisee constitute all of the Shareholders of the Corporation, in order to induce Franchisor to consent to the assignment of the Franchise Agreement to the Corporation in accordance with the provisions of Article XX of the Franchise Agreement, agree as follows:

1. The undersigned Franchisee shall remain personally liable in all respects under the Franchise Agreement and all the other Shareholders of the Corporation intending to be legally bound hereby, agree jointly and severally to be personally bound by the provisions of the Franchise Agreement including the restrictive covenants contained in Article XIV thereof, to the same extent as if each of them were Franchisee set forth in the Franchise Agreement and they jointly and severally personally guarantee all of Franchisee's obligations set forth in said Agreement.

2. The undersigned agree not to transfer any stock in the Corporation without the prior written approval of Franchisor and agree that all stock certificates representing shares in the Corporation shall bear the following legend:

"The shares of stock represented by this certificate are subject to the terms and conditions set forth in a Franchise Agreement dated _____, 20__ between Franchisee and Korean Red Ginseng Corp., Inc.".

3. Franchisee or his designee shall devote his best efforts to the day-to-day operation and development of the Store.

4. _____ hereby agrees to become a party to and to be bound by all of the provisions of the Franchise Agreement executed on the date set forth below between Franchisee and Korean Red Ginseng Corp., Inc. to the same extent as if it were named as Franchisee herein.

Date of Franchise Agreement:_____

Location of Store:_____

Name of Corporation

Name:_____

Title:_____

In consideration of the execution of the above Agreement, Korean Red Ginseng Corp., Inc.
hereby consents to the above referred to assignment on this __day of, 20__.

Korean Red Ginseng Corp., Inc.

By:_____

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "E"

**TELEPHONE NUMBER ASSIGNMENT AGREEMENT
AND POWER OF ATTORNEY**

FOR VALUE RECEIVED, the undersigned ("**Franchisee**") irrevocably assigns the telephone listing and numbers stated below and any successor, changed or replacement number or numbers effective upon the date of termination of the Franchise Agreement described below to Korean Red Ginseng Corp., Inc. upon the following terms:

1. This assignment is made under the terms of JKJ Franchise Agreement dated _____, 20__ authorizing Franchisee to do business as "JKJ" Store (the "**Franchise Agreement**") between Franchisor and Franchisee, which in part pertains to the telephone listing and numbers Franchisee uses in the operation of the Store covered by the Franchise Agreement.

2. Franchisee retains the limited right to use the telephone listing and numbers only for transactions and advertising under the Franchise Agreement while the Franchise Agreement between Franchisor and Franchisee remains in full force, but upon termination or expiration of the Franchise Agreement, Franchisee's limited right of use of the telephone listing and numbers also terminates. In this event, Franchisee agrees to immediately discontinue use of all listings and numbers. At Franchisor's request, Franchisee will immediately sign all documents, pay all monies, and take all other actions necessary to transfer the listing and numbers to Franchisor.

3. The telephone numbers and affiliated listings subject to this assignment are: (to be determined) and all numbers on the rotary series and all numbers Franchisee uses in the Store in the future.

4. Franchisee shall pay all amounts owed for the use of the telephone numbers and affiliated listing it incurs. On termination or expiration of the Franchise Agreement, Franchisee shall immediately pay all amounts owed for the listing and telephone numbers, whether or not due, including all sums owed under existing contracts for telephone directory advertising.

5. Franchisee appoints Franchisor as his/her attorney-in-fact to act in Franchisee's place for the purpose of assigning any telephone numbers covered by Paragraph 3 above to Franchisor or Franchisor's designees or transferees. Franchisee grants Franchisor full authority to act in any manner proper or necessary to exercise these powers, including full power of substitution and signing or completion of all documents required or requested by any telephone company to transfer the numbers, and ratifies every act that Franchisor lawfully performs in exercising those powers.

This power of attorney is effective for ten (10) years from the date of expiration, cancellation or termination of Franchisee's rights under the Franchise Agreement for any reason.

Franchisee intends that this power of attorney be coupled with an interest. Franchisee declares

this power of attorney to be irrevocable and renounces all right to revoke it or to appoint another person to perform the acts referred to in this instrument. This power of attorney is not affected by Franchisee's later incapacity. This power is created to secure performance of a duty to Franchisor and is for consideration.

THE PARTIES have caused this Agreement to be duly signed as evidenced by their signatures appearing below. Persons signing this Agreement must check the appropriate space and sign in the appropriate place provided.

FRANCHISEE: EACH OF THE BELOW PERSONS AGREES TO BE BOUND BY THE PROVISIONS OF THIS AGREEMENT, IN BOTH INDIVIDUAL AND REPRESENTATIVE CAPACITIES.

Signed the ____ day of _____, 20__

Franchisee

By: _____

FRANCHISOR:

Signed and accepted as of the ____ day of _____, 20__

Korean Red Ginseng Corp, Inc.

By: _____

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "F"

**AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO
KOREAN RED GINSENG CORP., INC., INCLUDING CHECKS AND ELECTRONIC TRANSFERS**

Depositor hereby authorizes and requests _____ (the "**Bank**") to initiate debit and credit entries to Depositor's account indicated below drawn by and payable to the order of Korean Red Ginseng Corp., Inc. (the "**Company**") in checks drawn on such account payable to the Company or by Electronic Funds Transfer, provided there are sufficient funds in said account to pay the amount upon presentation.

Depositor agrees that the Bank's rights with respect to each such charge shall be the same as if it were a check drawn by the Bank and signed by Depositor. Depositor further agrees that if any such charge is dishonored, whether with or without cause and whether intentionally or inadvertently, the Bank shall be under no liability whatsoever.

Bank Name: _____

Bank Address: _____

Transit/ABA Number: _____

Account Number: _____

This authority is to remain in full force and effect until the Company has received written notification from the depositor of its termination in such time and in such manner to afford the Company and Bank a responsible opportunity to act on such request.

Store Address: _____

Name of Depositor: _____ (Please print Franchisee name)

Date Signed

Signature of Depositor

Signature of Depositor (in case more than 1 depositor)

PLEASE ATTACH ONE VOIDED BLANK CHECK FOR PURPOSES OF SETTING UP BANK AND TRANSIT NUMBERS.

(This Questionnaire does not apply to franchises who intend to operate the franchised business in the State of California)

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "G"

FRANCHISEE COMPLIANCE CERTIFICATION

As you know, Korean Red Ginseng Corp., Inc. (the Franchisor) and you are preparing to enter into a Franchise Agreement for the establishment and operation of a JKJ Store.

1. Are you seeking to enter into the Franchise Agreement in connection with a purchase or transfer of an existing Korean Red Ginseng Corp., Inc. from an existing Franchisee?

Yes _____ No _____

2. I had my first face-to-face meeting with a Franchisor representative on _____, 20____.

3. Have you received the Franchise Agreement and each Addendum and related agreements attached to it?

Yes _____ No _____

4. Have you received the Franchisor's Franchise Disclosure Document (FDD) that was provided to you?

Yes _____ No _____

5. Did you sign a receipt for the FDD indicating the date you received it?

Yes _____ No _____

6. Have you entered into any binding agreement with Franchisor concerning the purchase of this franchise prior to today?

Yes _____ No _____

7. Have you paid any money to Franchisor concerning the purchase of this franchise prior to today?

Yes _____ No _____

If you have answered Yes to any one of questions 10-17, please provide a full explanation of each Yes answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered No to each of questions 10-17, please leave the following lines blank.

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability 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.

I signed the Franchise Agreement and its exhibits on _____, 20____, and acknowledge that no Agreement or exhibit is effective until signed and dated by the Franchisor.

By signing this Questionnaire, you are representing that you have responded truthfully to the above questions.

FRANCHISEE APPLICANT

DATE:

(signature)

PRINTED NAME: _____

KOREAN RED GINSENG CORP., INC.

FRANCHISE AGREEMENT

EXHIBIT "H"

STATE-SPECIFIC ADDENDA

No statement, questionnaire, or acknowledgment 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.

EXHIBIT "I"

CALIFORNIA ADDENDUM

For franchisees operating outlets located in California, the California Franchise Investment Law and the California Franchise Relations Act will apply regardless of the choice of law or dispute resolution venue stated elsewhere. Any language in the Franchise Agreement or any amendment thereto or any agreement to the contrary is superseded by this condition.

The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. A contract that restrains a former franchisee from engaging in a lawful trade or business is to that extent void under California Business and Professions Code Section 16600.

FRANCHISOR

By: _____

FRANCHISEE:

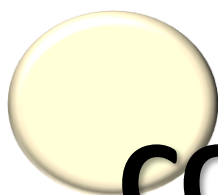
By: _____

(Franchisee)

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT D

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Manual consists of 33 total pages

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT E

LIST OF CURRENT FRANCHISEES

CALIFORNIA

City	Franchisee	Address	Telephone Number
Buena Park	Jongkyu Kang	5307 Beach Blvd., Suite 115, Buena Park, CA 90621	(714) 522-3020
La Crecenta	Kwangso Kim	3134 1/2 Foothill Blvd. La Crescenta, CA 91214	818-330-9958
Garden Grove	Miyoung Han	9622 Garden Grove Blvd., #106, Garden Grove, CA 92844	(714) 636-0505
La Palma	Grace Kim	4951 La Palma Ave., La Palma, CA 90623	(562) 860-4545
Los Angeles	Sabina Yoo	3520 W. 8th St., Los Angeles, CA 90005	(213) 381-3849
Los Angeles	Sabina Yoo	429 N. Western Ave. #9, Los Angeles, CA 90004	(213) 388-2304
Los Angeles	Sabina Yoo	3250 W. Olympic Blvd. #319 Los Angeles, CA 90006	323-643-4134
Northridge	Aesook Lee	10201 Reseda Blvd., #114, Northridge, CA 91324	(818) 701-0321
Rowland Heights	Hyungsung Kim	18905 Colima Rd, Rowland Heights ,CA 91748	(626) 964-3033
San Diego	Ron Cho	4611 Mercury Street #101, San Diego, CA 92111	(858) 571-0975
Santa Clara	Namjeon Kim	2368 EL Camino Real, Santa Clara, CA 95050	(408) 985-1616
Torrance	Jeongkil Lee	21305 Hawthorne Blvd, Torrance, CA 90503	(310) 324-3361
Westminster	Tan Khanh Hy Dong	9938 Bolsa Ave, Westminster CA 92683	(949) 998-1888

GEORGIA

City	Franchisee	Address	Telephone Number
Duluth	Seungbae Lee	2550 Pleasant Hill Rd. #107 Duluth, GA 30096	(770) 623-4670
Suwanee	Seungbae Lee	1291 Old Peachtree Road, #400 C, Suwanee, GA 30024	(678) 682-8028

HAWAII

City	Franchisee	Address	Telephone Number
Honolulu	Ian Chai	1540 Makaloa St. #1534B, Honolulu, HI 96814	(808) 946-0333

ILLINOIS

City	Franchisee	Address	Telephone Number
Glenview	Haegy Kim	630 Milwaukee Ave Unit #110, Glenview, IL 60025	(847) 967-0303
Naperville	Haegy Kim	1295 E. Ogden Ave. Naperville, IL, 60563	(224) 382-0355

MARYLAND

City	Franchisee	Address	Telephone Number
Ellicott City	Haena Kim	10194 Baltimore National Pike, #105, Ellicott City, MD 21042	(410) 480-2304

MASSACHUSETTS

City	Franchisee	Address	Telephone Number
Burlington	Jaeho Jung	3 Old Concord Road Suite #203, Burlington, MA 01803	(781) 238-0303

NEW JERSEY

City	Franchisee	Address	Telephone Number
Edison	David Yongho Sun	1761 Route 27, #106, Edison, NJ 08817	(732) 339-1212
Palisade Park	Alexander Choi	436 Broad Ave., Palisades Park, NJ 07650	(201) 363-1003
Fort Lee	Alexander Choi	200 Main St., Fort Lee, NJ 07024	(201) 363 1003

NEW YORK

City	Franchisee	Address	Telephone Number
Flushing	Sangyoung Kim	165-05 Northern Blvd., Flushing, NY 11358	(718) 321-0070
Manhattan	Sangyoung Kim	315 5th Ave., Suite #2, New York, NY 10016	(212) 685-1003
Long Island	Sangyoung Kim	478 Plainview Road, Hicksville, NY 11801	(516) 433-3333

PENNSYLVANIA

City	Franchisee	Address	Telephone Number
North Wales	David Yongho Sun	1222 Welsh Rd Ste B1, North Wales, PA 19454	(215) 635-1063

TEXAS

City	Franchisee	Address	Telephone Number
Austin	Soomyung Cho	11301 Lakeline Bl., Austin, TX 78717	(469) 774-9669
Dallas	Soomyung Cho	2625 Old Denton Road #304, Carrollton, TX 75007	(214) 483-3838
Houston	Byungsuk Park	1304 Blalock Rd. Ste#A2, Houston, TX 77055	(832) 358-3333

VIRGINIA

City	Franchisee	Address	Telephone Number
Annandale	Seunghyun Kim	7326 Little River Turnpike #D, Annandale, VA 22003	(703) 642-1304
Centreville	Seunghyun Kim	13822 Braddock Rd #C, Centreville, VA 20121	(703) 815-3434

WASHINGTON

City	Franchisee	Address	Telephone Number
Lakewood	Shin Kang	3520 96th St. South #117, Lakewood, WA 98499	(253) 589-1800
Lynnwood	Shin Kang	3411 184th St. Suite 150, Lynnwood WA 98037	(425) 412-3453

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT F

LIST OF FRANCHISEES WHO HAVE LEFT THE SYSTEM

Arizona

City	Franchisee	Address	Telephone Number
Mesa	John Bae	1135 S. Dobson Rd. #104 Mesa, AZ 85202	480-292-0001

FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT G

2023, 2024, and 2025

AUDITED FINANCIAL STATEMENTS

(see next pages)

FINANCIAL STATEMENTS

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)
Year Ended December 31, 2025
With Report of Independent Auditors



The better the question.
The better the answer.
The better the world works.



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Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Financial Statements

Year Ended December 31, 2025

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Report of Independent Auditors

The Board of Directors
Korean Red Ginseng Corp., Inc.

Opinion

We have audited the financial statements of Korean Red Ginseng Corp., Inc. (the Company), a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), which comprise the balance sheet as of December 31, 2025, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

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

Basis for Opinion

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

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 of 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 for one year after the date that the financial statements are available to be issued.



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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.

Ernst & Young LLP

April 15, 2026

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Balance Sheet

December 31, 2025

Assets

Current assets:

Cash and cash equivalents	\$ 4,731,694
Accounts receivable	1,554,694
Inventories – net	9,806,655
Other current assets	<u>757,206</u>
Total current assets	16,850,249

Property and equipment – net	325,409
Right-of-use assets	941,833
Deferred tax assets	498,447
Other assets	<u>39,955</u>
Total assets	<u><u>\$ 18,655,893</u></u>

Liabilities and stockholder's equity

Current liabilities:

Accounts payable	\$ 3,617,381
Current portion of operating lease liabilities	286,071
Accrued expenses and other current liabilities	<u>1,978,773</u>
Total current liabilities	5,882,225

Long-term operating lease liabilities	671,215
Other liabilities	<u>160,053</u>
Total liabilities	<u>6,713,493</u>

Stockholder's equity:

Common stock, \$10 par value – authorized 1,200,000 shares; issued and outstanding 1,200,000 shares	12,000,000
Accumulated deficit	<u>(57,600)</u>
Total stockholder's equity	<u>11,942,400</u>
Total liabilities and stockholder's equity	<u><u>\$ 18,655,893</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Income

For the Year Ended December 31, 2025

Net sales	\$ 27,879,453
Cost of sales	15,200,103
Gross profit	<u>12,679,350</u>
 Selling, general, and administrative expenses	 <u>11,953,715</u>
Operating income	725,635
 Other expenses:	
Others, net	303,944
Finance expense, net	171,854
Income before income taxes	<u>249,837</u>
 Income taxes	 <u>75,025</u>
Net income	<u><u>\$ 174,812</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Changes in Stockholder's Equity

	Common Stock		Accumulated	
	Shares	Amount	Deficit	Total
Balance at January 1, 2025	1,200,000	\$ 12,000,000	\$ (232,412)	\$ 11,767,588
Net income	—	—	174,812	174,812
Balance at December 31, 2025	1,200,000	\$ 12,000,000	\$ (57,600)	\$ 11,942,400

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Cash Flows

For the Year Ended December 31, 2025

Operating activities

Net income	\$ 174,812
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	128,315
Noncash lease expenses	345,079
Loss on disposal of property and equipment	33,901
Reversal of allowance for doubtful accounts	(15,590)
Deferred income tax benefits	(129,319)
Other	548
Changes in operating assets and liabilities:	
Accounts receivable	4,045,824
Inventories	436,009
Other current assets	332,679
Accounts payable	(3,770,087)
Accrued expenses and other current liabilities	(332,280)
Other liabilities	(201,160)
Net cash provided by operating activities	<u>1,048,731</u>

Investing activities

Purchase of property and equipment	(250,951)
Disposal of property and equipment	37,399
Guarantee deposits	16,289
Net cash used in investing activities	<u>(197,263)</u>

Net increase in cash and cash equivalents 851,468

Cash and cash equivalents at beginning of year 3,880,226
Cash and cash equivalents at end of year \$ 4,731,694

Supplemental disclosures of cash flow information

Interest payments	<u>\$ 189,617</u>
Income tax payments	<u><u>\$ 108,932</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements

December 31, 2025

1. Operation of the Company

Korean Red Ginseng Corp., Inc. (the Company) was incorporated in the state of California on January 20, 2009, and is a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), a Korean corporation. The Company is mainly engaged in the wholesale distribution of Korean red ginseng products manufactured by the Parent and the franchise business of retail locations.

In 2012, the Company introduced a franchise system to have Korea Ginseng Corp. brand products sold through retail stores. A significant portion of sales are consummated with such franchisees. At December 31, 2025, the Company sells its products to 34 franchisees for their retail stores in the United States. In the franchise agreements, the Company is committed to provide the franchisees with initial and continuous training, develop national and local advertising programs, supply them with a company operating manual, and allow them the rights to sell Korea Ginseng Corp. brand products.

The Company has significant transactions with the Parent, including the purchase of inventories. Significant related-party transactions are disclosed separately in the accompanying financial statements and notes hereto (see Note 4). As such, the Company is dependent on the Parent for a substantial portion of its revenue and operating cash flow activities.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits and investments considered highly liquid with maturities of 90 days or less when purchased.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowances

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The allowance for doubtful accounts is determined based on historical write-off experience and on specific customer accounts believed to be a collection risk. Accounts receivable are written off against the allowance when the Company deems amounts to be uncollectible.

Inventories

Inventories consist of merchandise, finished goods, and raw materials. They are stated at the lower of cost or net realizable value, determined on an average cost basis. In-transit goods represent goods purchased and shipped from the supplier but not yet received by the Company. Based on management's analysis, the allowance for obsolete and slow-moving inventory was approximately \$810,000 as of December 31, 2025.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related assets. Upon disposition of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected on the statement of income.

Impairment of Long-Lived Assets

The Company reviews the recoverability of long-lived assets whenever events or changes in circumstances occur. Recoverability of the assets to be held and used is measured by a comparison of the carrying amount of the assets to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future net cash flows, an impairment loss is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such events or changes in circumstances were identified for the year ended December 31, 2025.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

In accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contracts with customers, (ii) determination of performance obligations, (iii) measurement of the transaction price, (iv) allocation of the transaction price to the performance obligations, and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Disaggregation of Revenue

All of the Company's sales are recognized at a point in time when title of the goods is transferred and the service is rendered to the customer. Effective June 2025, the Company requires all brand shop franchisees to pay a royalty fee equal to 3% of monthly net sales. The following table shows the Company's sales by channel:

Channel	Amount
Revenue from goods:	
Brand shop	\$ 8,428,095
Mass merchant	10,399,172
Online	7,771,456
Special channel	149,708
Subtotal	<u>26,748,431</u>
Revenue from service:	
R&D	919,707
Royalty fee	211,315
Total	<u><u>\$ 27,879,453</u></u>

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Sales and Use Tax

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and accounts receivable. The Company's cash is placed in financial institutions with high credit ratings. The Company's cash accounts are federally insured up to \$250,000 for each financial institution in which the Company holds its accounts. As of December 31, 2025, the Company had cash deposits exceeding the federally insured limit by approximately \$3,981,000. Two major customers accounted for approximately 65% of accounts receivable and 42% of net sales of the Company as of and for the year ended December 31, 2025.

Leases

The Company determines whether a contract is or contains a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, accrued expenses and other current liabilities, and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using an incremental borrowing rate based on the information available at commencement date, as leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets. Fixed property taxes and insurance are included in the overall contract consideration and allocated to lease and non-lease components. If property taxes and insurance are variable, they are excluded from lease payments.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred. The total advertising expenses incurred for the year ended December 31, 2025, were approximately \$3,480,000 and are included in selling, general, and administrative expenses on the accompanying statement of income.

Foreign Currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial position and results of operations are expressed in U.S. dollars, which is the functional currency of the Company and the reporting currency for the financial statements.

Income Taxes

Deferred tax assets and liabilities are computed for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that will result in taxable or deductible amounts in future years. Such deferred tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Deferred tax assets are required to be reduced by a valuation allowance to the extent that, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized.

In addition, the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not of being sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from such positions is then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include allowance for doubtful accounts, the valuation of inventories, valuation allowance against deferred tax assets, and income tax uncertainties and other contingencies.

Fair Value Measurements

The Company values its assets and liabilities using the methods of fair value as described in the Financial Accounting Standards Board ASC 820, *Fair Value Measurement*. In accordance with ASC 820, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant inputs (including unadjusted quoted prices for similar assets or liabilities, yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

Level 3 – Significant unobservable inputs that are reasonably available or inputs many market participants use with reasonable confidence because observable inputs are not available (including the entity's own assumptions used to determine the fair value of the assets or liabilities)

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of accounts receivable and accounts payable. The fair values of substantially all financial instruments of the Company approximate their carrying value in the aggregate due to their short-term maturity.

3. Accounts Receivable

The Company's accounts receivable represent a single portfolio segment consisting of short-term trade receivables from third-party customers. Accounts receivable consist of the following as of December 31, 2025:

Accounts receivable	\$ 1,554,748
Allowance for doubtful accounts	(54)
Accounts receivable – net	<u>\$ 1,554,694</u>

Set out below is the movement in the allowance for expected credit losses of trade receivables:

As of January 1, 2025	\$ 40,627
Reversal of expected credit losses	(15,590)
Write-off	(24,983)
As of December 31, 2025	<u>\$ 54</u>

4. Related-Party Transactions

A substantial portion of the Company's business is conducted with the Parent. Transactions and balances with the Parent as of and for the year ended December 31, 2025, are as follows:

Purchases from the Parent	\$ 15,543,769
Accounts payable due to the Parent	3,416,458
Interest and other expense	265,925
R&D service to the Parent	919,707

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

4. Related-Party Transactions (continued)

From July 2022 through May 2025, the Company has provided a research and development (R&D) service for the Parent, reporting the service revenue under the category of net sales. As per the agreement with the Parent, the Company is conducting R&D locally with the Parent, which retains ownership of the research results. Revenue from these services is calculated by adding a 4.6% markup to the actual costs incurred during R&D. Effective June 2025, the Company discontinued providing R&D services to the Parent.

5. Inventories

Inventories consist of the following as of December 31, 2025:

Merchandise	\$ 7,379,427
Finished goods	430,596
Raw materials	384,792
Goods in transit	1,611,840
Inventories – net	<u>\$ 9,806,655</u>

Inventories stated above are net of reserves of approximately \$810,000 as of December 31, 2025. The lower of cost or net realizable value adjustment is included in cost of sales for the year ended December 31, 2025.

6. Property and Equipment

A summary of property and equipment at December 31, 2025, is as follows:

	Useful Lives (in Years)	Amount
Vehicle	4	\$ 138,518
Fixtures and furniture	4	605,275
Construction-in-progress		5,342
Total		<u>749,135</u>
Accumulated depreciation		<u>(423,726)</u>
Property and equipment – net		<u>\$ 325,409</u>

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

6. Property and Equipment (continued)

Depreciation expenses for property and equipment amounted to approximately \$128,000 for the year ended December 31, 2025.

7. Income Taxes

The income tax expense for the year ended December 31, 2025, consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 137,055	\$ (102,280)	\$ 34,775
State	67,289	(27,039)	40,250
Total	<u>\$ 204,344</u>	<u>\$ (129,319)</u>	<u>\$ 75,025</u>

The Company's effective tax rate differs from the federal statutory tax rate of 21% primarily due to state income taxes and certain expenses not deductible for tax purposes for the year ended December 31, 2025.

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) as of December 31, 2025, are as follows:

Deferred tax assets:	
Bad debt reserve and other accruals	\$ 15
Inventories	370,109
Lease liability	260,821
Other	135,506
Gross deferred tax assets	<u>766,451</u>
Deferred tax liabilities:	
Right-of-use assets	(256,611)
Property and equipment and other	<u>(11,393)</u>
Net deferred tax assets	<u>\$ 498,447</u>

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

7. Income Taxes (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of existing temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the periods in which the deferred tax assets are deductible, it was determined that it was more likely than not that the Company would be able to realize the benefit of deferred income tax assets. Therefore, no valuation allowance was provided against the deferred tax assets as of December 31, 2025.

At December 31, 2024, the Company had a federal net operating loss (NOL) carryforward of approximately \$39,000 with no expiration. During the year ended December 31, 2025, the NOL carryforward was fully utilized. Accordingly, as of December 31, 2025, the Company has no NOL carryforwards available for federal income tax purposes.

The Company's federal tax return for 2022 through 2025 remains open to examination by the Internal Revenue Service. The Company's tax returns remain open for 2021 through 2025 for various states and local taxing jurisdictions.

8. Leases

The Company determines whether a contract is or contains a lease at inception. Operating leases are included as right-of-use assets and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using the Company's incremental borrowing rate based on the information available at commencement date, as the Company's leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

8. Leases (continued)

Operating leases relate primarily to office space, an employee's house, and cars under noncancelable lease agreements. Total rental expenses related to operating leases recorded in cost of sales and selling, general, and administrative expenses on the statement of income were approximately \$126,000 and \$433,000, respectively, during 2025. Leases for office space typically have initial terms ranging from two to six years. Leases for the employee's house and cars typically have initial terms ranging from one year to three years. The Company's leases have remaining lease terms of one year to six years.

A summary of other information related to leases for the year ended December 31, 2025, is as follows:

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 373,178
Right-of-use assets obtained in exchange for new operating lease liabilities	1,029,388
Weighted average remaining lease term – operating leases	4.27 years
Weighted average discount rate – operating leases	4.18%

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

8. Leases (continued)

The table below reconciles the undiscounted cash flows total of the remaining years to the operating lease liabilities recorded on the balance sheet:

Year ending December 31	
2026	\$ 286,071
2027	206,967
2028	160,328
2029	165,424
2030	170,206
2031	29,087
Total minimum lease payments	<u>1,018,083</u>
Less present value adjustment	<u>(60,797)</u>
Total lease liabilities	<u>\$ 957,286</u>
Operating lease liabilities – current	\$ 286,071
Operating lease liabilities – noncurrent	671,215
	<u>\$ 957,286</u>

9. Defined Contribution Plan

The Company has a qualified 401(k) Profit Sharing Plan (the Plan) whereby eligible employees may contribute their pretax compensation, up to the federal annual limits. The Company matches 100% of contributions to the Plan by participants up to 4% of base compensation (subject to statutory limits). For the year ended December 31, 2025, the Company's contribution to the Plan amounted to approximately \$169,000, which is recorded as selling, general, and administrative expenses on the accompanying statement of income.

10. Subsequent Events

The Company evaluated subsequent events through April 15, 2026, which is the date the accompanying financial statements were available for issuance.

In January 2026, the Company completed a capital increase through the issuance of 1,000,000 new shares for total proceeds of \$10,000,000.

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FINANCIAL STATEMENTS

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)
Year Ended December 31, 2024
With Report of Independent Auditors



The better the question.
The better the answer.
The better the world works.



**Shape the future
with confidence**

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Financial Statements

Year Ended December 31, 2024

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Report of Independent Auditors

To the Board of Directors of
Korean Red Ginseng Corp., Inc.

Opinion

We have audited the financial statements of Korean Red Ginseng Corp., Inc. (the Company), a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), which comprise the balance sheet as of December 31, 2024, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

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

Basis for Opinion

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

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 of 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 for one year after the date that the financial statements are available to be issued.



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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.

Ernst & Young LLP

April 15, 2025

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Balance Sheet

December 31, 2024

Assets

Current assets:

Cash and cash equivalents	\$ 3,880,226
Accounts receivable, less allowance for doubtful accounts of \$40,627	5,584,928
Inventories - net	10,242,664
Other current assets	1,138,854
Total current assets	<u>20,846,672</u>

Property and equipment – net	253,331
Right-of-use assets	257,524
Deferred tax assets	369,128
Other assets	7,276
Total assets	<u><u>\$ 21,733,931</u></u>

Liabilities and stockholder's equity

Current liabilities:

Accounts payable	\$ 7,387,180
Current portion of operating lease liabilities	211,059
Accrued expenses and other current liabilities	2,290,053
Total current liabilities	<u>9,888,292</u>

Long-term operating lease liabilities	60,627
Other liabilities	17,424
Total liabilities	<u>9,966,343</u>

Stockholder's equity:

Common stock, \$10 par value – authorized 1,200,000 shares; issued and outstanding 1,200,000 shares	12,000,000
Accumulated deficit	(232,412)
Total stockholder's equity	<u>11,767,588</u>
Total liabilities and stockholder's equity	<u><u>\$ 21,733,931</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Income

Year Ended December 31, 2024

Net sales	\$ 32,327,147
Cost of sales	<u>15,923,888</u>
Gross profit	16,403,259
 Selling, general, and administrative expenses	 <u>15,643,488</u>
Operating income	759,771
 Other income (expense):	
Other income – net	131,669
Finance expense – net	<u>(99,307)</u>
Total other income	<u>32,362</u>
Income before income taxes	792,133
 Income taxes	 <u>31,360</u>
Net income	<u><u>\$ 760,773</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Changes in Stockholder's Equity

	Common Stock		Accumulated	
	Shares	Amount	Deficit	Total
Balance at January 1, 2024	1,200,000	\$ 12,000,000	\$ (993,185)	\$ 11,006,815
Net income	—	—	760,773	760,773
Balance at December 31, 2024	1,200,000	\$ 12,000,000	\$ (232,412)	\$ 11,767,588

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Cash Flows

Year Ended December 31, 2024

Operating activities

Net income	\$ 760,773
Adjustments to reconcile net income to net cash provided by operating activities:	
Reversal of allowance for doubtful accounts	(148,709)
Depreciation and amortization	103,543
Noncash lease expenses	488,009
Deferred income tax benefits	77,239
Other	702
Changes in operating assets and liabilities:	
Accounts receivable	(1,667,978)
Inventories	(1,325,053)
Other current assets	(720,290)
Accounts payable	1,420,128
Accrued expenses and other current liabilities	188,062
Other liabilities	(551,514)
Net cash used in operating activities	<u>(1,375,088)</u>

Investing activities

Purchase of property and equipment	(144,482)
Guarantee deposits	(10,714)
Net cash used in investing activities	<u>(155,196)</u>

Net decrease in cash and cash equivalents (1,530,284)

Cash and cash equivalents at beginning of year	<u>5,410,510</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,880,226</u></u>

Supplemental disclosures of cash flow information

Interest payments	\$ 100,639
Income tax payments	\$ 319,451

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements

December 31, 2024

1. Operation of the Company

Korean Red Ginseng Corp., Inc. (the Company) was incorporated in the state of California on January 20, 2009, and is a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), a Korean corporation. The Company is mainly engaged in the wholesale distribution of Korean red ginseng products manufactured by the Parent and the franchise business of retail locations.

In 2012, the Company introduced a franchise system to have Korean Ginseng Corp. brand products sold through retail stores. A significant portion of sales are consummated with such franchisees. At December 31, 2024, the Company sells its products to 36 franchisees for their retail stores in the United States. In the franchise agreements, the Company is committed to provide the franchisees with initial and continuous training, develop national and local advertising programs supply them with a company operating manual, and allow them the right to sell Korean Ginseng Corp. brand products.

The Company has significant transactions with the Parent, including the purchase of inventories. Significant related-party transactions are disclosed separately in the accompanying financial statements and notes hereto (see Note 4). As such, the Company is dependent on the Parent for a substantial portion of its revenue and operating cash flow activities.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and investments considered highly liquid with maturities of 90 days or less when purchased.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Allowances

Accounts receivable is reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The allowance for doubtful accounts is determined based on historical write-off experience and on specific customer accounts believed to be a collection risk. Accounts receivable is written off against the allowance when the Company deems amounts to be uncollectible.

Inventories

Inventories consist of finished goods and raw materials. They are stated at the lower of cost or net realizable value, determined on an average cost basis. In-transit goods represent goods purchased and shipped from the supplier but not yet received by the Company. Based on management's analysis, the allowance for obsolete and slow-moving inventory was approximately \$639,000 as of December 31, 2024.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related assets. Leasehold improvements are amortized on the straight-line basis over the useful lives of the improvements or the term of the lease, whichever is shorter. Upon disposition of property and equipment, the related cost and accumulated depreciation and amortization are removed from the accounts, and any gain or loss is reflected in the statement of income.

Impairment of Long-Lived Assets

The Company reviews the recoverability of long-lived assets whenever events or changes in circumstances occur. Recoverability of the assets to be held and used is measured by a comparison of the carrying amount of the assets to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future net cash flows, an impairment loss is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such events or changes in circumstances were identified for the year ended December 31, 2024.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

In accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contracts with customers; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Disaggregation of Revenue

All of the Company's sales are recognized at a point in time when title of the goods is transferred and the service is rendered to the customer. The following table shows the Company's sales by channel:

Channel	Amount
Revenue from goods	
Brand shop	\$ 11,136,316
Mass merchant	9,624,680
Online	9,919,925
Special channel	130,733
Subtotal	<u>30,811,654</u>
Revenue from service	
R&D	1,515,493
Total	<u><u>\$ 32,327,147</u></u>

Sales and Use Tax

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and accounts receivable. The Company's cash is placed in financial institutions with high credit ratings. The Company's cash accounts are federally insured up to \$250,000 for each financial institution that the Company holds its accounts in. As of December 31, 2024, the Company had cash deposits of approximately \$3,378,000, which exceeds the federally insured limit. Two major customers accounted for approximately 37% of accounts receivable and 37% of net sales of the Company as of and for the year ended December 31, 2024.

Leases

The Company determines if a contract is or contains a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, accrued expenses and other current liabilities, and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using an incremental borrowing rate based on the information available at commencement date, as leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

Operating lease ROU assets are amortized on a straight-line basis over the period of the lease. The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets. Fixed property taxes and insurance are included in the overall contract consideration and allocated to lease and non-lease components. If property taxes and insurance are variable, they are excluded from lease payments.

Advertising Costs

Advertising costs are expensed as incurred. The total advertising expenses incurred for the year ended December 31, 2024 were approximately \$3,803,000 and are included in selling, general, and administrative expenses in the accompanying statement of income.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Foreign Currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial position and results of operations are expressed in US dollars (USD), which is the functional currency of the Company and the reporting currency for the financial statements.

Income Taxes

Deferred tax assets and liabilities are computed for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that will result in taxable or deductible amounts in future years. Such deferred tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Deferred tax assets are required to be reduced by a valuation allowance to the extent that, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized.

In addition, the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not of being sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include allowance for doubtful accounts, the valuation of inventories, valuation allowance against deferred tax assets, and income tax uncertainties and other contingencies.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Company values its assets and liabilities using the methods of fair value, as described in the Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*. In accordance with ASC 820, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant inputs (including unadjusted quoted prices for similar assets or liabilities, yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

Level 3 – Significant unobservable inputs that are reasonably available or inputs many market participants use with reasonable confidence, because observable inputs are not available (including the entity's own assumptions used to determine the fair value of the assets or liabilities)

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consist of accounts receivable and accounts payable. The fair values of substantially all financial instruments of the Company approximate their carrying value in the aggregate due to their short-term maturity.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

3. Accounts receivable

Accounts receivable consists of the following as of December 31, 2024:

Accounts receivable	\$ 5,625,555
Allowance for doubtful accounts	(40,627)
Accounts receivable - net	<u>\$ 5,584,928</u>

A write-off of \$311,000 was charged against the allowance, and recoveries collected amounted to \$149,000 for the year ended December 31, 2024.

4. Related-Party Transactions

A substantial portion of the Company's business is conducted with the Parent. Transactions and balances with the Parent as of and for the year ended December 31, 2024 are as follows:

Purchases from Parent	\$ 18,682,498
Accounts receivable due from parent	668,186
Accounts payable due to parent	7,010,264
Interest and other expense	211,428
R&D service to Parent	1,515,493

Starting in July 2022, the Company has provided a research and development (R&D) service for the Parent, reporting the service revenue under the category of net sales. As per the agreement with the Parent, the Company is conducting R&D locally with the Parent which retains ownership of the research results. Revenue from these services is calculated by adding a 4.6% markup to the actual costs incurred during R&D.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following as of December 31, 2024:

Finished goods	\$ 9,635,882
Raw materials	119,576
Goods in transit	487,206
Inventories – net	<u>\$ 10,242,664</u>

Inventories stated above are net of reserves of approximately \$639,000 as of December 31, 2024. The lower of cost or net realizable value adjustment is included in cost of sales for the year ended December 31, 2024.

6. Property and Equipment

A summary of property and equipment at December 31, 2024 is as follows:

	<u>Useful Lives</u>	<u>Amount</u>
Vehicle	4	\$ 205,018
Fixtures and furniture	3–7	418,684
Total		<u>623,702</u>
Accumulated depreciation and amortization		<u>(370,371)</u>
Property and equipment – net		<u>\$ 253,331</u>

Depreciation and amortization expenses for property and equipment amounted to approximately \$104,000 for the year ended December 31, 2024.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

7. Income Taxes

The income tax expense for the year ended December 31, 2024 consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ (83,355)	\$ 43,020	\$ (40,335)
State	37,476	34,219	71,695
Total	<u>\$ (45,879)</u>	<u>\$ 77,239</u>	<u>\$ 31,360</u>

The Company's effective tax rate differs from the federal statutory tax rate of 21% primarily due to state income taxes and certain expenses, not deductible for tax purposes for the year ended December 31, 2024.

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) as of December 31, 2024 are as follows:

Deferred tax assets:	
Bad debt reserve and other accruals	\$ 11,251
Inventories	378,498
Lease liability	75,240
Net operating loss carryforwards	8,240
Other	11,109
Gross deferred tax assets	<u>484,338</u>
Deferred tax liabilities:	
Right-of-use assets	(71,317)
Property and equipment and other	<u>(43,893)</u>
Net deferred tax assets	<u>\$ 369,128</u>

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

7. Income Taxes (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of existing temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the periods in which the deferred tax assets are deductible, it was determined that it was more likely than not that the Company would be able to realize the benefit of deferred income tax assets. Therefore, no valuation allowance was provided against the deferred tax assets as of December 31, 2024.

At December 31, 2024, the Company has a gross net operating loss (NOL) carryforward for the federal income tax purposes of approximately \$39,000 which is available as deductions for future taxable income of such jurisdiction with no expiration. There are no unrecognized tax benefits or interest and penalties recognized in the accompanying financial statements as of and for the year ended December 31, 2024. The Company's tax returns for 2021 through 2024 remain open to examination by the Internal Revenue Service. The Company's tax returns remain open for 2020 through 2024 for state tax jurisdictions.

8. Leases

The Company determines if a contract is or contains a lease at inception. Operating leases are included as right-of-use assets and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using the Company's incremental borrowing rate based on the information available at commencement date, as the Company's leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

Operating lease ROU assets are amortized on a straight-line basis over the period of the lease. The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

8. Leases (continued)

Operating leases relate primarily to office space, employee's house and cars under non-cancelable lease agreements. Total rental expenses related to operating leases recorded in cost of sales and selling, general, and administrative expenses in the statement of income were approximately \$318,000 and \$445,000, respectively, during 2024. Leases for office space typically have initial terms ranging from 2 to 5 years. Leases for employee's house and cars typically have initial terms ranging from 1 year to 3 years. The Company's leases have remaining lease terms of 1 year to 3 years.

A summary of other information related to leases for the year ended December 31, 2024 is as follows:

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 550,888
Right-of-use assets obtained in exchange for new operating lease liabilities	38,473
Weighted-average remaining lease term – operating leases	1.17 years
Weighted-average discount rate – operating leases	2.19%

The right of use assets balance as of December 31, 2024 consists of approximately \$230,000 for operating leases existing on January 1, 2024 and approximately \$27,000 for operating leases that commenced during 2024.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

8. Leases (continued)

The table below reconciles the undiscounted cash flows total of the remaining years to the operating lease liabilities recorded on the balance sheet:

Year ending December 31	
2025	\$ 213,315
2026	60,095
2027	980
Total minimum lease payments	<u>274,390</u>
Less present value adjustment	<u>(2,704)</u>
Total lease liabilities	<u>\$ 271,686</u>
Operating lease liabilities – current	\$ 211,059
Operating lease liabilities – noncurrent	60,627
	<u>\$ 271,686</u>

9. Defined Contribution Plan

The Company has a qualified 401(k) Profit Sharing Plan (the Plan), whereby eligible employees may contribute their pretax compensation, up to the federal annual limits. The Company matches 100% of contributions to the Plan by participants up to 4% of base compensation (subject to statutory limits). For the year ended December 31, 2024, the Company's contribution to the Plan amounted to approximately \$114,000, which is recorded as selling, general, and administrative expenses on the accompanying statement of income.

10. Subsequent Events

The Company evaluated subsequent events through April 15, 2025, which is the date the financial statements were available for issuance. No events have occurred after December 31, 2024, but before April 15, 2025, that require consideration as adjustments to, or disclosure in, the financial statements.

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FINANCIAL STATEMENTS

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)
Year Ended December 31, 2023
With Report of Independent Auditors

Ernst & Young LLP



Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Financial Statements

Year Ended December 31, 2023

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Report of Independent Auditors

To the Board of Directors of
Korean Red Ginseng Corp., Inc.

Opinion

We have audited the financial statements of Korean Red Ginseng Corp., Inc. (the Company), a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), which comprise the balance sheet as of December 31, 2023, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 of 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 for one year after the date that the financial statements are 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.

Ernst & Young LLP

April 10, 2024

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Balance Sheet

December 31, 2023

Assets

Current assets:

Cash	\$ 5,410,510
Accounts receivable, less allowance for doubtful accounts of \$500,398	3,768,241
Inventories	8,917,611
Other current assets	355,349
Total current assets	<u>18,451,711</u>

Property and equipment – net	213,745
Intangible assets – net	4,167
Right-of-use assets	707,061
Deferred tax assets	446,367
Other assets	31,473
Total assets	<u><u>\$ 19,854,524</u></u>

Liabilities and stockholder's equity

Current liabilities:

Accounts payable	\$ 5,971,305
Current portion of operating lease liabilities	514,609
Accrued expenses and other current liabilities	2,074,252
Total current liabilities	<u>8,560,166</u>

Long-term operating lease liabilities	255,988
Other liabilities	31,555
Total liabilities	<u>8,847,709</u>

Stockholder's equity:

Common stock, \$10 par value – authorized 1,200,000 shares; issued and outstanding 1,200,000 shares	12,000,000
Accumulated deficit	(993,185)
Total stockholder's equity	<u>11,006,815</u>
Total liabilities and stockholder's equity	<u><u>\$ 19,854,524</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Income

Year Ended December 31, 2023

Net sales	\$ 32,126,074
Cost of sales	<u>17,747,996</u>
Gross profit	14,378,078
 Selling, general, and administrative expenses	 <u>13,788,272</u>
Operating income	589,806
 Other income (expense):	
Other income – net	165,045
Finance expense – net	<u>(366,799)</u>
Total other expense	<u>(201,754)</u>
Income before income taxes	388,052
 Income taxes	 <u>208,832</u>
Net income	<u><u>\$ 179,220</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Changes in Stockholder's Equity

	Common Stock		Accumulated	
	Shares	Amount	Deficit	Total
Balance at January 1, 2023	1,200,000	\$ 12,000,000	\$ (1,172,405)	\$ 10,827,595
Net income	—	—	179,220	179,220
Balance at December 31, 2023	1,200,000	\$ 12,000,000	\$ (993,185)	\$ 11,006,815

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Statement of Cash Flows

Year Ended December 31, 2023

Operating activities

Net income	\$ 179,220
Adjustments to reconcile net income to net cash provided by operating activities:	
Reversal of bad debts	(107,043)
Depreciation and amortization	93,319
Noncash lease expenses	503,730
Deferred income tax benefits	25,368
Other	(2,442)
Changes in operating assets and liabilities:	
Accounts receivable	(191,177)
Inventories	7,454,187
Other current assets	3,835
Accounts payable	(5,106,259)
Accrued expenses and other current liabilities	111,360
Other liabilities	(620,067)
Net cash provided by operating activities	<u>2,344,031</u>

Investing activities

Purchase of property and equipment	(99,970)
Guarantee deposits	(2,830)
Net cash used in investing activities	<u>(102,800)</u>

Net increase in cash 2,241,231

Cash at beginning of year 3,169,279

Cash at end of year \$ 5,410,510

Supplemental disclosures of cash flow information

Interest payments	<u>\$ 364,301</u>
Income tax payments	<u><u>\$ 800</u></u>

See notes to financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements

December 31, 2023

1. Operation of the Company

Korean Red Ginseng Corp., Inc. (the Company) was incorporated in the state of California on January 20, 2009 and is a wholly owned subsidiary of Korea Ginseng Corporation (the Parent), a Korean corporation. The Company is mainly engaged in the wholesale distribution of Korean red ginseng products manufactured by the Parent and the franchise business of retail locations.

In 2012, the Company introduced a franchise system to have Korean Ginseng Corp. brand products sold through retail stores. A significant portion of sales are consummated with such franchisees. At December 31, 2023, the Company sells its products to 34 franchisees for their retail stores in the United States. In the franchise agreements, the Company is committed to provide the franchisees with initial and continuous training, develop national and local advertising programs, supply them with a company operating manual, and allow them the right to sell Korean Ginseng Corp. brand products.

The Company has significant transactions with the Parent, including the purchase of inventories. Significant related-party transactions are disclosed separately in the accompanying financial statements and notes hereto (see Note 3). As such, the Company is dependent on the Parent for a substantial portion of its revenue and operating cash flow activities.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Accounts Receivable and Allowances

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The allowance for doubtful accounts is determined based on historical write-off experience and on specific customer accounts believed to be a collection risk. Accounts receivable are written off against the allowance when the Company deems amounts to be uncollectible.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories consist of finished goods and raw materials. They are stated at the lower of cost or net realizable value, determined on an average cost basis. In-transit goods represent goods purchased and shipped from the supplier but not yet received by the Company. Based on management's analysis, the allowance for obsolete and slow-moving inventory was approximately \$538,000 as of December 31, 2023.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related assets. Leasehold improvements are amortized on the straight-line basis over the useful lives of the improvements or the term of the lease, whichever is shorter. Upon disposition of property, plant, and equipment, the related cost and accumulated depreciation and amortization are removed from the accounts, and any gain or loss is reflected in the statement of income.

Impairment of Long-Lived Assets

The Company reviews the recoverability of long-lived assets whenever events or changes in circumstances occur. Recoverability of the assets to be held and used is measured by a comparison of the carrying amount of the assets to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future net cash flows, an impairment loss is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such events or changes in circumstances were identified for the year ended December 31, 2023.

Revenue Recognition

In accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contracts

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

with customers; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Disaggregation of Revenue

All of the Company's sales are recognized at a point in time when title of the goods is transferred to the customer. The following table shows the Company's sales by channel:

Channel	Amount
Brand shop	\$ 11,908,511
Mass merchant	8,172,331
Online	10,471,149
Special channel	368,137
R&D	1,205,946
Total	<u>\$ 32,126,074</u>

Sales and Use Tax

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and accounts receivable. The Company's cash is placed in financial institutions with high credit ratings. The Company's cash accounts are federally insured up to \$250,000 for each financial institution that the Company holds its accounts in. As of December 31, 2023, the Company had cash balances of approximately \$4,908,000, which exceeds the federally insured limit. A major customer accounted for approximately 38% of accounts receivable and 17% of net sales of the Company as of and for the year ended December 31, 2023. The Company has no history of significant write-offs of accounts receivable.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Leases

The Company determines if a contract is or contains a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, accrued expenses and other current liabilities, and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using an incremental borrowing rate based on the information available at commencement date, as leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

Operating lease ROU assets are amortized on a straight-line basis over the period of the lease. The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets. Fixed property taxes and insurance are included in the overall contract consideration and allocated to lease and non-lease components. If property taxes and insurance are variable, they are excluded from lease payments.

Advertising Costs

Advertising costs are expensed as incurred. The total advertising expenses incurred for the year ended December 31, 2023 were approximately \$3,972,000 and are included in selling, general, and administrative expenses in the accompanying statement of income.

Foreign Currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial position and results of operations are expressed in US dollars (USD), which is the functional currency of the Company and the reporting currency for the financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Deferred tax assets and liabilities are computed for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that will result in taxable or deductible amounts in future years. Such deferred tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Deferred tax assets are required to be reduced by a valuation allowance to the extent that, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized.

In addition, the Company only recognizes the tax benefit from an uncertain tax position if it is more likely than not of being sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include allowance for doubtful accounts, the valuation of inventories, valuation allowance against deferred tax assets, and income tax uncertainties and other contingencies.

Fair Value Measurements

The Company values its assets and liabilities using the methods of fair value, as described in the Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*. In accordance with ASC 820, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant inputs (including unadjusted quoted prices for similar assets or liabilities, yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

Level 3 – Significant unobservable inputs that are reasonably available or inputs many market participants use with reasonable confidence, because observable inputs are not available (including the entity's own assumptions used to determine the fair value of the assets or liabilities)

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company's financial instruments primarily consisted of accounts receivable and accounts payable. The fair values of substantially all financial instruments of the Company approximate their carrying value in the aggregate due to their short-term maturity.

New Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 revises the measurement of credit losses for financial assets measured at amortized cost from an incurred loss methodology to an expected loss methodology. ASU 2016-13 affects trade receivables, debt securities, net investment in leases, and most other financial assets that represent a right to receive cash. Additional disclosures about significant estimates and credit quality are also required. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2022. The Company adopted ASU 2016-13 on January 1, 2023, and it did not have a material impact on its financial statements.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

3. Related-Party Transactions

A substantial portion of the Company's business is conducted with the Parent. Transactions and balances with the Parent as of and for the year ended December 31, 2023 are as follows:

Purchases from Parent	\$ 7,778,796
Accounts payable	5,649,195
Interest and other expense	362,076
Other payables	28,608
Product sales to Parent	8,961
R&D service to Parent	1,205,946

Starting in July 2022, the Company has provided a research and development (R&D) service for the Parent, reporting the service revenue under the category of sales-others. As per the agreement with the Parent, the Company is conducting R&D locally with the Parent, retaining ownership of the research results. Revenue from these services is calculated by adding a 4.6% markup to the actual costs incurred during R&D.

4. Inventories, net

Inventories, net consist of the following as of December 31, 2023:

Finished goods	\$ 8,021,503
Raw materials	585,026
Goods in transit	311,082
Inventories – net	<u>\$ 8,917,611</u>

Inventories stated above are net of reserves of approximately \$538,000 as of December 31, 2023. The lower of cost or net realizable value adjustment is included in cost of sales for the year ended December 31, 2023.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

5. Property and Equipment

A summary of property and equipment at December 31, 2023 is as follows:

	<u>Useful Lives</u>	<u>Amount</u>
Fixtures and furniture	3–7	\$ 228,056
Office equipment	3–7	151,484
Leasehold improvements	4	<u>110,792</u>
Total		490,332
Accumulated depreciation and amortization		<u>(276,587)</u>
Property and equipment – net		<u><u>\$ 213,745</u></u>

Depreciation on leasehold improvements is recognized on a straight-line basis over the shorter of the lease term or useful life for leasehold improvements. Depreciation and amortization expenses for property and equipment amounted to approximately \$87,000 for the year ended December 31, 2023.

6. Income Taxes

The following tax expense for the year ended December 31, 2023 consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 178,904	\$ (25,987)	\$ 152,917
State	4,560	51,355	55,915
Income Tax Expense	<u>\$ 183,464</u>	<u>\$ 25,368</u>	<u>\$ 208,832</u>

The Company's effective tax rate differs from the federal statutory tax rate of 21% primarily due to state income taxes and certain expenses, not deductible for tax purposes for the year ended December 31, 2023.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

6. Income Taxes (continued)

The tax effects of temporary differences that give rise to deferred tax assets as of December 31, 2023 are as follows:

Deferred tax assets:	
Bad debt reserve and other accruals	\$ 140,029
Inventory	305,979
Lease liability	215,641
Net operating loss carryforwards	13,389
Other	13,025
Gross deferred tax assets	<u>688,063</u>
Deferred tax liabilities:	
Right-of-use assets	197,861
Property and equipment and other	<u>43,835</u>
Net deferred tax assets	<u><u>\$ 446,367</u></u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of existing temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the periods in which the deferred tax assets are deductible, it was determined that it was more likely than not that the Company would be able to realize the benefit of deferred income tax assets. Therefore, no valuation allowance was provided against the deferred tax assets as of December 31, 2023.

At December 31, 2023, the Company has a gross net operating loss (NOL) carryforward for the State of California income tax purposes of approximately \$0.2 million which is available as deductions for future taxable income of such jurisdiction. The NOL will begin to expire in 2039, if not previously utilized. There are no unrecognized tax benefits or interest and penalties recognized in the accompanying financial statements as of and for the year ended December 31, 2023. The Company's tax returns for 2020 through 2023 remain open to examination by the Internal Revenue Service. The Company's tax returns remain open for 2019 through 2023 for state tax jurisdictions.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

7. Leases

The Company determines if a contract is or contains a lease at inception. Operating leases are included as right-of-use assets and other liabilities on the balance sheet. Lease liabilities are initially recorded at the present value of lease payments not yet paid, discounted using the Company's incremental borrowing rate based on the information available at commencement date, as the Company's leases do not provide an implicit rate. Lease ROU assets are initially recorded at the corresponding lease liabilities plus any lease payments made before or at the lease commencement date, plus any initial direct costs incurred, and minus any incentives received from the lessor.

Operating lease ROU assets are amortized on a straight-line basis over the period of the lease. The Company has lease agreements with non-lease components such as maintenance, which are accounted for separately from lease components for all classes of assets.

Operating leases relate primarily to office space, employee's house and cars under non-cancelable lease agreements. Total rental expenses related to operating leases recorded in cost of sales and selling, general, and administrative expenses in the statement of income were approximately \$150,000 and \$454,000, respectively, during 2023. Leases for office space typically have initial terms ranging from 2 to 5 years. Leases for employee's house and cars typically have initial terms ranging from 1 year to 3 years. The Company's leases have remaining lease terms of 1 year to 3 years.

A summary of other information related to leases for fiscal 2023 is as follows:

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 522,419
Right-of-use assets obtained in exchange for new operating lease liabilities	390,548
Weighted-average remaining lease term – operating leases	1.63 years
Weighted-average discount rate – operating leases	2.67%

The right-of-use assets balance as of December 31, 2023 consists of approximately \$455,000 for operating leases existing on January 1, 2023 and approximately \$252,000 for operating leases that commenced during 2023.

Korean Red Ginseng Corp., Inc.
(A Wholly Owned Subsidiary of Korea Ginseng Corporation)

Notes to Financial Statements (continued)

7. Leases (continued)

The table below reconciles the undiscounted cash flows for each of the first five years and the total of the remaining years to the finance lease liabilities and operating lease liabilities recorded in the balance sheet:

Year ending December 31	
2024	\$ 526,778
2025	205,277
2026	<u>52,783</u>
Total minimum lease payments	784,838
Less present value adjustment	<u>(14,241)</u>
Total lease liabilities	<u>\$ 770,597</u>
Operating lease liabilities – current	\$ 514,609
Operating lease liabilities – noncurrent	<u>255,988</u>
	<u>\$ 770,597</u>

8. Defined Contribution Plan

The Company has a qualified 401(k) Profit Sharing Plan (the Plan), whereby eligible employees may contribute their pretax compensation, up to the federal annual limits. The Company matches 100% of contributions to the Plan by participants up to 3% of base compensation (subject to statutory limits). For the year ended December 31, 2023, the Company's contribution to the Plan amounted to approximately \$25,000, which is recorded as selling, general, and administrative expenses on the accompanying statement of income.

9. Subsequent Events

The Company evaluated subsequent events through April 10, 2024, which is the date the financial statements were available for issuance. No events have occurred after December 31, 2023, but before April 10, 2024, that require consideration as adjustments to, or disclosure in, the financial statements.

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FRANCHISE DISCLOSURE DOCUMENT

EXHIBIT H

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	Pending
Hawaii	Pending
Illinois	Pending
Maryland	Pending
New York	Pending
Virginia	Pending
Washington	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.

RECEIPT

(RETURN ONE COPY TO US)

THIS DISCLOSURE DOCUMENT SUMMARIZES CERTAIN PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF KOREAN RED GINSENG CORP., INC. OFFERS YOU A FRANCHISE, IT 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.

IF KOREAN RED GINSENG CORP., INC. 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 ADMINISTRATORS LISTED IN EXHIBIT A.

The sellers of Jung Kwan Jang franchise are:

Korean Red Ginseng Corp., Inc.
President and CEO: Woo Sung Chung
12750 Center Court Dr., Suite 100
Cerritos CA, 90703
(562) 860-2323

Issuance Date: April 15, 2026

I have received a disclosure document dated April 15, 2026 that included the following Exhibits:

- A. State Administrators/Agents for Service of Process
- B. State Specific Addendum
- C. Franchise Agreement
- D. Table of Contents of Confidential Operating Manual
- E. List of Franchisees
- F. List of Franchisees Who Have Left the System
- G. Financial Statements
- H. State Effective Dates

Dated:_____

Franchisee:_____

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- H. State Effective Dates

Dated:_____

Franchisee:_____