



**FRANCHISE DISCLOSURE DOCUMENT**  
**CHICHIA SAN CHEN CORPORATION**  
**dba SAN CHEN™**

A California Corporation  
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As a **San Chen™** franchisee, you will operate a retail food establishment that sells items from a focused menu featuring a variety of teas and juice drinks, using proprietary teas, milk teas and juices, tapioca balls, recipes and preparation techniques, freshly prepared and available for carry-out or consumption on the premises.

The total investment necessary to begin operation of a **San Chen™** franchise business is \$118,700 to \$221,250 for a single outlet. This includes \$56,000 to \$62,000 that must be paid to the franchisor or its affiliates. The total investment necessary to begin operation of a San Chen™ franchise business is \$308,700 to \$411,250 for the area development. This includes \$246,000 to \$252,000 that must be paid to the franchisor or its affiliates.

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 government 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 Kuo Liang Wang at Chichia San Chen Corporation, 101 California Street, Suite 2710, San Francisco, CA 94111 and telephone (415) 365-9600.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read your entire contract carefully. Show your contract and this disclosure document to an advisor, such as 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, DC 20580. You can also visit the FTC's homepage at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: **October 1, 2020**

## How to Use This Franchise Disclosure Document

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

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

## **What You Need To Know About Franchising *Generally***

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

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

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

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

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

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

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

### **Some States Require Registration**

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

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 and/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. **Short Operating History.** The franchisor is at an early stage of development and has a limited operating history. This franchise is likely to be a riskier investment than a franchise in a system with a longer operating history.

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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Exhibits

|     |                                                                  |
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## **ITEM 1 THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

To simplify the language, this disclosure document uses “we” or “us” to mean CHICHIA SAN CHEN CORPORATION. “You” means the individual or entity buying the **San Chen™** franchise and if an entity acquires the franchise, all persons who own 20% or more of the franchisee entity (“Principal Equity Owners”).

### **Franchisor, Parents and Affiliates**

We do business under the name Chichia San Chen Corporation and also **San Chen™**. Our principal business address is 101 California Street, Suite 2710, San Francisco, CA 94111. We are a California corporation formed on April 1, 2020. We also conduct business under **Chi Chia San Chen™**.

We have two affiliated companies. One is Fang Yuan F&B International Co., Ltd. (hereinafter as “Fang Yuan”), and the other is Chi Chia Teashop Co., Ltd. (hereinafter as “Teashop”). Fang Yuan is a Taiwan limited company formed on July 13, 2016. Fang Yuan is the owner of **San Chen™** marks, and it authorizes us to sublicense the marks to any persons or entities in the United States to operate the **San Chen™** franchise for 10 years from July 1, 2020 to June 30, 2030. Fang Yuan’s principal business address is 2F., No. 10-3 Sec. 2, Xitun Rd., Xitun Dist. Taichung, Taiwan 40746. At the date of this Disclosure Document, Fang Yuan owns and operates 5 outlets located in Taiwan. Fang Yuan also franchises the system to 5 franchises internationally.

Teashop is a Taiwan limited company formed on November 18, 2013. Teashop is the owner of **Chi Cha Shau Pu™** marks. Teashop’s principal business address is 2F., No.15, Chinghai Road, Xitun District, Taichung, Taiwan. At the date of this Disclosure Document, Teashop owns and operates 10 **Chi Cha Shau Pu™** outlets located in Taiwan. Teashop also franchises the system to two hundred franchisees in Taiwan and China.

We have never offered **San Chen™** franchises or franchise in any other line of business, except as indicated below.

By way of this Franchise Disclosure Document, we are offering and selling franchises under a Franchise Agreement whereby the new Franchisee will acquire the right to open a **San Chen™** outlet. We are also selling franchises under an Area Developer Agreement whereby the new Area Developer will acquire the right to open and operate multiple **San Chen™** outlet within a specific territory.

### **Predecessors**

We have no predecessor.

### **Agent for Service of Process**

Our agent for service of process is disclosed in **Exhibit F**.

## **The Business We Offer**

### *(1) Unit Franchise*

We offer for sale a franchise to allow you to open and operate your own distinctive drinks and beverages outlet of which is identified by the **San Chen™** trade name. The beverage outlets are typically located by the street in downtown area, free-standing building, or retail shopping center.

The Franchise Agreement and the Area Development Agreement authorizes you use the **San Chen™** trade name, trademarks and service marks (collectively, the Marks) in connection with the operation of Beverage Outlets. The Beverage Outlets are established and operated under a comprehensive design includes, but is not limited to, beverage making techniques and methods, various teapresso products, specifications and procedures for operations, quality customer service, management and financial control, training and assistance and advertising and promotional programs (collective, the “System”). The System’s standards, specifications and procedures (collectively the “System Standards”) are described in our confidential operations manual (“Manual”). The System and the Manual may be changed, improved and further developed by us.

### *(2) Area Development*

If you sign the Area Development Agreement, you will be able to open and operate multiple distinctive drinks and beverages outlets. Under the Area Development Agreement, you will be required to develop certain numbers of outlets within certain period of time. For instance, you will be required to develop at least 2 outlets per year during the term of the Area Development Agreement. The form of Area Development Agreement is attached as **Exhibit E** to this Franchise Disclosure Document. **The Area Developer will have the right to sign the same form of Franchise Agreement for each future unit franchise.**

### *(3) Master Franchise*

By way of another Franchise Disclosure Document, we also offer for sale a franchise to allow Master Franchisee to sub-license the **San Chen™** trade name to Unit Franchisees or entities to open and operate **San Chen™** Outlet. Master Franchisee will also be allowed to open and operate its own Outlets. The sale of Master Franchise is NOT included in this Franchise Disclosure Document.

## **General Market for Franchised Products and Services**

The general market you will operate the business involves retail tea and coffee shops and other restaurants offering specialty teas and other food products that are like **San Chen™** products. The customers for **San Chen™** products are all individuals working or living within a reasonable proximity to the Outlet and who are interested to try out tea-based beverage with additional tapiocas or jellies. This type of business is fully developed and is not seasonal. Our initial approach to the marketing of our business is to grant franchises in areas where the population of ethnic Taiwanese

and other Asians is greatest and where potential customer awareness of the brand is most likely.

### **Industry Specific Laws or Regulations**

You will need a business license and reseller's permit to open and operate the Outlet. You must comply with federal, state, and local laws and regulation that are applicable to the operation and licensing of our type of business. You must obtain all applicable health permits, inspections, and approvals by municipal, county, or state health departments that regulate food handling and service operations. Your **San Chen**<sup>TM</sup> Outlet must also meet applicable municipal, county, state, and federal building codes and handicap access codes.

The U.S. Food and Drug Administration, the U.S. Department of Agriculture, state, and local health departments administer and enforce regulations that govern food preparation and service. State and local agencies inspect restaurants and other retail food service providers to ensure that they comply with these laws and regulations.

The Federal Clean Air Act and various state laws require certain state and local areas to meet national air quality standards limiting emissions of ozone, carbon monoxide and particles, including caps on emissions from commercial food preparation. Some state and local governments also regulate indoor air quality, including limiting the use of tobacco products in public places, such as donut shops.

### **Competition**

All **San Chen**<sup>TM</sup> franchisees will compete with other tea shops, coffee shops, and restaurants that offer and sell specialty teas and tea drink combinations, including franchised operations and national and regional chains such as Teavana, Starbucks and Peets Coffee and Tea, and smaller chains, and independent operators that offer specialty teas, tea drink combinations, and other products comparable to the **San Chen**<sup>TM</sup> Products

## **ITEM 2 BUSINESS EXPERIENCE**

*Kuo Liang Wang: Chairman and Chief Executive Officer*

Mr. Wang is the founder and chairman of us since inception from April 1, 2020. He is also the founder and chairman of Fang Yuan F&B International Co., Ltd. and Chi Cha Teashop., Ltd., our affiliated companies. He has management responsibility relating to the sale or operate of franchises offered by this document.

## **ITEM 3 LITIGATION**

*(1) Franchisor*

We do not have any litigation to be disclosed under this Item.

*(2) Fang Yuan F&B International Co., Ltd.*

Fang Yuan is our affiliated Taiwan limited company. Fang Yuan sold a master franchise to Globalink USA, Inc. on February 23, 2019 without first registering the franchise with the state in violation of the California Franchise Investment Law. Fang Yuan filed a notice of violation with the Department of Business Oversight on September 21, 2020. There is no decision made from the Department of Business Oversight as of the issuance date of the Franchise Disclosure Document.

#### **ITEM 4    BANKRUPTCY**

We have no bankruptcy to disclose under this Item.

#### **ITEM 5    INITIAL FEES**

##### ***(1) Unit Franchise***

##### Initial Franchise Fee

The Initial Franchise Fee for a unit franchisee to open a single Outlet is \$30,000. The Fee is due and payable in full, by cashier's check or money order or wire transfer to our bank account when you sign the Franchise Agreement.

##### Equipment Package

We will provide you with a list of authorized suppliers of appropriate and recommended equipment. The equipment will cost you from \$10,000 to \$15,000.

##### Opening Inventory

Before open each Beverage Outlets, you must purchase opening inventory from us which equals to \$5,000 per outlet (the "Minimum opening inventory"). An additional \$1,000 service fee will be charged for any purchase amount that is less than the Minimum Opening Inventory.

##### Security Deposit

The security deposit is \$10,000. If you breach the terms and conditions of the Franchise Agreement, we will use the security deposit to cure the default or to compensate for our damages. After we use and deduct the security deposit, we will notify you in writing of such usage and deduction. You will need to restore the deposit to its original amount within 10 days after the notice. After the termination or expiration of Franchise agreement, we will use the security deposit to compensate for our expenditures and damages. We will return the remainder to you within thirty 30 days after the termination or expiration of Franchise Agreement. If the security deposit is not enough to compensate for our expenditures or damages, we will give you a written notice of such insufficiency. You must return the insufficient amount to us within thirty 30 days after

receiving such notice.

#### Training Fee

Before your outlet is opened, the Initial Training is provided to you at no additional charge. If you want to assign any person who is not the store manager or equity owner of the outlet to receive the initial training, you will have to pay us \$2,800 for each attendee. After your outlet is opened, we may ask you to take additional training programs if we receive complaints from customers about the quality of beverages or sanity issues occur. You have to pay \$500 to us for each trainer we sent to your outlet.

#### Design Fee

When we have reviewed and consented to the site where your Outlet will be opened, you must also pay us a “Design Fee” for our direct services in designing the Outlet as a **San Chen™** retail store. The Design Fee is \$3.3 per square foot. You will probably pay us a \$1,000-\$2,000 Design fee. The amount of the Design Fee is indicated in Exhibit 1 of the Franchise Agreement.

#### Refundability of Fees

The initial franchise fee, equipment, opening inventory, security deposit, training fee, and design fee are *not refundable*. The security deposit is refundable after we deduct the necessary expenses and damages.

### ***(2) Area Development***

#### Initial Area Development Fee

The Initial Franchise Fee for a unit franchisee to open a single Outlet is \$200,000. The Fee is due and payable in full, by cashier's check or money order or wire transfer to our bank account when you sign the Area Development Agreement.

#### Equipment Package

We will provide you with a list of authorized suppliers of appropriate and recommended equipment. The equipment will cost you from \$10,000 to \$15,000 for your first outlet.

#### Opening Inventory

Before open each Beverage Outlets, you must purchase opening inventory from us which equals to \$5,000 per outlet (the “Minimum opening inventory”). An additional \$1,000 service fee will be charged for any purchase amount that is less than the Minimum Opening Inventory.

#### Security Deposit

The security deposit is \$30,000. If you breach the terms and conditions of the Area Development Agreement, we will use the security deposit to cure the default or to compensate for our damages. After we use and deduct the security deposit, we will notify you in writing of such usage and deduction. You will need to restore the deposit to its original amount within 10 days after the notice. After the termination or expiration of Area Development agreement, we will use the security deposit to compensate for our expenditures and damages. We will return the remainder to you within thirty 30 days after the termination or expiration of Franchise Agreement. If the security deposit is not enough to compensate for our expenditures or damages, we will give you a written notice of such insufficiency. You must return the insufficient amount to us within thirty 30 days after receiving such notice.

#### Training Fee

Before your first outlet is opened, the Initial Training is provided to you at no additional charge. If you want to assign any person who is not the store manager or equity owner of the outlet to receive the initial training, you will have to pay us \$2,800 for each attendee. After your outlet is opened, we may ask you to take additional training programs if we receive complaints from customers about the quality of beverages or sanity issues occur. You have to pay \$500 to us for each trainer we sent to your outlet.

#### Design Fee

When we have reviewed and consented to the site where your Outlet will be opened, you must also pay us a “Design Fee” for our direct services in designing the Outlet as a **San Chen™** retail store. The Design Fee is \$3.3 per square foot. You will probably pay us a \$1,000-\$2,000 Design fee for each outlet. The amount of the Design Fee is indicated in Exhibit 1 of the Franchise Agreement.

#### Refundability of Fees

The initial area development fee, equipment, opening inventory, security deposit, training fee, and design fee are *not refundable*. The security deposit is refundable after we deduct the necessary expenses and damages.

### **ITEM 6 OTHER FEES**

| Type of Fee          | Amount                 | Due Date                                         | Remarks                                                                                                                                                                                                                                                                                                       |
|----------------------|------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Royalty <sup>1</sup> | 4% of “Gross Revenues” | The 15 <sup>th</sup> of every month <sup>3</sup> | Royalty is due and payable on the 15 <sup>th</sup> day of each month beginning the first full calendar month after the date your Outlet opens (“Opening Date”). “Gross Revenues” include all revenue from the sale of all products and services and all other income of every kind and nature related to your |

|                                         |                               |                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------|-------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         |                               |                                                            | franchise operation, whether for cash, by redemption of gift certificates or for credit, regardless of collection. Gross Revenues do not include sales tax or any other taxes you collect from customers for payment to an appropriate tax authority.                                                                                                                                                                    |
| Health Inspection Fees                  | The actual cost of inspection | Before we perform the inspection                           | We may dispatch personnel to your outlet and inspect beverages if we receive any notice that your outlet is providing beverages that use expired raw materials. We may request you provide samples of raw materials to a specific organization for further inspection or test. If the inspection fails our standard, we will ask you to cure the defects. You shall pay us all the fees relating to a health inspection. |
| De-identification Fees                  | \$2,000/day                   | When a violation occurs                                    | Within seven (7) days after expiration, termination, or rescission of the Master Franchise Agreement, you have to remove any signs, printing, and publicity materials that bear our trademark. If you fail to remove within the period, you have to pay us \$2,000 per day until the date of removal.                                                                                                                    |
| Reimbursement Fees to De-identification | Actual Cost of Removal        | When the Fees incurred                                     | We may remove the signs, printing, and publicity materials after ten (10) days of expiration, termination, or rescission of the Master Franchise Agreement. You have to pay us the actual fee incurred.                                                                                                                                                                                                                  |
| Renewal Fee <sup>1</sup>                | \$10,000 <sup>2</sup>         | When you sign the renewal Franchise Agreement <sup>3</sup> | You are qualified for renewal if all fees due us are paid and you are not in breach of any term of your Franchise Agreement.                                                                                                                                                                                                                                                                                             |

1. All fees are imposed and collected by and are payable only to us. Except as indicated in Item 5 or otherwise in the table above, all fees are non-refundable. All fees are uniformly imposed.

2. This fee may be adjusted by changes since the effective date of the Franchise Agreement in the annual average of the Consumer Price Index for All Urban Consumers ("CPI"), published by the

Bureau of Labor Statistics of the United States Department of Labor, or the highest similar future index if these figures become unavailable.

3. If any payment is not paid when due, you must pay a late charge of 5% of the amount past due plus interest on the unpaid amount at an annual percentage rate (“APR”) of 10% (which is the highest interest rate allowed by law in California), and you must reimburse us immediately upon demand for all reasonable costs of collection relating to delinquent amounts. Interest begins from the date payment was due.

## ITEM 7 ESTIMATED INITIAL INVESTMENT

### Your Estimate Initial Investment To Open an Outlet

| Type of expenditure                                                | Amount               | Method of payment | When due                                     | To whom payment is to be made                  |
|--------------------------------------------------------------------|----------------------|-------------------|----------------------------------------------|------------------------------------------------|
| Initial Franchise Fee <sup>1,2</sup>                               | \$30,000             | Lump sum          | When you sign the Franchise Agreement.       | Us                                             |
| Design Fee <sup>1,2</sup>                                          | \$1,000 to \$4,000   | Lump sum          | When we consent to the site for your Outlet. | Us                                             |
| Security Deposit <sup>1,2</sup>                                    | \$10,000             | Lump sum          | When you sign the Franchise Agreement.       | Us                                             |
| Training expenses <sup>2,3</sup>                                   | \$3,000 to \$8,000   | As incurred       | During training                              | Airline, travel and lodging vendors            |
| Lease of Outlet premises and lease security deposit <sup>2,4</sup> | \$2,000 to \$10,000  | As incurred       | As arranged                                  | Landlord, utilities and other suppliers        |
| Leasehold improvements <sup>2,5</sup>                              | \$10,000 to \$50,000 | As arranged       | As arranged                                  | Landlord and other vendors                     |
| Equipment, furniture and fixtures <sup>2,6</sup>                   | \$20,000 to \$40,000 | As arranged       | As arranged                                  | Suppliers and vendors                          |
| Point of sale system <sup>2,7</sup>                                | \$700 to \$2,500     | As incurred       | As arranged                                  | Suppliers and vendors                          |
| Interior/exterior signs and graphics <sup>2,8</sup>                | \$1,000 to \$5,000   | As incurred       | As arranged                                  | Suppliers and vendors                          |
| Professional fees <sup>2,9</sup>                                   | \$1,500 to \$3,000   | As incurred       | Before and during opening                    | Attorneys, accountants and other professionals |
| Business licenses and                                              | \$1,000              | Lump sum          | As arranged                                  | Government                                     |

|                                                                          |                               |             |                |                                 |
|--------------------------------------------------------------------------|-------------------------------|-------------|----------------|---------------------------------|
| permits <sup>2,4</sup>                                                   | to<br>\$5,000                 |             |                | agencies                        |
| Inventory and administrative supplies to begin operating <sup>2,10</sup> | \$7,500<br>to<br>\$10,750     | Lump sum    | Before opening | Us                              |
| Business insurance <sup>2,12</sup>                                       | \$1,000<br>to<br>\$3,000      | Lump sum    | As arranged    | Insurance companies             |
| Additional funds – 3 months <sup>2,13</sup>                              | \$30,000<br>to<br>\$40,000    | As incurred | After opening  | Employees, suppliers, utilities |
| <b>TOTAL<sup>14</sup></b>                                                | <b>\$118,700 to \$221,250</b> |             |                |                                 |

**Your Estimate Initial Investment  
To become an Area Developer**

| <b>Type of expenditure</b>                                         | <b>Amount</b>              | <b>Method of payment</b> | <b>When due</b>                              | <b>To whom payment is to be made</b>    |
|--------------------------------------------------------------------|----------------------------|--------------------------|----------------------------------------------|-----------------------------------------|
| Initial Area Development Fee <sup>1,2</sup>                        | \$200,000                  | Lump sum                 | When you sign the Franchise Agreement.       | Us                                      |
| Design Fee <sup>1,2</sup>                                          | \$1,000<br>to<br>\$4,000   | Lump sum                 | When we consent to the site for your Outlet. | Us                                      |
| Security Deposit <sup>1,2</sup>                                    | \$30,000                   | Lump sum                 | When you sign the Franchise Agreement.       | Us                                      |
| Training expenses <sup>2,3</sup>                                   | \$3,000<br>to<br>\$8,000   | As incurred              | During training                              | Airline, travel and lodging vendors     |
| Lease of Outlet premises and lease security deposit <sup>2,4</sup> | \$2,000<br>to<br>\$10,000  | As incurred              | As arranged                                  | Landlord, utilities and other suppliers |
| Leasehold improvements <sup>2,5</sup>                              | \$10,000<br>to<br>\$50,000 | As arranged              | As arranged                                  | Landlord and other vendors              |
| Equipment, furniture and fixtures <sup>2,6</sup>                   | \$20,000<br>to<br>\$40,000 | As arranged              | As arranged                                  | Suppliers and vendors                   |
| Point of sale system <sup>2,7</sup>                                | \$700<br>to<br>\$2,500     | As incurred              | As arranged                                  | Suppliers and vendors                   |
| Interior/exterior signs and graphics <sup>2,8</sup>                | \$1,000<br>to<br>\$5,000   | As incurred              | As arranged                                  | Suppliers and vendors                   |
| Professional fees <sup>2,9</sup>                                   | \$1,500<br>to              | As incurred              | Before and during opening                    | Attorneys, accountants and              |

|                                                                          |                               |             |                |                                 |
|--------------------------------------------------------------------------|-------------------------------|-------------|----------------|---------------------------------|
|                                                                          | \$3,000                       |             |                | other professionals             |
| Business licenses and permits <sup>2,4</sup>                             | \$1,000 to \$5,000            | Lump sum    | As arranged    | Government agencies             |
| Inventory and administrative supplies to begin operating <sup>2,10</sup> | \$7,500 to \$10,750           | Lump sum    | Before opening | Us                              |
| Business insurance <sup>2,12</sup>                                       | \$1,000 to \$3,000            | Lump sum    | As arranged    | Insurance companies             |
| Additional funds – 3 months <sup>2,13</sup>                              | \$30,000 to \$40,000          | As incurred | After opening  | Employees, suppliers, utilities |
| <b>TOTAL<sup>14</sup></b>                                                | <b>\$308,700 to \$411,250</b> |             |                |                                 |

(1) These fees must be paid in full at the time indicated. To be eligible to sign the Franchise Agreement, you must provide us with reasonable proof of your financial ability to make the initial investment described above and you must authorize us to conduct a credit check to confirm your financial ability to purchase and develop the Outlet.

(2) Although we cannot assure you this will happen, if you do not open for business, you may receive a refund from us for any remaining Security Deposit and from other suppliers for unused inventory, unspent advertising and canceled insurance. Otherwise the payments listed in the table above (including the Initial Franchise Fee, Initial Area Development Fee, Design Fee, Training Fee, and Equipment Fee) are nonrefundable.

(3) Initial training is typically completed in two phases 15 days at our headquarters and then 15 days at your Outlet when it opens. These expenses represent the travel and living expenses for you and your staff during training.

(4) You will need to rent a suitable retail site for your Outlet and the rent or lease deposit amount will vary depending on the location. A security deposit and first month's rent are standard requirements to execute a commercial lease. The cost range in the table above does not include the last month's rent of the premises but does include connection charges and security deposits for utilities provided to the Outlet, business licenses, and related prepaid opening expenses.

(5) You will need to conduct the necessary build-out of your leased space according to our designs and other requirements. The size of Outlets generally ranges from 400 square feet to 1000 square feet of floor space, but we may allow a smaller size of Outlet under special circumstances subject to our approval (e.g., "island" style store in a mall). The amounts listed in this type of expenditure are estimates that are based on basic build out of our Outlet design but do not include many variables related to the pre-existing condition of any one location. The cost of your build-out may be reduced by a Tenant Improvement ("TI") allowance or rebate from the landlord, which varies depending on the terms of each lease agreement. However, you will be

required in most cases to complete the build-out, satisfy all related invoices to contractors and service providers in order to qualify for the TI rebate from the landlord.

(6) The equipment and fixtures you need to obtain includes a label printer, sealing machine, fructose dispenser, 2 door commercial glass reach-in refrigerator, chest freezer with sliding glass door, half- moon type ice maker machine, 30-gallon kettle, steam maker, 30-liter automatic water softener, citrus juicer, induction cooker, 43-inch TV, multifunctional 8 types-timer, wireless transmitter/display kiosks, and time clock. Furniture you need to obtain includes tables, chairs and shelving.

(7) This includes point of sale (“POS”) system with cash register, receipt printer, computer system, and credit card reading/charging equipment.

(8) The quantity, size, type and cost of signs will vary substantially per lease space and in accordance to stipulations of each landlord and local governmental regulations. These estimates include the average filing fees for obtaining the necessary sign permits.

(9) This includes professional legal and accounting fees to review the franchise and set up the Outlet.

(10) You must buy initial proprietary tea, fruit and other proprietary ingredients needed to make **San Chen™** beverages, proprietary administrative supplies, including flyers, recruitment canvas strips, grand opening canvas strips, sale trial canvas strips and advertising sign stand including promotion rack from our us.

(11) We will provide promotion for you free of charge.

(12) As an independently owned and operated franchisee, you are responsible for all costs or liabilities arising from the operation of your Outlet, and it is imperative you carry adequate insurance to protect yourself. You are recommended to obtain the insurance coverage from local carrier. The currently required minimum coverage and limits of insurance are (i) general liability insurance with limits of at least \$1,000,000 per occurrence and \$2,000,000 aggregate and (ii) workers’ compensation insurance to meet the statutory coverage of the state where your Outlet is located. To the extent permissible under law, these insurance requirements may be satisfied with a combination of primary, umbrella and/or excess policies. All insurance policies will name you as named insured and, except for Workers’ Compensation policies, will name us and any of our subsidiaries and affiliates of these companies now existing or which may hereafter exist as additional insureds, including their employees, officers and directors on additional insured endorsement forms. The costs of premiums will vary based on location of the Outlet and any prior claim history. The required coverage and limits are subject to change.

(13) It is always a good idea to have some cash reserves available to cover initial operating expenses. This estimates the additional funds you will need for your first 3 months of operation, not including payroll costs for your first 30 days of operation which are set forth separately in the table. These figures are estimates and we cannot guarantee that you will not have additional expenses during your first 3 months of operation. Your costs will depend on factors

such as how many trainers and administrative employees you intend to hire; how much you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for our products and services; the prevailing wage rate; competition; and the sales level reached during the initial period.

(14) This estimates your initial start-up expenses. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. We do not finance any part of the initial investment. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

## **ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

### **Required Purchases of Goods or Services, including Computer and Point of Sale System**

You must purchase a point of sale system (“POS System”) for your Outlet from us. You are not required to purchase, use and maintain a specified personal computer system to operate your Outlet. We require you to maintain an e-mail account and provide us with reports by email in the manner required in the Confidential Operations Manual (the “Manual”).

You must purchase items bearing our trademarks only from us, our affiliated companies, or other reputable suppliers. Also, you must use in the development and operation of your Outlet those fixtures, items of equipment, including food preparation and storage equipment, display cases, cash registers and computer systems, storefront, supplies and signs that we have approved as meeting our specifications and standards for appearance, function, design, quality and performance. You must place or display at the premises of your Outlet (interior and exterior) only such signs, emblems, lettering, logos, and display materials that we approve in writing. All equipment leases will be between you and the lessor. Under no circumstances can you sign any lease as if you were us, or on our behalf.

### **Obligation to Purchase Products and Services from Franchisor**

You must purchase all proprietary tea, fruit and other ingredients to be used in preparing **San Chen™** Products from us, as well as administrative supplies containing the **San Chen™** logo. You are NOT allowed to purchase from any other third parties unless that particular is approved by us.

### **Approved Suppliers and Approval of Alternative Suppliers**

On this issuance date of this Franchise Disclosure Document, we currently do not have any designated or approved suppliers of required inventory or administrative supplies. If we do so in the future, we will only designate or approve suppliers who demonstrate to our satisfaction the ability to meet our standards and specifications, and who possess adequate quality control and capacity to supply your needs promptly and reliably, and who have been approved by us in the Manual or otherwise in writing. Designation of a supplier may be conditioned on factors established by us, including performance relating to frequency of delivery, standards of service, and payment or other consideration to us or parties designated by us. We may designate a single

or multiple suppliers for any given item or service and may allow purchases with one or more suppliers.

The current list of approved products and suppliers is found in the Manual. We may make changes to these lists or other parts of the Manual, which we will provide to you. If you desire to purchase products other than those provided by approved suppliers, you must submit to us a written request for approval of the proposed supplier together with such evidence of conformity with our specifications and program specifications as we may reasonably require. We will have the right to require that our representative be permitted to inspect the supplier's facility and that samples from the supplier be delivered for evaluation and testing, either to us or to an independent testing facility designated by us. A charge not to exceed the reasonable costs of evaluation and testing must be paid by you. Our criteria for supplier approvals are contained in the Manual. Within 60 days after our receipt of the completed request or completion of the evaluation and testing (if required by us), we will notify you in writing of our approval or disapproval of the proposed supplier. Approval will not be unreasonably withheld. You must not sell or offer for sale any products or services from a proposed supplier until you receive our written approval of the proposed supplier.

We may revoke our approval of particular products or suppliers if we determine in our sole discretion that the products or suppliers no longer meet our standards. Upon receipt of written notice of such revocation, you must cease purchasing or selling any disapproved product.

### **Issuance of Specifications and Standards**

We issue specifications and standards regarding authorized **San Chen™** products and services to you through the Manual and other communications in writing or by email. We also issue specifications and standards regarding authorized **San Chen™** products and services to its designated and approved suppliers in writing or by email. We may modify these specifications and standards at any time but only after delivering written notification of the modifications and providing you or suppliers a reasonable amount of time to implement the modifications.

### **Revenue from Franchisee Purchases**

We will derive revenue from your purchases from us. In general, the profit of the purchase will range from 17% to 26% from your purchase of goods and service from us. Each raw materials, administrative supply, or other equipment will generate different profit. For example, if you purchase a teapresso from us, we will have a 19% pure profit for the sale of one machine. If you purchase one kilogram tapiocas from us, we will have a 22% pure profit for the sale of this particular materials. The percentage of the revenue is only an estimation, please understand that the profit will be affected by many factors that we are not able to predict precisely at this time. The factors include the fluctuation of transportation fee, the cost to acquire raw materials or machines, pandemics, and all other factors that affects our ability to render a precise estimation for you.

### **Cooperatives**

We are not presently involved in establishing purchasing or distribution cooperatives for franchisees. We will not establish purchasing or distribution cooperatives for franchisees.

### **Material Benefits Based on Franchisee Purchases**

We do not provide any material benefits to you based on your purchase of specific products or services or your use of specific suppliers.

## **ITEM 9 FRANCHISEE'S OBLIGATIONS**

**This table lists your principal obligations under Franchise Agreement and Area Developer Agreement. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.**

|    | <b>Obligation</b>                                        | <b>Section in franchise agreement</b> | <b>Section in area development agreement</b> | <b>Disclosure document item</b> |
|----|----------------------------------------------------------|---------------------------------------|----------------------------------------------|---------------------------------|
| a. | Site selection and acquisition/lease                     | 7.1, 7.2                              | Exhibit 1                                    | 6,11                            |
| b. | Pre-opening purchases/leases                             | 7.2, 7.3                              | 2.2                                          | 8                               |
| c. | Site development and other pre-opening requirements      | 7.1, 7.2                              | 2.1                                          | 6, 7, 11                        |
| d. | Initial and ongoing training                             | 6.1-6.4                               | 5.1-5.4                                      | 11                              |
| e. | Opening                                                  | 3.3, 7.2, 7.3                         | Not Applicable                               | 11                              |
| f. | Fees                                                     | 4.1-4.8, 5.2, 12.2                    | 3.1, 3.3-3.7                                 | 5, 6                            |
| g. | Compliance with standards and policies/ operating manual | 8.1-8.3                               | Not applicable                               | 11                              |
| h. | Trademarks and proprietary information                   | 8.8, 9.1-9.5                          | 8.1, 8.2                                     | 13,14                           |
| i. | Restrictions on products/services offered                | 3.2, 3.4, 8.1, 8.13                   | 1.1                                          | 16                              |
| j. | Warranty and customer service requirements               | 3.3, 8.1                              | Not applicable                               | 11                              |
| k. | Territorial development and sales quotas                 | Not applicable                        | Exhibit 1, 1.2, 2.4                          | 12                              |
| l. | Ongoing product/service purchases                        | 7.3                                   | Not applicable                               | 8                               |
| m. | Maintenance, appearance and remodeling requirements      | 5.2, 7.2, 8.5                         | Not applicable                               | 11                              |
| n. | Insurance                                                | 8.10                                  | Not applicable                               | 6, 8                            |
| o. | Advertising                                              | 4.3, 7.4, 8.8, 8.13, 10.1, 10.2       | 6.3-6.6 5.2                                  | 6,11                            |
| p. | Indemnification                                          | 16.2                                  | Not applicable                               | 6                               |
| q. | Owner's participation/management/staff                   | 3.6, 6.1, 6.2, 6.3, 8.1,              | Not applicable                               | 11,15                           |

|    |                                                       |                  |                |                |
|----|-------------------------------------------------------|------------------|----------------|----------------|
|    | ng                                                    | 12.6             |                |                |
| r. | Records and reports                                   | 8.7              | Not applicable | 6              |
| s. | Inspections and audits                                | 8.7, 8.11        | Not applicable | 6,11           |
| t. | Transfer                                              | 12.1-12.7        | 4              | 17             |
| u. | Renewal                                               | 5.2, 5.3         | 1.3, 3.7       | 17             |
| v. | Post-termination obligations                          | 11.2, 15.1, 15.2 | 11.1-11.3      | 17             |
| w. | Non-competition covenants                             | 11.1-11.3        | 10.1, 10.2     | 17             |
| x. | Dispute resolution                                    | 14.1-14.5        | 12.1-12.5      | 17             |
| y. | Compliance with anti-terrorism and other federal laws | 16.12            | Not applicable | Not applicable |

## ITEM 10 FINANCING

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

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

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

### *(1) Our Pre-Opening Obligations*

Before you open your business, we will:

(A) Designate your franchise territory (see section 3.1 and Exhibit 1 of the Franchise Agreement).

(B) Provide you with initial training and orientation in the **San Chen™** system and how to operate the Outlet (see section 6.1 of the Franchise Agreement and the Training Program described below in this Item 11). Your Store Manager must successfully complete initial training to our satisfaction before you can open your Outlet.

(C) Provide you with a general plan for the layout, furnishing and equipping of your Outlet, together with a written schedule of all foods, food items and beverages that must be sold at your Outlet and a list of approved and designated suppliers (see section 7.2(a) of the Franchise Agreement).

(D) Assist you in selecting a site for your Outlet. Although we do not typically pre-select the site for your Outlet, we must give our final consent to the location before your Outlet can be placed there (see section 7.2(a) of the Franchise Agreement). **We will determine or approve the location of future units and any territories for those units, and our then-current standards for sites and territories will apply.** You have 180 days after signing the Franchise Agreement to locate an acceptable site for your Outlet. We will review and either consent to or decline the proposed site for your Outlet within 5 business days after you provide us with its address. If you are unable to locate an acceptable site within 180 days, we can terminate the Franchise Agreement (see section

7.2(a) of the Franchise Agreement). The factors that we consider in consenting to a site for the Outlet include general location, neighborhood, population demographics, public awareness of the **San Chen™** brand, traffic patterns, parking, size, physical characteristics of existing buildings, and lease or rental terms. We do not own and lease to you the premises on which the Outlet will be located. Our review and consent to the location of the Outlet is no guarantee or assurance that you will be successful there.

(E) Provide you with a copy of, electronic access to, the Manual (see section 7.2 of the Franchise Agreement).

### ***(2) Length of Time to Open the Outlet***

We estimate the typical length of time between the signing of the Franchise Agreement (when you make your first payment to us for the franchise) and the opening of your Outlet will be 9 months. Factors that may affect this length of time include the satisfactory completion of initial training by your designated attendees, location of an acceptable site, ability to obtain an appropriate lease, financing arrangements, compliance with zoning and local ordinances, weather conditions, shortages, the contractor's ability to complete construction of the Outlet, and delivery and installation of equipment, fixtures and signs. If you do not begin operating your Franchised Business within 180 days after we consent to the site for your Outlet, or within 365 days after you sign the Franchise Agreement, we may terminate the Franchise Agreement (see section 7.2(a) of the Franchise Agreement) and if we do so under those circumstances, we are not obligated to refund your initial franchise fee and development fee.

### ***(3) Our Obligations during the Operation of the Franchise***

During the operation of the franchised business, we:

(A) Will provide you with access to, and integrate information about your Outlet into, the **San Chen™** website (see sections 6.2 and 6.3 of the Franchise Agreement).

(B) Will be reasonably available by phone and e-mail for guidance in the operation and management of your Outlet (see sections 6.2 and 6.3 of the Franchise Agreement). However, we do not provide you with assistance in hiring employees. It is your sole responsibility to hire full-time or part-time employees.

(C) May visit you periodically at no cost to you to provide additional sales and administrative review and assistance, including assistance with establishing and using administrative, bookkeeping, accounting and inventory control procedures. If you request this assistance and we agree to provide it, you must reimburse us for the cost of our representative's transportation and lodging. We may also, at our discretion, charge an additional training fee of up to \$200 per day for **San Chen™** training courses, seminars, conferences or other programs that we require you or your representatives to attend. The nature, frequency and duration of this assistance by representatives of We will be in our sole discretion. (See section 6.2 of the Franchise Agreement.)

(D) In connection with your ongoing obligation to maintain the Outlet in accordance

with our standards, will notify you if the general state of repair, appearance or cleanliness of your Outlet or its fixtures, equipment or signs do not meet our standards, and specify the action you must take to correct the deficiency (see section 8.11 of the Franchise Agreement).

(E) May recommend retail prices for **San Chen**<sup>TM</sup> Products you sell at your Outlet, and other products or services we authorize for sale at your Outlet (to enhance uniformity in the delivery of goods and services to retail customers by our franchises and the strength of our Marks in inter-brand competition), and if we do so, you may not advertise or promote (whether by telephone, printed materials or any other media, including, without limitation, social media) retail prices that are inconsistent with these recommended prices (see section 8.1(b) of the Franchise Agreement).

#### **(4) Advertising Program for the Franchise System**

We intend to use digital media (Internet, Facebook, Twitter, *etc.*) and targeted print media in our marketing and advertising efforts. And in the future, we may use local radio and television advertising. We will be using in-house advertising personnel to do this, but we also intend to hire advertising and public relations firms to assist us in these efforts. We are not required to spend any advertising fees in your franchised territory, although we may do so. Advertising Fees are spent to benefit all franchises, including you.

Although we are not obligated to do so, we may provide you with general advertising programs and sales promotion, and campaign advertising materials. You may develop advertising materials for your own use, at your own cost. But we must approve all advertising materials in advance and in writing.

We do not yet have a franchisee council that advises us on advertising policies, but we may establish one in the future, and if we do so, we will request input on advertising informally from franchisees. We do not have a marketing fund; therefore, you are not required to pay any for the advertising fund. We will not establish any marketing fund in the future; therefore, you will not be required to pay or contribute any to the marketing or advertising fund.

We will provide general advertising programs, sales promotion, campaign, and sample advertising materials to you. You may develop advertising materials for your own use, at your own cost. But we must approve all advertising materials in advance and in writing. You grant us a right to use the name, image, and likeness of you, all Principal Equity Owners and any of your affected employees, for commercial purposes in connection with the marketing and promotion of the Marks, **San Chen**<sup>TM</sup> Products, any **San Chen**<sup>TM</sup> Outlet and franchise system. (See section 9.1(d) of the Franchise Agreement.)

#### **(5) Electronic Cash Registers and Computer Requirements**

You must purchase POS System from us and allow us to track and process retail sales at the Outlet (see section 8.4(a) of the Franchise Agreement). We estimate the cost of purchasing or leasing this POS is \$700 to \$2,500. You will use this POS system to complete point-of-sale transactions and track your sales. There are no contractual limits on our independent access to the information and data stored on your POS system. You are responsible for all ongoing maintenance

,repairs, and upgrades. We anticipate that the annual cost of optional or required maintenance, updating, operating, or support regarding the POS system will range from \$500 to \$1,000.

We also require you to maintain an e-mail account to communicate with us regularly concerning sales and operations at your Outlet, in the manner we specify in the Manual or otherwise in writing (See section 8.4(b) of the Franchise Agreement). We estimate that the annual cost of optional or required maintenance, updating, operating or support contracts regarding the e-mail account is \$200 to \$500.

## **(6) Operations Manual**

We will loan you one copy of our **Educational and Function Training Manual** (containing a total of 76 pages) and other applicable documentation during the relevant phases of initial training (see section 8.2 of the Franchise Agreement). The Manual contains mandatory and suggested specifications, standards and procedures for operation of your Outlet.

We will modify the Manual, and you must comply with these changes when you receive them, but no modification will alter your status and rights under the Franchise Agreement. This Manual is confidential and remains our property. If you lose or allow the unauthorized duplication of the Manual or any other confidential manuals or proprietary materials loaned to you by us, you will be deemed to be in violation of this Agreement and all other agreements you have with us (see section 8.2 of the Franchise Agreement) and we would be entitled to recover damages from you.

The following is the Table of Contents of the Manual as of the date of this disclosure document:

| <b>Topic</b>                                                                                             | <b>Number of Pages</b> |
|----------------------------------------------------------------------------------------------------------|------------------------|
| Chapter 1 Brand Introduction Business: Brand Introduction                                                | 6                      |
| Chapter 1 Brand Introduction Business: Business Philosophy                                               | 7                      |
| Chapter 2 Clothing and Service: Appearance and Dress Code                                                | 10                     |
| Chapter 2 Clothing and Service: Service Essentials                                                       | 12                     |
| Chapter 3 Checkout Counter Recognition and Teaching: Procedure at Check Out Counter                      | 14                     |
| Chapter 3 Checkout Counter Recognition and Teaching: Drink Item Introduction                             | 18                     |
| Chapter 3 Checkout Counter Recognition and Teaching: Beverage Serving Process                            | 21                     |
| Chapter 3 Checkout Counter Recognition and Teaching: The Assessment Forms Dedicated to Checkout Counters | 25                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Tea Leaves Knowledge                                       | 32                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: The Introduction of Teapresso Machines                     | 33                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Tea Brewing Utensils                                       | 33                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Tea Brewing Process                                        | 34                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Cleaning Process After Tea Brewing                         | 35                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Teapresso Machine Backwash                                 | 36                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Teapresso Machine Handles Cleaning Process                 | 37                     |
| Chapter 4 Tea Brewing Knowledge and Teaching: Tea Brewing Assessment Forms                               | 38                     |

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| Chapter 5 Kitchen Knowledge: Utensil Introduction                                                  | 41 |
| Chapter 5 Kitchen Knowledge: Material Introduction                                                 | 42 |
| Chapter 5 Kitchen Knowledge: Material Storage Location                                             | 42 |
| Chapter 5 Kitchen Knowledge: Material Conditioning                                                 | 42 |
| Chapter 5 Kitchen Knowledge: Material Expiries                                                     | 46 |
| Chapter 5 Kitchen Knowledge: Material Preparation Registration Forms                               | 46 |
| Chapter 5 Kitchen Knowledge: Kitchen Assessment Forms                                              | 47 |
| Chapter 6 Bar Counter: Utensil Introduction                                                        | 51 |
| Chapter 6 Bar Counter: Beverage Preparing Process                                                  | 52 |
| Chapter 6 Bar Counter: Drink Making Process                                                        | 52 |
| Chapter 6 Bar Counter: The Maintenance Method of Quantitative Fructose Dispenser Machine           | 54 |
| Chapter 6 Bar Counter: Bar Counters Assessment Forms                                               | 57 |
| Chapter 7 Tasting Knowledge: Utensil Introduction                                                  | 60 |
| Chapter 7 Tasting Knowledge: Tea Leaves-Qingxin Oolong Tea                                         | 60 |
| Chapter 7 Tasting Knowledge: On-Site Brewed Tea Integrated with Designated Terminology and Phrases | 62 |
| Chapter 7 Tasting Knowledge: On-Site Brewing Designated Terms and Phrases Procedure Q&A            | 66 |
| Chapter 7 Tasting Knowledge: Tasting Assessment Forms                                              | 67 |
| Annex I: Chi Cha San Chen-Lishan Oolong Tea                                                        | 68 |
| Annex II: Product and Sales Planning                                                               | 74 |
| Total Pages                                                                                        | 76 |

Currently, we have no policy under which we will render services to you not required by your Franchise Agreement (or other agreements with us) or the Manual.

## TRAINING PROGRAM

| Day | Topics                                                                                                                        | Hours of Classroom Training | Hours of On the Job Training | Location          |
|-----|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|-------------------|
| 1   | Brand Introduction, Philosophy, and Dress Code                                                                                | 8                           | 0                            | San Francisco, CA |
| 2   | Greeting, Drink Serving, Order, Operation of Point of Sale System, Confirmation after Ordering, and Beverage Pickup Procedure | 6                           | 2                            | San Francisco, CA |
| 3   | Introduction to the Base Tea, Honey, Fruit Tea, Milk, Toppings, and All-Star Products (Part 1)                                | 6                           | 2                            | San Francisco, CA |
| 4   | Introduction to the Base Tea, Honey, Fruit Tea, Milk, Toppings, and All-Star Products (Part 2)                                | 6                           | 2                            | San Francisco, CA |
| 5   | Introduction to the Base Tea, Honey, Fruit Tea, Milk, Toppings, and All-Star Products (Part 3)                                | 6                           | 2                            | San Francisco, CA |
| 6   | Introduction to Packing and Serving of Beverages                                                                              | 6                           | 2                            | San Francisco, CA |

|                 |                                                                                                                                                                                    |           |            |                   |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------|-------------------|
| <b>7</b>        | Introduction to Knowledge of Tea Leaves, Teapresso Machines, Tea Brewing Utensils, Tea Brewing Process, Cleaning Process after Brewing, Cleaning and Washing to Teapresso (Part 1) | 8         | 0          | San Francisco, CA |
| <b>8</b>        | Introduction to Knowledge of Tea Leaves, Teapresso Machines, Tea Brewing Utensils, Tea Brewing Process, Cleaning Process after Brewing, Cleaning and Washing to Teapresso (Part 2) | 8         | 0          | San Francisco, CA |
| <b>9</b>        | Introduction to Knowledge of Tea Leaves, Teapresso Machines, Tea Brewing Utensils, Tea Brewing Process, Cleaning Process after Brewing, Cleaning and Washing to Teapresso (Part 3) | 0         | 8          | San Francisco, CA |
| <b>10</b>       | Introduction to Utensil, Raw Materials, Storage, Preparation of Registration Forms (Part 1)                                                                                        | 8         | 0          | San Francisco, CA |
| <b>11</b>       | Introduction to Utensil, Raw Materials, Storage, Preparation of Registration Forms (Part 2)                                                                                        | 4         | 4          | San Francisco, CA |
| <b>12</b>       | Introduction to Maintenance Method of Quantitative Fructose Dispenser Machine (Part 1)                                                                                             | 8         | 0          | San Francisco, CA |
| <b>13</b>       | Introduction to Maintenance Method of Quantitative Fructose Dispenser Machine (Part 2)                                                                                             | 4         | 4          | San Francisco, CA |
| <b>14</b>       | Introduction to Maintenance Method of Quantitative Fructose Dispenser Machine                                                                                                      | 6         | 2          | San Francisco, CA |
| <b>15</b>       | Introduction to Operating behind Bar Counters                                                                                                                                      | 4         | 4          | San Francisco, CA |
| <b>16 to 30</b> | On-site Operational Training; Preparation of Cold Drinks and Hot Drinks; Customer Service at an Operational Outlet                                                                 | 0         | 120        | Your Outlet       |
|                 | <b>Total</b>                                                                                                                                                                       | <b>88</b> | <b>152</b> |                   |

The training program above is effective as of the date of this disclosure document. Initial classroom training is typically provided within 60 days before your Outlet opens and is typically scheduled not more frequently than monthly. All classroom training takes place in our office, or another training center designated by us. All on-the-job training takes place at your Store immediately before and during the opening of your Store.

The instructional material consists of appropriate handouts and information directly from the Manual. The trainer will be appointed by us who has at least 5 years of experience in providing such training program.

We do not charge for this training or service for the designated Store Manager and any other Principal Equity Owners (each additional trainee may have to pay us up to \$2,800 for training). You must pay all travel and living expenses of persons you send to training.

The successful completion of initial training by your designated Store Manager to our satisfaction is a condition to your opening of an Outlet to the public. If your designated Store Manager fails to complete initial training satisfactorily, you will have the option of sending a replacement approved by us to initial training. We will issue a Certificate of Completion upon successful

completion of the training.

After you open your Outlet, and upon reasonable notice, we may require attendance of your designated personnel at training courses, seminars, conferences or other programs other than Initial Training or mandatory meetings that we deem relevant or appropriate to the operation of the Franchised Business. You specifically agree in the Franchise Agreement that only persons we train or under your supervision will have overall responsibility for the operation of the Outlet and conduct of the Franchised Business there, and that you will send your Store Manager to us for additional training if we request this. We may at our discretion charge you an additional training fee of up to \$200 per day for **San Chen™** training courses, seminars, conferences or other programs that we require you or your representatives to attend (section 6.1(c) of the Franchise Agreement).

You must pay all the expenses incurred by your trainees and attendees in connection with the Initial Training Program and any other training, conferences, conventions or other meetings your trainees attend, including, for example, their salaries, transportation costs, meals, lodging and other living expenses (section 6.1(d) of the Franchise Agreement).

We may periodically conduct an annual conference, convention or training session, and if we do, we will determine its duration, curriculum and location (section 6.3 of the Franchise Agreement). Attendance of at least one Principal Equity Owner at these meetings will be mandatory (and is highly recommended for your other Principal Equity Owners).

## **ITEM 12 TERRITORY**

You will receive a protected territory (“Territory”) within a defined area surrounding your Outlet based on population density as determined by us with your consent and specified in your Franchise Agreement. The Territory is usually defined as a geographical area surrounding the Outlet as depicted in a map attached to the Franchise Agreement. The Territory may also be defined by a radius around your Outlet, which will typically vary from ¼ mile in densely populated areas to 1 mile in rural areas. **We will determine or approve the location of future units and any territories for those units, and our then-current standards for sites and territories will apply.** By “protected” Territory we mean that so long as you continue to fulfill your material obligations under your Franchise Agreement (as reasonably determined by us), we will not grant a **San Chen™** franchise to any other person nor will we or any of our affiliated entities operate an Outlet within your Territory. You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

You may relocate your Outlet with our written consent, which will not be unreasonably withheld. Not less than 90 days before the desired date of relocation (unless prior notice is impractical because of a required relocation in which event your notice must be given as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing complete written details respecting any proposed new location. Within 20 business days after we receive your request, we will either approve or disapprove in writing such closure or relocation in our sole discretion. If we disapprove of a proposed relocation, you

may request an alternative proposed new location.

If you become an Area Developer, you will be granted an exclusive (so long as the ADA is in effect) right to open a mutually agreed number (at least 2) of additional Outlets under a mutually agreed development schedule. You shall not open additional **San Chen™** businesses or engage in activities that are equivalent to the franchised business outside the Territory.

We reserve the right to develop other systems involving similar or dissimilar services or goods, under dissimilar service marks, trademarks, and trade names, without necessarily granting you any rights in those systems. We reserve all rights to market and sell **San Chen™** products under our principal trademarks or different trademarks at venues other than Outlets and through other channels of distribution (including the Internet), within your Territory and anywhere else. We are not required to pay you compensation for soliciting or accepting orders in your Territory at venues other than Outlets or through other channels of distribution.

You may only offer and sell **San Chen™** products to customers at your Outlet, and you are restricted from advertising **San Chen™** products outside your Territory without our prior written consent. You may not engage in any mail order solicitations, catalog sales, telemarketing or television solicitation programs, or use any other advertising media outside of your territory without our prior written approval. Also, you may not offer or sell **San Chen™** products directly or indirectly through the Internet, except as authorized by us in the Manual or otherwise in writing. We will publish all website content and we will list your Outlet location on our master web site. We will maintain the “Uniform Resource Locator” (or “URL”) for the **San Chen™** and you may never own any Internet domain name that contains any of the Marks. Under no circumstances are you authorized to establish your own personal websites (except social media sites) for the purpose of advertising your Outlet or our principal trademarks.

As to the conflicts between franchisor and franchisee regarding territory, customer, and franchisor support, we will negotiate all the issues amicably without resorting to formal legal procedures first. We encourage you to reflect all the issues or problems to us, and we will provide the best support we have and assist you in solving all the problems. The support includes discounting on future order of raw materials and adding more personnel to solve the conflicts. As to the conflicts between the franchisees of the same or each potential competing system, we will treat all franchisees equally without discriminating one against the other. If any conflicts occur, we will require franchisees to contact us first, and we will try to solve the disputes before the conflicts accelerate.

We currently have no plan to sell any other franchise other than **San Chen™**. If we develop other franchise system by using different trademarks or trade names in the future, the outlet of new franchise may locate within your territory. Additionally, we have no plan maintain physically separate offices and training facilities for the competing business. However, we will not share any information we may receive from one franchise system to the other. Each franchise system will be operated and managed independently.

The continuation of your franchise rights to the Territory does not depend on your attaining a minimum level of sales, revenues, market penetration, or another contingency. The

continuation of your exclusive rights to develop Outlets under the Area Development Agreement does depend on your meeting the development schedule described in the Area Development Agreement. Neither the Territory granted by the Franchise Agreement nor the development area described in the Area Development Agreement may be altered except if you and we mutually agree. You will maintain rights to your Territory and the development area described in the Area Development Agreement even if the population in those geographic areas increases or changes.

### ITEM 13 TRADEMARKS

We grant you the right to operate under the name **San Chen™**. You may also use other current or future trademark. By trademark, we mean trade names, trademarks, service marks, and logos used to identify your business and the Beverage Outlets. The following Marks are registered by Fang Yuan, our affiliated company, on the Principal Register of the United States Patent and Trademark Office. We are authorized by Fang Yuan to license **San Chen™** to any person or entity from July 1, 2020 to June 30, 2030.

| Mark                                                                                                | Registration/<br>Serial No. | Registration or<br>Application/Filing Date |
|-----------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------------------|
| <br>(Word Mark)    | Registration No 6025313     | Registration Date March 31, 2020           |
| <br>(Design Mark) | Registration No 6025312     | Registration Date March 31, 2020           |

You are licensed to operate and identify the outlet under the principal trademark **San Chen™**, **Chi Cha San Qian™**, logotype displayed on the cover of this disclosure document, and other current or future trademarks.

On February 19, 2019, Fang Yuan filed the principal trademark **San Chen™** with the United States Patent and Trademark Office (“USPTO”), for registration on Principal Register in class 30, 35 and 43, serial number 88307356. On March 31, 2020, the trademark is registered. The registration number is 6025313.

On February 12, 2019, Fang Yuan filed another trademark **Chi Cha San Qian™** with the USPTO for registration on Principal Registrar in class 30, 35, and 43, serial number 88307352. On March 31, 2020, the trademark is registered. The registration number is 6025312.

There are presently no effective determinations of the USPTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court, nor any pending interference, opposition or cancellation proceedings involving the trademarks. There are no agreements currently in effect that significantly limit our rights to use or license the use of trademarks listed in this Item to the franchise. There is no pending material federal or state court litigation regarding our use or ownership rights in the trademarks.

You must follow our rules when you use the marks. You cannot use our principal

trademark as part of a corporate name, or with modifying words, designs or symbols except for those which we license to you. You may not use the trademarks in connection with the sale of any unauthorized product or service, or in any manner that we have not authorized in writing.

We have the right to control any administrative proceedings or litigation involving a trademark licensed to you. You must notify us promptly when you learn about an alleged infringement, unfair competition, unauthorized third-party use of or challenge to your use of the trademarks. We will promptly take the action we think appropriate. We will indemnify you for any action against you by a third party based solely on alleged infringement, unfair competition, or similar claims about the trademarks. But we have no obligation to defend or indemnify you if the claim against you relates to your use of the trademarks in violation of the Master Franchise Agreement.

If you learn that any third-party whom you believe is not authorized to use our trademarks is using them or any variant of them, you must promptly notify us. We will determine whether or not to take any action against the third party.

You must modify or discontinue the use of a trademark if the trademark owner modifies or discontinues it. You must not directly or indirectly contest the trademark owners' rights to the trademarks, trade secrets, or business techniques that are part of our business.

Except for the proprietary rights of our parent company in the marks, there are no infringing uses or previous superior rights known to us that can materially affect your use of the marks in this state or any other state in which the franchised business is to be located.

## **ITEM 14 PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION**

### **Patents and Copyrights**

We do not own rights in, or licenses to, patents or copyrights that are material to the franchise and you do not receive the right to use any item covered by a patent or copyright. However, we assert a common law copyright on the contents of the Manual (and only you or your authorized employees can have access to and use the proprietary information in the Manual).

We do not currently have any pending patent applications that are material to the franchise.

### **Our Proprietary Rights in Other Confidential Information**

You may never reveal any of our confidential proprietary information or trade secrets to another person or use it for another person or business. You may not copy any of our confidential proprietary information or disclose it to a third party except as we authorize. You must also promptly tell us when you learn about unauthorized use of any of our confidential proprietary information. We are not obligated to take any action but will respond to your notification of unauthorized use as we think appropriate.

## **ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE**

## FRANCHISE BUSINESS

We are seeking franchisees whose principal owner plans to actively participate in the direct management and operation of your Outlet. Additionally, as disclosed in section 8.1(a) of the Franchise Agreement, you must employ at least one designated Store Manager (if you are a sole proprietor, this will be you, and if you are an entity, this will be a Principal Equity Owner of at least 50% of the franchisee entity) who has successfully completed our initial training program.

You must disclose the identity of the Store Manager to us and if for any reason the Store Manager is no longer acting in this capacity, you must notify us immediately and in writing. The Store Manager cannot have an interest or business relationship with any of our business competitors. The Store Manager must devote full time during normal business hours to the management, operation, and development of the Franchised Business.

### ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell at your Outlet only **San Chen™** Products and other goods and services that we designate as required for all franchisees or have approved.

We have the right to change and add other authorized goods and services that you will be required to offer. There are no limits on our right to do so except that the additional investment required of you for equipment, supplies, and initial inventory will not exceed \$5,000 per year.

There are no restrictions on the customers to whom you may sell **San Chen™** Products and related products at your Outlet.

### 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.**

**Table for Franchise Agreement**

|    | Provision                        | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                              |
|----|----------------------------------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Length of the franchise term     | 5.1                            | The initial term of the Franchise Agreement is 3 years.                                                                                                                                                                                                                                                              |
| b. | Renewal or extension of the term | 5.2                            | Under the Franchise Agreement, you can add additional 3-year terms upon written notice delivered to us not less than 120 days before the end of the existing term. However, we are not obligated to renew your Franchise if one or more of the conditions in section 5.2(c) of the Franchise Agreement apply to you. |
| c. | Requirements                     | 5.2                            | Sign Renewal Franchise Agreement (or addendum to existing                                                                                                                                                                                                                                                            |

|    |                                                         |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----|---------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|    | for franchisee to renew or extend                       |                | Franchise Agreement extending its term), remodel your Outlet (if necessary), pay renewal fee of \$10,000, and sign release. The Franchise Agreement you sign at renewal may have materially different terms and conditions than your original Franchise Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| d. | Termination by franchisee                               | 13.1(a)        | If we are in material breach (beyond any applicable cure periods), you can terminate your Franchise Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| e. | Termination by franchisor without cause                 | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| f. | Termination by franchisor with cause                    | 13.1-13.11     | We can terminate the Franchise Agreement only if you are in material default. <b>Termination of the Franchise Agreement will not allow us to terminate the Area Development Agreement.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| g. | “Cause” defined – curable defaults                      | 13.3           | You have 60 days after notice to cure defaults under your Franchise Agreement (including defaults under a lease for your Outlet) that can be cured.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| h. | “Cause” defined – non- curable defaults                 | 13.2           | Non-curable defaults: your bankruptcy or insolvency; abandonment of the franchise; you engage in conduct that reflects materially and unfavorably upon the operation or reputation of <b>San Chen™</b> or our franchise system; you make material misrepresentations relating to your acquisition of the Franchise or you engage in conduct that reflects materially and unfavorably upon the operation and reputation of the Franchised Business or the System; you fail, for a period of 10 business days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation of the Franchise; after curing any default, you engage in the same noncompliance whether or not such noncompliance is corrected after notice; you repeatedly fail to comply with one or more material requirements of the Franchise Agreement, whether or not corrected after notice; the Franchised Business or your Outlet is seized, taken over, or foreclosed by a government official, creditor, lien holder or lessor, or that a final judgment against you remains unsatisfied for 60 days; you are convicted of a felony or any other criminal misconduct that is relevant to the operation of the Franchise; you fail to pay any franchise fees or other amounts due to us or our affiliate within 5 days after receiving written notice that such fees are overdue; we make a reasonable determination that your continued operation of the Franchise will result in an imminent danger to public health or safety; or your financial condition is impaired to the point that it is reasonable to conclude that you will not be able to fully discharge your obligations under this Agreement and that impairment continues for at least 60 days. |
| i. | Franchisee’s obligations on termination or non- renewal | 15.1           | Obligations include removal of our Brand and other trademarks, return of all confidential and proprietary information and erasure of all copies of confidential and proprietary information, forwarding of telephone number and payment of amounts due (also see r. in this Table, below).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

|    |                                                                        |                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----|------------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| j. | Assignment of contract by franchisor                                   | 12.1                   | No restriction on our right to assign. (However, no assignment will be made except to an assignee that in good faith and judgment of the franchisor is willing and financially able to assume our obligations as franchisor under the Franchise Agreement.)                                                                                                                                                                                                                                                                                      |
| k. | “Transfer” by franchisee – defined                                     | 12.2                   | Includes transfer of contract or assets or ownership change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| l. | Franchisor’s approval of transfer by franchisee                        | 12.2                   | We have the right to approve all transfers (including transfers of (i) more than 50% of the equity or (ii) controlling interest in a franchisee entity), but we will not unreasonably withhold approval.                                                                                                                                                                                                                                                                                                                                         |
| m. | Conditions for franchisor approval of transfer                         | 12.2                   | New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you, and current agreement signed by new franchisee (see r. below). Within 30 days after our receipt of all necessary information and documentation required under the Franchise Agreement, or as specified by written agreement between us and you, we will notify you of the approval or disapproval of the proposed transfer of the Franchise by you. This notice will be in writing and delivered to you by business courier. |
| n. | Franchisor’s right of first refusal to acquire franchisee’s business   | 12.3, 12.4, 12.5, 12.6 | We can match any legitimate offer for your business, but we have no right of first refusal if the transfer is (i) between or among individuals (including their immediate family members) or (ii) to your heirs, personal representatives or conservators in the case of death or legal incapacity of the individual franchisee or Majority Equity Owner or (iii) to an affiliated entity organized for purposes of operating the franchised business and owned in same amount of ownership as prior to such transfer.                           |
| o. | Franchisor’s option to purchase franchisee’s business                  | 15.2(d)                | Within 30 days after the termination, expiration or non-renewal of the Franchise Agreement, we have the option, but not an obligation, to purchase all or any portion of your reusable inventory, apparel containing the Marks, proprietary equipment, parts, fixtures and furnishings owned and used by you in your franchised operation.                                                                                                                                                                                                       |
| p. | Death or disability of franchisee                                      | 12.6                   | Franchise must be assigned by estate to approved buyer within 270 days.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| q. | Non-competition covenants during the term of the franchise             | 11.1, 11.3             | No involvement in competing business anywhere.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| r. | Non-competition covenants after the franchise is terminated or expires | 11.2, 11.3             | No competing business for 1 year within 25 miles of your Outlet or any other <b>San Chen™</b> Outlet (this obligation also applies to you if you assign your franchise).                                                                                                                                                                                                                                                                                                                                                                         |
| s. | Modification of the agreement                                          | 8.2, 16.14(c)          | No modifications generally, but Manual subject to change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

|    |                                                         |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----|---------------------------------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| t. | Integration/<br>merger clause                           | 16.14         | Only the terms of the franchise agreement are binding (subject to state and federal law). Any representations or promises outside of the disclosure document, Franchise Agreement and Area Development Agreement may not be enforceable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| u. | Dispute<br>resolution by<br>arbitration or<br>mediation | 14.1-14.5     | The parties agree in the Franchise Agreement to submit disputes (not including your failure to pay us sums due under the Franchise Agreement, or an act of yours allowing us to immediately terminate the Franchise Agreement) initially to a meeting in person of our executive officers and your Principal Equity Owners at our principal executive office (without our respective legal counsel) within 5 business days after a dispute arises to conduct a good faith discussion and negotiation of the issues with a view to arriving at a settlement. If this meeting does not result in a settlement of the dispute (or the meeting does not take place), within 10 business days after the date the meeting took place (or should have taken place), the parties may submit the dispute to non-binding mediation in California. If a mediation takes place but does not resolve the dispute, or no mediation takes place, the dispute will be resolved by arbitration by and before American Bar Association Or if the parties mutually agree, the dispute may be submitted to arbitration by and before another mutually acceptable arbitration organization. |
| v. | Choice of forum                                         | 14.2(b), 14.3 | Arbitration proceedings must take place in Los Angeles County, California. Any mediation proceeding will take place at a mutually agreed location. Any litigation proceedings will be filed in an appropriate court in California.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| w. | Choice of law                                           | 16.13         | The Federal Arbitration Act (9 U.S.C. §1 et seq.) governs the arbitration of disputes under the Franchise Agreement and the Area Development Agreement. Otherwise, the laws of California govern the Franchise Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

**Table for Area Development Agreement**

|    | <b>Provision</b>                                     | <b>Section in<br/>Area<br/>Development<br/>Agreement</b> | <b>Summary</b>                                                                                                                                                       |
|----|------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. | Length of the<br>franchise term                      | 1.3                                                      | The term of the ADA is 5 years.                                                                                                                                      |
| b. | Renewal or<br>extension of the<br>term               | 3.7                                                      | Under the Area Development Agreement, you can add additional 5-year terms upon written notice delivered to us not less than 90 days before the end of existing term. |
| c. | Requirements for<br>franchisee to<br>renew or extend | 3.7                                                      | Under the Area Development Agreement, you may renew the right if you pay us a renewal fee of \$10,000 per Outlet you developed.                                      |
| d. | Termination by<br>franchisee                         | 1.3                                                      | If we are in material breach (beyond any applicable cure periods), you can terminate your Franchise Agreement.                                                       |

|    |                                                                      |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----|----------------------------------------------------------------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| e. | Termination by franchisor without cause                              | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| f. | Termination by franchisor with cause                                 | 11.1-11.3      | We can terminate the Area Development Agreement only if you are in material default. <b>Termination of the Area Development Agreement will not allow us to terminate your unit franchise agreement(s).</b>                                                                                                                                                                                                                                                                                                                                              |
| g. | “Cause” defined – curable defaults                                   | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| h. | “Cause” defined – non- curable defaults                              | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| i. | Franchisee’s obligations on termination or non-renewal               | 11.2           | Under the Area Developer Agreement, you will be able to maintain ownership and operation of the Store which you have developed so long as you are in material breach of the Agreement; however, you will forfeit (i) any further exclusive rights under the Development Schedule, and (ii) any rights to have a credit applied against the Initial Franchise Fee for Store that were not developed.                                                                                                                                                     |
| j. | Assignment of contract by franchisor                                 | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| k. | “Transfer” by franchisee – defined                                   | 9.2            | Includes transfer of contract or assets or ownership change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| l. | Franchisor’s approval of transfer by franchisee                      | 9.1            | We have the right to approve all transfers (including transfers of (i) more than 50% of the equity or (ii) controlling interest in a franchisee entity), but we will not unreasonably withhold approval.                                                                                                                                                                                                                                                                                                                                                |
| m. | Conditions for franchisor approval of transfer                       | 9.1            | New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you, and current agreement signed by new franchisee (see r. below). Within 30 days after our receipt of all necessary information and documentation required under the Area Development Agreement, or as specified by written agreement between us and you, we will notify you of the approval or disapproval of the proposed transfer of the Franchise by you. This notice will be in writing and delivered to you by business courier. |
| n. | Franchisor’s right of first refusal to acquire franchisee’s business | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| o. | Franchisor’s option to purchase franchisee’s business                | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

|    |                                                                        |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----|------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| p. | Death or disability of franchisee                                      | Not Applicable | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| q. | Non-competition covenants during the term of the franchise             | 10.1           | No involvement in competing business anywhere.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| r. | Non-competition covenants after the franchise is terminated or expires | 10.1           | No competing business for 1 year within 25 miles of your Outlet or any other <b>San Chen™</b> Outlet (this obligation also applies to you if you assign your franchise).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| s. | Modification of the agreement                                          | 14.2           | No modifications generally, but Manual subject to change.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| t. | Integration/ merger clause                                             | 14.10          | Only the terms of the franchise agreement are binding (subject to state and federal law). Any representations or promises outside of the disclosure document and ADA may not be enforceable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| u. | Dispute resolution by arbitration or mediation                         | 12.1           | The parties agree in the Area Development Agreement to submit disputes (not including your failure to pay us sums due under the Franchise Agreement, or an act of yours allowing us to immediately terminate the Franchise Agreement) initially to a meeting in person of our executive officers and your Principal Equity Owners at our principal executive office (without our respective legal counsel) within 5 business days after a dispute arises to conduct a good faith discussion and negotiation of the issues with a view to arriving at a settlement. If this meeting does not result in a settlement of the dispute (or the meeting does not take place), within 10 business days after the date the meeting took place (or should have taken place), the parties may submit the dispute to non-binding mediation in California. If a mediation takes place but does not resolve the dispute, or no mediation takes place, the dispute will be resolved by arbitration by and before American Bar Association or if the parties mutually agree, the dispute may be submitted to arbitration by and before another mutually acceptable arbitration organization. |
| v. | Choice of forum                                                        | 12.1           | Arbitration proceedings must take place in Los Angeles County, California. Any mediation proceeding will take place at a mutually agreed location. Any litigation proceedings will be filed in an appropriate court in California.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| w. | Choice of law                                                          | 14.1           | The Federal Arbitration Act (9 U.S.C. §1 et seq.) governs the arbitration of disputes under the Franchise Agreement and the Area Development Agreement. Otherwise, the laws of California govern the Area Development Agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

## ITEM 18 PUBLIC FIGURES

We do not currently pay or provide any other benefit to a public figure for the right to use their name to promote the sale of **San Chen™** franchises, but we may do so in the future.

## ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representation about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting our Chief Executive Officer, Kuo Liang Wang, Chichia San Chen Corporation, 101 California Street, Suite 2710, San Francisco, CA 94111; the Federal Trade Commission; and the appropriate state regulatory agencies.

## ITEM 20 OUTLETS AND FRANCHISEE INFORMATION

**Table No. 1**  
**Systemwide Outlet Summary**  
**For years 2017 to 2019**

| Outlet Type   | Year | Outlets at the Start of the Year | Outlets at the End of the Year | Net Change |
|---------------|------|----------------------------------|--------------------------------|------------|
| Franchised    | 2017 | 0                                | 0                              | 0          |
|               | 2018 | 0                                | 0                              | 0          |
|               | 2019 | 0                                | 0                              | 0          |
| Company-Owned | 2017 | 0                                | 0                              | 0          |
|               | 2018 | 0                                | 0                              | 0          |
|               | 2019 | 0                                | 0                              | 0          |
| Total Outlets | 2017 | 0                                | 0                              | 0          |
|               | 2018 | 0                                | 0                              | 0          |
|               | 2019 | 0                                | 0                              | 0          |

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners**

**(other than the Franchisor)  
For years 2017 to 2019**

| State  | Year | Number of Transfers |
|--------|------|---------------------|
| Totals | 2017 | 0                   |
|        | 2018 | 0                   |
|        | 2019 | 0                   |

Table No. 3  
**Status of Franchised Outlets  
For years 2017 to 2019**

| State  | Year | Outlets at Start of Year | Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations Other Reasons | Outlets at End of the Year |
|--------|------|--------------------------|----------------|--------------|--------------|--------------------------|---------------------------------|----------------------------|
| CA     | 2017 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |
|        | 2018 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |
|        | 2019 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |
| Totals | 2017 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |
|        | 2018 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |
|        | 2019 | 0                        | 0              | 0            | 0            | 0                        | 0                               | 0                          |

Table No. 4  
**Status of Company-Owned Outlets  
For years 2017 to 2019**

| State  | Year | Outlets at Start of Year | Outlets Opened | Outlets Reacquired from Franchisees | Outlets Closed | Outlets Sold to Franchisees | Outlets at End of the Year |
|--------|------|--------------------------|----------------|-------------------------------------|----------------|-----------------------------|----------------------------|
| Totals | 2017 | 0                        | 0              | 0                                   | 0              | 0                           | 0                          |
|        | 2018 | 0                        | 0              | 0                                   | 0              | 0                           | 0                          |
|        | 2019 | 0                        | 0              | 0                                   | 0              | 0                           | 0                          |

Table No. 5  
**Projected New Franchised Outlets As Of February 28, 2020**

| State | Franchise Agreements Signed But Outlets Not Opened | Projected New Franchised Outlets in the Next Fiscal Year | Projected New Company-Owned Outlets in the Next Fiscal Year |
|-------|----------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| CA    | 0                                                  | 5                                                        | 0                                                           |

|        |   |   |   |
|--------|---|---|---|
| Totals | 0 | 5 | 0 |
|--------|---|---|---|

Exhibit C lists, as of October 1, 2020, (i) the names, addresses and telephone numbers of all open and operating **San Chen™** franchise outlets and (ii) the names, addresses, and telephone numbers of all franchisees who signed franchise agreements but have not yet opened their **San Chen™** outlets.

Exhibit D lists, as of October 1, 2020, the contact information of every franchisee that had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under its franchise agreement during our most recently completed fiscal year, or that has not communicated with us within the 10 weeks ending on the date of this disclosure document. Your contact information may be disclosed if you buy this franchise and then later leave the system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with **San Chen™**. 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. However, during the last 3 fiscal years, we have not signed any agreements with current or former franchisees that included confidentiality clauses.

We have not created, sponsored, or endorsed any trademark-specific franchisee organizations associated with the **San Chen™** franchise being offered. There are no independent franchisee organizations that have asked to be included in this disclosure document.

## **ITEM 21 FINANCIAL STATEMENTS**

Attached to this Disclosure Document, as **Exhibit B**, are our reviewed Financial Statements for the five months ended August 31, 2020. Our fiscal year end is December 31.

## **ITEM 22 CONTRACTS**

Exhibit A - Franchise Agreement  
Exhibit E - Area Development Agreement

## **ITEM 23 RECEIPTS**

You will find copies of a detachable receipt in **Exhibit I** at the very end of this disclosure document.

**FRANCHISE AGREEMENT**

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**SAN CHEN™**

**San Chen**

**EXHIBIT A**

## FRANCHISE AGREEMENT

This Franchise Agreement (“Agreement”) is made and entered into as of \_\_\_\_\_, 20 \_\_\_\_ (the “Effective Date”), by and among Chichia San Chen Corporation, a California Corporation doing business as **San Chen™** (“Franchisor”), and \_\_\_\_\_ (“Franchisee”), and (if Franchisee is not a sole proprietorship) each person owning 20% or more of the Franchisee entity, who will sign and be a party to this Agreement (in such context, “Principal Equity Owner”), with reference to the following facts:

### RECITALS

An entity affiliated with Franchisor (the “Owner of the Marks”) owns the **San Chen™** trademarks, service marks and other intellectual property and all rights in respect thereof. The Owner of the Marks has authorized Franchisor to license them to **San Chen™** franchisees.

Franchisee desires to be franchised and licensed by Franchisor to use Franchisor's “System” (as defined in Article I below), “Marks” (as defined in Article I below) and goodwill to conduct the “Franchised Business” (as defined in Article I below) at a specific “Store” (as defined in Article I below and identified in Exhibit 1 attached).

Franchisor is willing to grant Franchisee a “Franchise” (as defined in section 3.1 hereof), in accordance with the provisions of this Agreement and the Confidential Operations Manual.

### I. DEFINITIONS

**Abandoned.** The term “Abandoned” means cessation of operation of the Franchised Business for a period of five consecutive business days, without Franchisor's prior written consent. A repeated pattern of inactivity at Franchisee's Store for periods of less than five consecutive business days may result in the Franchised Business being deemed Abandoned by Franchisee if in Franchisor's judgment such inactivity adversely impacts the Franchised Business. However, the Franchised Business will not be deemed Abandoned if the inactivity is due to natural disasters or other matters reasonably beyond Franchisee's control, provided that Franchisee gives Franchisor notice of any such closure within five business days after the initial occurrence of the event resulting in such inactivity, and Franchisee acknowledges in writing that such inactivity is due to one of the foregoing causes, and provided further that Franchisee re-establish the Franchised Business and be fully operational within 180 days after the initial occurrence of the event resulting in such inactivity, or such longer period as Franchisor may permit.

**Anniversary Year.** The term “Anniversary Year” means the 12-month period between the “Opening Date” (as defined below in this Article I) and the first anniversary thereof and between each succeeding anniversary.

**Confidential Information.** The term “Confidential Information” means information, know-how, and materials, other than Trade Secrets, that is of value to Franchisor (or other third party, as applicable) and treated as confidential by any of the foregoing and is disclosed or made known or available to Franchisee or its employees or agents. Without limiting the generality of the foregoing,

the term Confidential Information includes, without limitation: (i) the Confidential Operations Manual; (ii) all technical and non-technical information, including without limitation, information concerning finances, financing and capital raising plans, accounting or marketing, business opportunities, affiliate lists, business plans, forecasts, predictions, projections, recipes, products, research, development, and know-how; (iii) Intellectual Property, the Marks, “San Chen™ Products” (as defined in this Article I), insignias, designs, and materials subject to copyright, patent, or trademark registration; (iv) any developments, inventions, improvements, additions, modifications, enhancements, derivatives, ideas, reports, analyses, opinions, studies, data or other materials or work product, whether prepared by Franchisor or otherwise, that contain or are based upon Proprietary Information; (v) information regarding customers and potential customers of the Franchised Business, including customer lists, names, needs or desires with respect to the products or services offered, contracts and their contents and parties, the type and quantity of products and services provided or sought to be provided to customers and potential customers of the Franchised Business and other non-public information relating to customers and potential customers; (vi) information regarding any of Franchisor's business partners or affiliates and their services, including names, representatives, proposals, bids, contracts and their contents and parties, the type and quantity of products and services received by the discloser, and other non-public information relating to business partners; (vii) information regarding personnel, including compensation and personnel files; and (viii) any other non-public information that a competitor of Franchisor could use to the competitive disadvantage of Franchisor.

**Confidential Operations Manual.** The term “Confidential Operations Manual” means the manual or manuals (regardless of title) containing the policies and procedures, menus, food preparation techniques and other proprietary requirements to be adhered to by Franchisee in performing under this Agreement, including all amendments and supplements thereto provided to Franchisee from time to time.

**Control.** The term “Control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

**CPI.** The term “CPI” means the annual average of the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the United States Department of Labor (or the highest similar future index if these figures become unavailable).

**Force Majeure.** The term “Force Majeure” means a natural disaster (such as tornado, earthquake, hurricane, flood, fire or other natural catastrophe); strike, lockout or other industrial disturbance; war, terrorist act, riot, or other civil disturbance; epidemic; or other similar force which Franchisee could not by the exercise of reasonable diligence have avoided; provided however, neither an act or failure to act by any federal, state, county, municipal and local governmental and quasi-governmental agency, commission or authority, nor the performance, non-performance or exercise of rights under any agreement with Franchisee by any lender, landlord, or other person will be a Force Majeure, except to the extent such act, failure to act, performance, non-performance or exercise of rights results from an act which is otherwise a Force Majeure. To avoid any potential misunderstanding, Franchisee's financial inability to perform or Franchisee's insolvency will not be a Force Majeure.

**Franchised Business.** The term “Franchised Business” means the sale of items from a focused menu featuring **San Chen™** Products, as well as other authorized goods and services at the Store pursuant to the business methods and procedures set forth by Franchisor for the operation of such a retail business.

**Gross Revenues.** The term “Gross Revenues” means all revenues, however generated or received, derived by Franchisee from operating the Franchised Business at or through Franchisee's Store, excluding only applicable sales or use taxes and legitimate refunds, and not modified for uncollected accounts.

**Initial Training.** The term “Initial Training” means training in the System provided by Franchisor, as described in and required by section 6.1 hereof.

**Intellectual Property.** The term “Intellectual Property” means intangible property, including “Trade Secrets” (as defined in this Article I); inventions; pictorial, literary, graphic and photographic works of authorship; designs; symbols; and trademarks, domain names, other names and logos owned by Franchisor and used in the Franchised Business or at the Store.

**Intellectual Property Rights.** The term “Intellectual Property Rights” means all past, present, and future rights of the following types, which may exist or be created under the laws of any jurisdiction in the world: (i) rights associated with works of authorship, including exclusive exploitation rights, copyrights, moral rights, and mask work rights; (ii) trademark and trade name rights and similar rights; (iii) trade secret rights; (iv) patent and industrial property rights; (v) other proprietary rights in intellectual property of every kind and nature; and (vi) rights in or relating to registrations, renewals, extensions, combinations, divisions, and reissues of, and applications for, any of the rights referred to in clauses (i) through (v) of this sentence.

**Marks.** The term “Marks” means the proprietary marks that are associated with the System and associated designs in respect of which registrations have been obtained from or applied for with the United States Patent and Trademark Office, as well as all common law trademarks and service marks, domain names, trade names, logos, insignias, designs and other commercial symbols which Franchisor now or hereafter are authorized to use and use or authorize others to use to identify the Franchised Business. Franchisor will list in the Confidential Operations Manual a schedule of Marks Franchisee is authorized to use under this Agreement and update this schedule as necessary.

**Opening Date.** The term “Opening Date” means the day Franchisee opens its Store, furnished, inventoried and equipped in accordance with Franchisor's requirements, and Franchisee begins operating the Franchised Business at this Store.

**Proprietary Information.** The term “Proprietary Information” means, refers to, and includes Trade Secrets and Confidential Information of Franchisor (or if any other third party provided such information to or on behalf of Franchisor). No formal identification of Proprietary Information will be required. Without limiting the generality of the foregoing, Proprietary Information may take the form of documentation, drawings, specifications, software, technical or engineering data and other forms, and may be communicated orally, in writing, by electronic means or media, by visual

observation and by other means.

**Required Inventory.** The term “Required Inventory” means the proprietary teas and other proprietary ingredients needed to make “**San Chen™** Products” (as defined in this Article I) and other merchandise and supplies (including containers and uniforms) needed for the operation of the Store.

**Store.** The term “Store” means a retail food establishment at a location Franchisor consents to, which is dedicated to the operation of the Franchised Business under the Marks and in accordance with the System.

**Store Manager.** The term “Store Manager” means the individual (must be a Principal Equity Owner) who has been designated by Franchisee as the person responsible for the day-to-day operation of the Store, and who has successfully completed “Initial Training” (as defined in this Article I).

**Suggestions.** The term “Suggestions” means any new products or services, specifications, suggestions or other feedback made by Franchisee or Principal Equity Owners to modify the System.

**System.** The term “System” means comprehensive marketing and operational systems prescribed by Franchisor to be used in the conduct of the Franchised Business, as set forth in this Agreement and the Confidential Operations Manual. The System includes (i) the Marks, (ii) know-how relating to **San Chen™** Products, (iii) advertising, marketing and sales programs and techniques, (iv) training programs, and (v) related materials, artwork, graphics, layouts, slogans, names, titles, text and other Intellectual Property Rights that Franchisor makes available to Franchisee. In its sole discretion, Franchisor may improve or change the System from time to time (including but not limited to adding to, deleting or modifying elements of the System and amending the Confidential Operations Manual) for the intended purpose of making the System more effective, efficient, economical or competitive; adapting to or taking advantage of competitive conditions, opportunities, technology, materials or local marketing needs and conditions; enhancing the reputation or public acceptance of the System; or better serving the public.

**Territory.** The term “Territory” means the designated and agreed geographical area surrounding Franchisee's Store as set forth in Exhibit 1 attached hereto.

**Trade Dress.** The term “Trade Dress” means the unique and distinctive layout, design and color schemes relating to the Store, and furnishings; menus; the textures, sizes, designs, shapes, and placements of words, graphics, and decorations on products and packaging; point of purchase materials; and signs related to **San Chen™** Products.

**Trade Secret.** The term “Trade Secret” means information constituting a trade secret within the meaning of the federal Defend Trade Secrets Act (18 U.S.C. § 1836, et seq.), as amended from time to time.

**Transfer.** The term “Transfer” means a sale, assignment, transfer, conveyance, pledge, mortgage,

encumbrance, abandonment, elimination or giving away, voluntarily or involuntarily, by operation of law or otherwise.

**San Chen™ Products.** The term “**San Chen™ Products**” means Franchisor’s proprietary “**San Chen™**”, as well as a variety of other teas and juice drinks, using proprietary teas, milk teas and juices, recipe and preparation techniques, freshly prepared and available for carry-out or consumption at the Outlet, and related products and accessories sold to retail customers.

## **II. THE FRANCHISED BUSINESS**

### **2.1 Franchisor's Business.**

Franchisor is engaged in the administration, development, operation and licensing of businesses that operate Stores offering the Franchised Business, using the Marks, operational techniques, service concepts and proprietary information owned or authorized to be used by and identified with Franchisor and its affiliated companies. Franchisor's activities in general and the System (including proprietary products and services; logos; equipment and operations; designs and layouts for the Stores; marketing and advertising, specialty retail items and promotional activities) are undertaken to develop, maintain and enhance the Marks and Franchisor's business reputation.

### **2.2 The Franchise System.**

Franchisor has developed and supervises the franchise System operated under the Marks and in accordance with the provisions of this Agreement and Franchisor's Confidential Operations Manual, as amended from time to time.

## **III. GRANT OF FRANCHISE**

### **3.1 Grant of Franchise.**

(a) By their respective signatures below, Franchisor hereby grants to Franchisee, and Franchisee hereby accepts, a license (“Franchise”) to participate in and use the System by conducting the Franchised Business at Franchisee's Store within Franchisee's Territory as described in Exhibit 1 attached hereto, in strict accordance with this Agreement and the Confidential Operations Manual, from the time of commencement of the Franchised Business until the end of the term hereof and any additional term, unless sooner terminated. So long as Franchisee complies with this Agreement, Franchisor will not authorize another **San Chen™** franchisee to operate, or operate itself, a Store in Franchisee's Territory.

(b) Franchisee acknowledges that Franchisor may have granted and may in the future operate or grant other licenses and franchises for other retail and wholesale food service businesses outside the Territory. FRANCHISEE MAY NOT USE FRANCHISOR'S MARKS, OPERATIONAL TECHNIQUES, SERVICE CONCEPTS OR PROPRIETARY INFORMATION IN CONNECTION WITH ANY BUSINESSES OR SERVICES OTHER THAN THE FRANCHISED BUSINESS AT THE SHOP WITHOUT FRANCHISOR'S EXPRESS PRIOR WRITTEN PERMISSION.

### **3.2 Reserved Rights.**

(a) Nothing contained herein accords Franchisee any right, title or interest in or to the Marks, System, marketing and operational techniques, service concepts, proprietary information or goodwill of Franchisor or associated with the System, except such rights as may be granted hereunder. **THIS AGREEMENT GRANTS FRANCHISEE ONLY THE RIGHT TO OPERATE THE FRANCHISED BUSINESS AT FRANCHISEE'S SHOP AND NOWHERE ELSE UNLESS FRANCHISOR SPECIFICALLY ALLOWS FRANCHISEE TO OFFER SAN CHEN™ PRODUCTS ELSEWHERE. ALL OTHER RIGHTS ARE RETAINED BY AND RESERVED TO FRANCHISOR.**

(b) Franchisor reserves the right to develop other systems involving similar or dissimilar services or goods, under dissimilar service marks, trademarks and trade names belonging to Franchisor, without necessarily granting Franchisee any rights in those systems. Franchisor reserves all rights to market and sell **San Chen™** Products at venues other than Stores and through other channels of distribution anywhere, including within Franchisee's Territory.

### **3.3 Promotion and Development of Franchisee's Store.**

Franchisee must (i) diligently and effectively promote, market and engage in the Franchised Business at its Store; (ii) develop, to the best of its ability, the potential for future Franchised Business within Franchisee's Territory; and (iii) devote and focus a substantial portion of Franchisee's attentions and efforts to such promotion and development.

### **3.4 Extent of Grant.**

(a) Franchisee understands and agrees that Franchisee is licensed hereby only for the operation of the Franchised Business at and from Franchisee's Store and only within Franchisee's Territory. Franchisee must offer and sell at Franchisee's Store and in Franchisee's Territory only **San Chen™** Products and other goods and services that Franchisor designates as required or approved for all franchisees. Franchisor has the right to change and add other authorized goods and services that Franchisee will then be required to offer. There are no limits on Franchisor's right to make changes to the offerings, except that the additional investment required of Franchisee for equipment, supplies and inventory will not exceed \$10,000 in any 12 consecutive months.

(b) Franchisee may not deliver **San Chen™** Products (or other products or services ordered from Franchisee's Store or otherwise associated with the Marks) outside Franchisee's Territory without Franchisor's prior written consent. If Franchisee does so without Franchisor's consent, it will be a material violation of this Agreement.

(c) Franchisee may not sublicense, sublease, subcontract or enter any management agreement, concession agreement, partnership agreement or joint venture agreement providing for, the right to operate the Franchised Business or to use the System granted pursuant to this Agreement.

### **3.5 Electronic Execution and Copies.**

(a) An executed counterpart of this Agreement (or any portion of this Agreement) may be

delivered by any of the parties by fax, electrical, digital, magnetic, optical, electromagnetic, or similar capability regardless of the medium of transmission (any such medium is referred to in this section 3.5(a) and the following section 3.5(b) as “electronic”), and such delivery will be effective and binding upon such party, and will not in any way diminish or affect the legal effectiveness, validity or enforceability of this Agreement.

(b) Franchisee acknowledges and agrees Franchisor may create an electronic record of any or all agreements, correspondence or other communication between Franchisor and Franchisee or involving third parties, and Franchisor may thereafter dispose of or destroy the original of any such document or record. Any such electronic record will be inscribed on a tangible medium or stored in an electronic or other medium and be retrievable in perceivable form and will be maintained in and readable by hardware and software generally available. Notwithstanding any statute, regulation or other rule of law to the contrary, Franchisee agrees any such electronic version of this or any other agreement or correspondence between the parties will have the same legal effect, validity and enforceability as an original of any such document, even if the original of such document has been disposed of or intentionally destroyed.

### **3.6 Obligations of Entity Franchisee.**

(a) If Franchisee is an entity, Franchisee must provide Franchisor at the Effective Date with a copy of its organizational document and by-laws, shareholders' agreement, operating agreement or other agreement between the equity owners.

(b) If Franchisee is an entity, any person or entity that at any time after the Effective Date becomes a Principal Equity Owner will automatically acquire all the obligations of a Principal Equity Owner under this Agreement at the time such person or entity becomes a Principal Equity Owner. Before approving and entering into any transaction that would make any person or entity a Principal Equity Owner, Franchisee must notify such person about the content of this section 3.6(b).

(c) If Franchisee is an entity, Franchisee must place the following legend on all certificates evidencing an equity interest:

“THE TRANSFER OF THE EQUITY INTEREST IN THE ENTITY REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A FRANCHISE AGREEMENT DATED\_\_\_\_\_, 20\_\_\_\_, BETWEEN THIS ENTITY AND CHICHIA SAN CHEN CORPORATION. REFERENCE IS MADE TO SUCH FRANCHISE AGREEMENT AND THE RESTRICTIVE PROVISIONS CONTAINED THEREIN AND AS MAY BE OTHERWISE SET FORTH IN THE ORGANIZATIONAL DOCUMENTS AND OPERATING AGREEMENTS OF THIS ENTITY.”

## **IV. INITIAL AND ON-GOING PAYMENTS BY FRANCHISEE**

### **4.1 Initial Fees; Security Deposit.**

(a) The “Initial Franchise Fee” (which includes complete initial training and review and

consent to location of the Store) for a single franchised Store is \$30,000. (However, if this Agreement is for a second or subsequent Outlet owned by you under the terms of an Area Development Agreement you executed, a credit will be applied against the Initial Franchise Fee in the amount specified in the ADA and you must pay us the balance.)

(b) Deleted.

(c) The Initial Franchise Fee is due and payable in full, by cashier's check or money order or wire transfer to Franchisor's bank account when Franchisee signs this Agreement. **The Initial Franchise Fee and Territory Surcharge (if applicable) are fully earned by Franchisor when paid and are not refundable.**

(d) Franchisee must also pay Franchisor a "Design Fee" for Franchisor's direct services in designing the Store as a **San Chen™** retail outlet. The Design Fee is \$3.3 per square foot. The Design Fee is due and payable when the location of the Shop has been reviewed and consented to by Franchisor. The amount of the Design Fee is indicated in Exhibit 1 of this Agreement.

(e) **Security Deposit.** When Franchisee signs this Agreement (and each Franchise Agreement signed for an additional Store under an ADA, if applicable), Franchisee must pay Franchisor a \$10,000 security deposit. If Franchisee defaults in performance of any requirement under this Agreement or any other agreement between Franchisee and Franchisor or any of Franchisor's affiliates, Franchisor may use the security deposit, or any portion of it, to cure the default or to compensate Franchisor for all damages or expenses Franchisor incurs because of Franchisee's default, including without limitation damages Franchisor suffers because of Franchisee's purchase of unapproved materials or use of poor quality raw material in preparing and serving **San Chen™** Products. Franchisor may also use the security deposit to pay any late charges, interest, penalties, and fees and any costs and charges due Franchisor for performing obligations that Franchisee does not perform, and which Franchisor is entitled to perform for Franchisee. If monies are owed, or become due, to Franchisor on or after termination or expiration of this Agreement for any reason, Franchisor may use all or any part of the security deposit to pay those sums. If Franchisor uses any part of the security deposit before the end of the term of this Agreement, Franchisee will have to restore the balance of the security deposit to \$10,000. If Franchisee is not in default in performance under this Agreement or any other agreement with Franchisor or any of Franchisor's affiliates on the date this Agreement expires or is terminated for any other reason, Franchisor will return to Franchisee within 30 days after the expiration or effective date of termination the remaining balance of the security deposit.

#### **4.2 Royalty.**

(a) Beginning the first full calendar month after the Opening Date, Franchisee must pay Franchisor a monthly "Royalty" of 4% of Franchisee's monthly Gross Revenues.

(b) The Royalty is due and payable on the 15<sup>th</sup> day of each month following the month in which applicable Gross Revenues were received and will be accompanied by a sales report in the form prescribed by Franchisor.

### **4.3 Deleted**

### **4.4 Electronic Funds Transfer.**

Franchisor requires payment for Required Inventory, Royalty and Marketing and Promotion Fees by electronic funds transfer ("EFT") through the Automated Clearing House ("ACH") electronic network for financial transactions (or such other automatic payment mechanism Franchisor may designate) directly from Franchisee's account into Franchisor's operating account.

### **4.5 Fees Fully Earned; No Setoffs.**

All payments made by Franchisee to Franchisor pursuant to this Article IV are fully earned and non-refundable (except as provided in section 4.1(d) above) when paid. All payments to be made by Franchisee to Franchisor will be made without setoff, deduction, defense, counterclaim or claims in recoupment.

### **4.6 Late Fee**

(a) Any payments for Required Inventory, Royalty, Marketing and Promotion Fees, and any other fee required under this Agreement not received by Franchisor when due will be a material breach of this Agreement and will be subject to a late charge of 5% of the amount past due. In connection therewith, Franchisor and Franchisee agree that the late charge is a reasonable and good faith estimate by Franchisor and Franchisee of such costs because (i) as a result of any such late payment, Franchisor will incur certain costs and expenses including, without limitation, administrative costs, collection costs, loss of interest, and other direct and indirect costs in an uncertain amount; and (ii) it would be impractical or extremely difficult to fix the exact amount of such costs in such event.

(b) Deleted.

### **4.7 No Accord or Satisfaction.**

If Franchisee pays, or Franchisor otherwise receives, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt will be applied against the earliest amount due Franchisor. Franchisor may accept any check or payment in any amount without prejudice to Franchisor's right to recover the balance of the amount due or to pursue any other right or remedy. No endorsement or statement on any check or payment or in any letter accompanying any check or payment or elsewhere will constitute or be construed as an accord or satisfaction.

### **4.8 CPI Adjustments.**

Any stated dollar amount in this Agreement may be adjusted in Franchisor's discretion based on changes in the CPI since the Effective Date.

## **V. INITIAL TERM AND RENEWAL TERMS**

### **5.1 Initial Term.**

The initial term of this Agreement (applicable solely to the Store franchised hereunder) commences on the Effective Date and expires on the third anniversary of the Opening Date, unless sooner

terminated pursuant to the provisions of this Agreement.

## **5.2 Renewal Terms.**

(a) Upon written notice delivered to Franchisor not less than 120 days before the end of the existing term hereof, Franchisee may renew its rights granted under this Agreement for additional three-year terms commencing on the expiration date of the previous term, subject to the provisions of sections 5.2(b) through 5.2(g) below.

(b) At the time of renewal, Franchisee must (i) then be solvent (which means that Franchisee is able to pay its debts as and when promised by Franchisee and that Franchisee has assets that are greater than its debts), (ii) not have abandoned the Store, (iii) not be operating the Franchise in a manner that endangers public health or safety or materially harms the **San Chen™** brand or reputation, and (iv) not have knowingly submitted false or incomplete reports to Franchisor during the initial term.

(c) Notwithstanding section 5.2(a) above, Franchisor is not obligated to renew Franchisee's rights granted under this Agreement for an additional term if one or more of the following applies or occurs:

(i) Franchisee gives Franchisor written notice of Franchisee's intention not to renew this Agreement at least 180 days before the expiration of the initial term or any successor term.

(ii) During the 180 days prior to expiration of the Franchise, Franchisor permits Franchisee to sell the rights to operate the Franchised Business at the Store to a purchaser who meets Franchisor's then current requirements for granting new Franchises or (if Franchisor is not granting a significant number of new Franchises) the then current requirements for granting renewal Franchises.

(iii) Termination of this Agreement would be permitted pursuant to sections 13.1 or 13.2 hereof.

(iv) Franchisee and Franchisor agree not to renew the Franchise.

(v) Franchisor withdraws from distributing Franchisor's products or services through Franchises in the geographic market served by Franchisee, provided that:

(A) Upon expiration of the Franchise, Franchisor agrees not to seek to enforce any covenant of the non-renewed franchisee not to compete with Franchisor or its franchisees; and

(B) The failure to renew is not to convert the business conducted by Franchisee pursuant to this Agreement to operation by Franchisor's employees or agents for Franchisor's own account.

(vi) At the time of renewal, Franchisee or any Principal Equity Owner has been convicted of a felony or a crime involving moral turpitude, consumer fraud or any other offense

that is reasonably likely, in Franchisor's reasonable judgment, to have a materially adverse effect on the Marks, the System or the goodwill associated with the Marks or System.

(vii) Franchisor and Franchisee fail to agree to changes or additions to the terms and conditions of this Agreement, if such changes or additions would result in renewal of this Agreement on substantially the same terms and conditions on which Franchisor is then customarily granting renewal franchises, or if Franchisor is not then granting a significant number of renewal Franchises, the terms and conditions on which Franchisor is then customarily granting original franchise agreements. Franchisor may give Franchisee written notice of a date which is at least 30 days from the date of such notice, on or before which a proposed written agreement of the terms and conditions of the renewal Franchise must be accepted in writing by Franchisee. Such notice, when given not less than 180 days before the end of the Franchise term, may state that in the event of failure of such acceptance by Franchisee, the notice will be deemed a notice of intention not to renew at the end of the Franchise term.

(d) As a condition to renewing Franchisee's rights, duties and obligations hereunder, not later than 90 days before the end of the term that is expiring, Franchisee and Franchisor must sign either (i) Franchisor's then-current standard Franchise Agreement modified by addendum to remove provisions that only apply to a new franchisee, such as initial franchise fee and initial training requirements ("Renewal Franchise Agreement") or (ii) an addendum to this Agreement extending its term for an additional three-year term. **IN ADDITION TO NOT GRANTING ANY ADDITIONAL RIGHTS BEYOND THOSE GRANTED IN THIS AGREEMENT, THE RENEWAL FRANCHISE AGREEMENT MAY CONTAIN OTHER TERMS THAT ARE SUBSTANTIALLY DIFFERENT FROM THOSE IN THIS AGREEMENT.** The Renewal Franchise Agreement, when executed, will supersede this Agreement.

(e) At the time of renewal, Franchisee must have satisfied all monetary obligations owed by Franchisee to Franchisor and to Franchisor's affiliates and all other material obligations under this Agreement, and Franchisor may examine Franchisee's books and records to verify compliance with this requirement anytime during normal business hours within 60 days of Franchisee's renewal date.

(f) At the time of renewal, Franchisee and its Principal Equity Owners must execute a release, in the form prescribed by Franchisor, of all actual or potential claims Franchisee or any Principal Equity Owner may have against Franchisor or Franchisor's affiliates, and their respective officers, directors, agents and employees as of the effective date of the Renewal Franchise Agreement.

(g) Before or not later than 90 days after Franchisee's execution of a Renewal Franchise Agreement for an additional term, Franchisee must make such physical modifications to Franchisee's Store as are reasonably necessary so that they are substantially consistent with the then current System requirements, and so that they can accommodate new **San Chen™** Products, if any. Franchisee must also bring Franchisee's Store and equipment, materials and supplies into compliance with the standards then applicable to new **San Chen™** franchises.

(h) When Franchisee signs the Renewal Franchise Agreement, it must pay Franchisor a "Renewal Fee" of \$10,000. This Renewal Fee is subject to adjustment based on changes in the CPI

since the Effective Date.

### **5.3 Month to Month Extension; Longer Notice of Expiration Required by Law.**

(a) At Franchisor's option, to be exercised in Franchisor's sole and absolute discretion, if the renewal procedures described in section 5.2 above have not been completed, or in lieu of formal renewal of the Franchise, Franchisor may extend this Agreement on a month-to-month basis by notifying Franchisee Franchisor is doing so. Said month-to-month extension will continue until Franchisor gives Franchisee at least a 30-day notice that the Franchise rights must be formally renewed in accordance with section 5.2 or the Agreement will expire and be terminated.

(b) If applicable law requires Franchisor to give a longer period of notice to Franchisee than herein provided prior to the expiration of the initial term or any successor term, Franchisor will give such additional required notice. If Franchisor does not give such required additional notice, this Agreement will remain in effect on a month-to-month basis only until Franchisee has received such required additional notice.

## **VI. TRAINING AND ASSISTANCE**

### **6.1 Initial Training.**

(a) It is of paramount importance that Franchisee's Store Manager (the Store Manager must be either a sole proprietor or a Principal Equity Owner with at least 50% equity ownership of an entity Franchisee) and other Principal Equity Owners understand the Franchised Business and the System, and that Franchisee's Store Manager has been trained how to operate the Franchised Business. Accordingly, Franchisor will provide to Franchisee's Store Manager and other interested Principal Equity Owners a two-week initial training program in Taiwan, providing an orientation to the System and instruction on how to operate the Franchised Business (collectively, "Initial Training"), followed up at the time the Store is opened with on-site training provided by at least two representatives of Franchisor. Franchisee may not open and operate the Franchised Business until Franchisee's Store Manager has satisfactorily completed Initial Training. Franchisee acknowledges and agrees that Franchisor will solely determine whether Franchisee and its Store Manager satisfactorily completed Initial Training.

(b) The failure of Franchisee's designated Store Manager to complete Initial Training to Franchisor's satisfaction will be grounds for termination of this Agreement; provided, however, that before this Agreement is so terminated, a Store Manager who fails to successfully complete Initial Training will have the opportunity to either retake the Initial Training or Franchisee may designate one replacement for the Initial Training program.

(c) Franchisor will determine the contents and manner of conducting the Initial Training program in Franchisor's discretion, however, the training course will be structured to provide practical training in **San Chen™** Products and the implementation and operation of the Franchised Business and may include such topics as **San Chen™** procedures, standards, marketing and customer service techniques, reports and equipment maintenance.

(d) All costs and expenses (including travel, hotel and meal) of Franchisee's attendees of Initial Training will be Franchisee's sole responsibility. All persons attending Initial Training on Franchisee's behalf must have a demonstrable relationship to the management and operation of the Franchised Business.

## **6.2 Training and Assistance after Opening.**

(a) After Franchisee opens the Franchised Business, Franchisor will provide Franchisee with access to, and may list Franchisee's Store on, and integrate other information about Franchisee's Store into, the Chichia San Chen Corporation website, which may include access to a password protected, digital copy of the Confidential Operations Manual (any future updates or modifications to Franchisee's presence on the **San Chen**<sup>TM</sup> website may be at Franchisee's cost and expense).

(b) After Franchisor provides on-site opening assistance at the Store pursuant to section 6.1(a) above, Franchisor will provide Franchisee with telephone and e-mail assistance at Franchisee's request or otherwise as Franchisor deems necessary to instruct in all phases of the operation of the Franchised Business. Franchisor's representatives may visit Franchisee's Store from time to time, but the frequency and duration of any such visits by Franchisor's representatives is in Franchisor's sole discretion. In addition, representatives of Franchisor will be available on an ongoing basis at Franchisor's international headquarters for consultation and guidance with respect to the operation and management of the Franchised Business. Franchisor does not provide Franchisee with assistance in contracting with agents or hiring employees.

(c) After Franchisee opens its Store, and upon reasonable notice, Franchisor may require attendance of Franchisee's designated personnel at training courses, seminars, conferences or other programs other than Initial Training or mandatory meetings (described in section 6.3 below) that Franchisor deems to be relevant or appropriate to the operation of the Franchised Business. Franchisee specifically agrees that only persons trained by Franchisor or under Franchisee's supervision will have overall responsibility for the operation of the Store and Franchised Business, and that Franchisee will send its Store Manager to Franchisor for additional training if Franchisor requests this. Franchisor may at its discretion charge Franchisee an additional training fee of up to \$200 per day for **San Chen**<sup>TM</sup> training courses, seminars, conferences or other programs that Franchisor requires Franchisee or Franchisee's representatives to attend.

(d) Franchisor may but is not required to make available to Franchisee optional staff training courses, coaching and business mentoring programs, seminars, conferences, or other programs, in a suitable location selected by Franchisor. Franchisor may at its discretion charge Franchisee a separate fee of up to \$200 per day for this optional training.

(e) In addition to updates to the Confidential Operations Manual, Franchisor may provide Franchisee with additional materials relating to the Franchised Business. Franchisor may also from time to time make available to Franchisee for purchase other materials relevant to the System and the Franchised Business.

(f) All costs and expenses (including travel, hotel and meal) of Franchisee's attendees at any post-opening training, conferences or meetings will be Franchisee's sole responsibility. All persons

attending post-opening training, conferences or meetings on Franchisee's behalf must have a demonstrable relationship to the management and operation of the Franchise.

(g) In the event of a Transfer of the Franchise (which must be done in full compliance with section 12.2 of this Agreement), the transferee must be trained by Franchisor as a condition of Franchisor's consent to such Transfer. The transferred Franchise may not be opened or re-opened by the transferee until Franchisor accepts the transferee in writing as being qualified to operate the Franchise and Franchisor has otherwise consented to the Transfer in accordance with this Agreement.

### **6.3 Deleted**

### **6.4 Proprietary Materials.**

At Initial Training and other training programs and conferences, Franchisor may provide Franchisee with Proprietary Information, as well as training materials, training curricula and related materials for Franchisee's use in training Franchisee's staff. All of these items are and will remain Franchisor's sole and exclusive property. To the extent that Proprietary Information is furnished in a printed "hard" copy rather than electronically, Franchisee will only grant authorized personnel access to the Proprietary Information and take adequate precautions to ensure that the Proprietary Information is kept in a locked receptacle at the Store when not in use by authorized personnel. To the extent that the Proprietary Information is furnished in electronically or in an equivalent format, Franchisee will only share the access password with authorized personnel. Franchisee will promptly notify Franchisor if any part of its Proprietary Information that is maintained in a tangible media is lost or destroyed for any reason. Franchisee must not, nor allow its employees or others to, copy, reproduce, disseminate or otherwise reveal to third parties any Proprietary Information and related materials, without Franchisor's express prior written consent.

## **VII. OPENING OF SHOP AND FRANCHISED BUSINESS**

### **7.1 Franchisee's Store.**

The Franchised Business may only be operated from Franchisee's Store. If Franchisee's Store has not been identified when Franchisee signs this Agreement, the exact location of Franchisee's Store will be inserted into a restated Exhibit 1 attached to this Agreement as soon as its location has been determined. To promote the orderly and timely service of **San Chen**<sup>TM</sup> customers, Franchisee may not cater or deliver **San Chen**<sup>TM</sup> Products outside Franchisee's Territory without Franchisor's prior written consent.

### **7.2 Building Out Franchisee's Store.**

(a) Premises acceptable to Franchisor where Franchisee's Store will be operated should be located and secured by Franchisee and reviewed and consented to by Franchisor within 180 days after the date this Agreement is executed by Franchisee. Within five business days after Franchisee presents a proposed site for the Store, Franchisor will review and either consent to or disapprove the location (and if Franchisor disapproves, Franchisee must promptly propose an alternative location). If Franchisee has not located a site for Franchisee's Store that is acceptable to Franchisor within 180 days after the Effective Date, Franchisor may cancel this Agreement because Franchisee failed to find an acceptable site within the allotted time. If Franchisor does so, Franchisor will refund

Franchisee's Initial Franchise Fee ~~and any Territory Surcharge~~ paid by Franchisee, less any expenses Franchisor incurred in processing Franchisee's Franchise and this Agreement, and assisting Franchisee with Store location services, up to the date of cancellation.

(b) Franchisee must configure and equip a Store (and commence operation of the Franchised Business there) within 180 days after Franchisor consents to the Store premises, using architects, project managers, contractors, subcontractors, architectural plans/blueprints (the architectural plans/blueprints provided by Franchisor's architect are prepared as a "work for hire" and as such Franchisor is the owner of such plans and asserts a copyright regarding such plans) and key equipment suppliers designated by Franchisor (or one of Franchisor's affiliated companies) or otherwise reasonably acceptable to Franchisor. If after Franchisee has located and secured suitable premises (that Franchisor consents to) for its Store, Franchisee has not commenced operation of the Franchised Business within 365 days after the Effective Date, Franchisor may terminate this Agreement effective on written notice and if Franchisor does so, Franchisee will not be entitled to receive any refund of the Initial Franchise Fee. Franchisor may give Franchisee an extension of time to open the Store beyond the mandatory dates specified above in this section 7.2(b) if Franchisor deems in its sole discretion that Franchisee has made a diligent effort to open but was unable to do so due to reasons beyond Franchisee's reasonable control.

(c) Franchisor will provide direct and indirect assistance to Franchisee in the Store site selection process. However, Franchisee has the sole responsibility for locating, securing, and obtaining suitable premises for Franchisee's Store. Franchisor reserves the sole right of final review and consent to any location of the Store. Franchisor's final review and consent to the location of Franchisee's Store is not a guarantee that a **San Chen™** business can be successfully operated there or anywhere else.

(d) Deleted.

(e) Franchisor has the right to regularly inspect Franchisee's Store and any other site where Franchisee conducts the Franchised Business.

### **7.3 Initial Inventory, Fixtures and Equipment.**

(a) Within the timeframes that Franchisor specifies before the Opening Date, Franchisee must also order from (and if necessary pre-pay to) Franchisor's affiliates, or other designated or approved suppliers, (i) the initial Required Inventory and other supplies and accessories necessary for Franchisee to provide **San Chen™** Products to Franchisee's customers, (ii) number of pieces of required fixtures and equipment, and (iii) other proprietary supplies, items and accessories as specified in the Confidential Operations Manual, with delivery scheduled for not later than two weeks before the Opening Date. Thereafter, Franchisee must buy replacement or additional Required Inventory, fixtures, equipment, accessories and other authorized items only from Franchisor's affiliates, or other designated or approved suppliers.

(b) Franchisee must also purchase apparel containing the Marks, other materials containing the Marks, and any other signs containing the Marks from Franchisor's affiliates, or other designated or approved suppliers, with delivery scheduled for not later than two weeks before the

Opening Date.

(c) Franchisee must also purchase supplies, paper goods, services, packaging, forms and other products and supplies to constitute Franchisee's complete initial inventory of such items as specified in the Confidential Operations Manual from responsible suppliers, with delivery scheduled for not later than two weeks before the Opening Date.

(d) Franchisor and its affiliated entities reserve the right to derive and receive revenues, rebates or other material consideration as a result of required purchases by System franchisees, and to retain for itself or use such revenues, rebates or other material consideration as Franchisor deems appropriate.

#### **7.4 Marketing and Advertising Boundaries.**

Franchisee may not directly promote, advertise or otherwise market the Franchised Business outside the boundaries of the Territory or other advertising boundary that Franchisor designates, except with Franchisor's prior written consent. The marketing and advertising boundaries are determined by Franchisor and may be changed by Franchisor or overlap with the territories of other franchised Stores as market conditions or type of media warrant, all in Franchisor's sole discretion. Such marketing and advertising boundaries may exceed the Territory provided herein, in Franchisor's sole discretion.

### **VIII. OPERATION OF FRANCHISED BUSINESS**

#### **8.1 Operational Requirements.**

(a) At all times, and subject to applicable state law and regulations, Franchisee must be, or employ, a Store Manager (must be either a sole proprietor or a Principal Equity Owner owning at least 50% of the Franchisee entity) who will devote their entire time during normal business hours, as defined in the Confidential Operations Manual, to the management, operation and development of the Franchised Business. The Store Manager must ensure that Franchisee fulfills its obligations to Franchisee's customers in a timely and professional manner and he or she may not engage in any other business requiring his or her active participation during normal business hours.

(b) Franchisee understands and agrees that the maintenance of the quality of the **San Chen™** Products offered by each **San Chen™** franchisee is of primary importance to Franchisor to properly promote and protect the public image of these goods and services, and to protect the Marks under which **San Chen™** franchisees are licensed to operate. Franchisee therefore agrees to only provide at its Store **San Chen™** Products that are properly prepared in accordance with Franchisor's confidential recipes and procedures. Franchisee must only sell to customers at Franchisee's Store **San Chen™** Products and other food and beverages specified in Franchisor's then authorized menu, and related products and accessories supplied by designated vendors and approved suppliers for resale by Franchisee at Franchisee's Store in accordance with this Agreement and the Confidential Operations Manual (as amended from time to time by Franchisor). Franchisee must only operate the Franchised Business at Franchisee's Store, in strict accordance with the procedures set forth in the Confidential Operations Manual or otherwise provided to Franchisee by Franchisor in writing. Franchisee must always maintain an adequate level of supplies and Required Inventory to properly operate Franchisee's Store. Franchisee must use the standard signs and formats that Franchisor prescribes in operating the Store and conducting the Franchised

Business.

(c) To protect and maintain the integrity, reputation and goodwill of the System and the Marks, Franchisor requires that Franchisee comply with the methodology Franchisor prescribes in providing **San Chen**<sup>TM</sup> Products to customers. To enhance uniformity in the delivery of goods and services to retail customers by Franchisor's franchisees and the strength of the Marks in inter-brand competition, and subject to applicable antitrust laws, Franchisor may recommend retail prices for specific **San Chen**<sup>TM</sup> Products and other products and services Franchisor authorize for sale at Franchisee's Store. If Franchisor does so, Franchisee may not advertise or promote (whether by telephone, printed materials or any other media, including, without limitation, social media) retail prices that are inconsistent with these recommended prices. Otherwise, Franchisor does not determine maximum or minimum prices for **San Chen**<sup>TM</sup> Products and other products and services Franchisor authorize for sale at Franchisee's Store.

(d) Franchisee's Store must be open during the normal business hours that apply to the premises where the Store is located. The obligation to remain open will not apply if Franchisee is subjected to an event of Force Majeure.

(e) Franchisee must promptly satisfy any *bona fide* indebtedness that Franchisee incurs in operating the Franchised Business. Contractors, subcontractors, vendors and suppliers providing services to the Franchised Business must be paid in accordance with the terms of their agreements with Franchisee.

(f) Franchisee must comply with all health, administrative and governmental regulations relating to the storage, sale and shipment of **San Chen**<sup>TM</sup> Products. Franchisee must notify Franchisor in writing within 10 days after Franchisee receives actual notice of the commencement of any investigation, action, suit, or other proceeding, or the issuance of any order, writ, injunction, award, or other decree of any court, agency, or other governmental authority that pertains to the Franchised Business or that may adversely affect Franchisee's operations at the Store or Franchisee's ability to meet its obligations hereunder.

(g) Upon the occurrence of any event that occurs at the Store or in the Territory that has caused or may cause harm or injury to customers or employees, or that may damage the System, Marks, or image or reputation of the Franchised Business or Franchisor or its affiliates, Franchisee must immediately inform Franchisor's designated contact person as instructed in the Confidential Operations Manual by telephone, e-mail, text or other electronic messaging medium authorized by Franchisor for this purpose. Franchisee must cooperate fully with Franchisor with respect to Franchisor's response to an incident described in this section 8.1(g).

(h) If there is any *bona fide* dispute as to any liability for taxes assessed or other indebtedness, Franchisee may contest the validity of the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law. However, Franchisee may not permit a tax sale or seizure by levy or similar writ or warrant, or attachment by a creditor to occur against the premises of the Store or any of its improvements.

(i) Franchisee may not engage in any co-branding in the Store or otherwise in connection

with the Franchised Business except with Franchisor's prior written consent. Franchisor is not required to approve any co-branding chain or arrangement except in Franchisor's discretion, and only if Franchisor recognizes that co-branding chain as an approved co-brand for operation within the System. "Co-branding" includes the operation of an independent business, product line or operating system owned or licensed by another entity (not Franchisor) that is featured or incorporated within Franchisee's Store or the Franchised Business Franchisee operate in Franchisee's Territory or is adjacent to Franchisee's Store and operated in a manner which is likely to cause the public to perceive it to be related to the Store and Franchised Business licensed to Franchisee hereunder.

## **8.2 Confidential Operations Manual.**

(a) Franchisee must operate the Franchised Business in accordance with the Confidential Operations Manual, a copy of which will be provided to Franchisee either in print or through restricted access (available to the Store Manager and other Principal Equity Owners) on Franchisor's website. To the extent that the Confidential Operations Manual is furnished in a printed "hard" copy rather than electronically, Franchisee will only grant authorized personnel access to the Confidential Operations Manual and take adequate precautions to ensure that the Confidential Operations Manual is kept in a locked receptacle at the Store when not in use by authorized personnel. To the extent that the Confidential Operations Manual is furnished in electronically or in an equivalent format, Franchisee will only share the access password with authorized personnel. Franchisee will promptly notify Franchisor if any part of the Confidential Operations Manual that is maintained in a tangible media is lost or destroyed for any reason.

(b) Franchisee must keep the Confidential Operations Manual confidential and current, and the master copy of the Confidential Operations Manual maintained by Franchisor at its principal office will control in the event of a conflict related to the contents of the Confidential Operations Manual. Franchisor has the right to modify the Confidential Operations Manual at any time by the addition, deletion or other modification of the provisions thereof. All such additions, deletions or modifications are effective on the next business day after the digital copy maintained on Franchisor's website is changed.

(c) All additions, deletions or modifications to the Confidential Operations Manual are equally applicable to all similarly situated **San Chen**<sup>TM</sup> franchisees. As modified by Franchisor from time to time, the Confidential Operations Manual will be deemed to be an integral part of this Agreement and references to the Confidential Operations Manual made in this Agreement, or in any amendments or exhibits hereto, are deemed to mean the Confidential Operations Manual. However, the Confidential Operations Manual, as modified or amended by Franchisor from time to time, will not alter Franchisee's fundamental status and rights under this Agreement. If there is any discrepancy or dispute about the version of the Confidential Operations Manual that Franchisee may have printed and maintain, the master copy of the Confidential Operations Manual that Franchisor maintains at its headquarters and available on Franchisor's website will be the controlling version and will supersede all prior versions.

(d) If Franchisee loses printed portions of, or allows unauthorized access to or duplication of, the Confidential Operations Manual or any other confidential manuals or proprietary materials

loaned to Franchisee by Franchisor, Franchisee must request a replacement within three business days, and Franchisee will be deemed to be in material breach of this Agreement and all other agreements Franchisee has with Franchisor and its affiliated entities.

(e) Upon the expiration or termination of this Agreement for any reason whatsoever, Franchisee must immediately return to Franchisor any printed portions of the Confidential Operations Manual then in Franchisee's possession. Except as specifically permitted by Franchisor, at no time may Franchisee, or Franchisee's employees or agents, (i) make, or cause to be made, any copies or reproductions of all or any portion of the Confidential Operations Manual, (ii) give online access to the Confidential Operations Manual to unauthorized persons, or (iii) disclose any part of the Confidential Operations Manual to any other person except Franchisee's authorized employees and agents when required in the operation of the Franchised Business. Franchisee must also permanently erase anything relating to Franchisor's Trade Secrets or other Proprietary Information from any computers and other media storage devices Franchisee retains after expiration, cancellation or termination of this Agreement.

### **8.3 Menu and Standards of Operation.**

(a) A standard menu format is required by Franchisor and must be used by Franchisee. Any changes, additions or deletions in the menu format to be used at the Store must be approved in writing by Franchisor prior to its use by Franchisee. Franchisee agrees to indemnify and hold Franchisor and Franchisor's affiliated entities, equity owners, managers, officers, employees and agents harmless from and against all losses, damages, costs or expenses, including reasonable attorneys' fees, resulting from any change Franchisee makes in the standard menu or for any deviation of Franchisee's products from the descriptions contained in Franchisor's approved menu. Franchisor may change the standard menu format at any time and from time to time.

(b) Franchisor is entitled to prescribe standard uniforms and attire for all of Franchisee's **San Chen™** personnel to enhance the customer experience at the Store and to protect Franchisor's reputation for quality service. Franchisee is required to obtain such uniforms and attire only from an e-store set up by Franchisor's affiliates or from other approved manufacturers or distributors.

(c) Franchisee agrees that Franchisor, Franchisee and everyone else involved in the System benefits from the maintenance of the highest standards of uniformity, quality, similar appearance and prominent display of the Marks at Franchisee's Store and elsewhere in Franchisee's Territory. Therefore, Franchisee agrees to maintain the uniform standards of quality, appearance and display of the Marks in strict accordance with this Agreement, the architectural plans and the Confidential Operations Manual as it may be revised from time to time, and as Franchisor may otherwise direct in writing. In order that Franchisor may establish and maintain an effective network of franchisees, Franchisee specifically agrees it will not display the Marks except in the manner Franchisor authorizes.

### **8.4 Point of Sale System.**

(a) Franchisee is required to purchase computerized point of sale cash collection system ("POS System") to track and process retail sales at the Store from Franchisor. Upon 90 days prior

notice, Franchisor may also require that Franchisee acquire and use a suitable computer system to manage and record its sales and monitor its operations at the Store.

(b) Franchisee is also required to maintain an e-mail account and communicate with Franchisor regularly concerning sales and operations at the Store, in the manner Franchisor specifies in the Manual or otherwise in writing.

## **8.5 Maintenance of and Refurbishments to the Store.**

(a) Franchisor requires that Franchisee maintain, and from time to time refurbish, the Store to conform to the then-current Trade Dress and color schemes applicable for a Store. Such maintenance and refurbishment may require expenditures by Franchisee on, among other things, structural changes, installing new equipment, remodeling, redecoration and modifications to existing improvements and such modifications as may be necessary to comply with System-wide standards then in effect for Stores, or to accommodate new **San Chen™** Products. In this regard, the following requirements are applicable:

(i) Franchisee must maintain all equipment and furnishings used at the Store in good working order and make repairs or perform maintenance on an as needed basis. And Franchisee must immediately and completely resolve to Franchisor's satisfaction any maintenance deficiencies Franchisor identifies.

(ii) Franchisee must make all upgrades to equipment and any technology used in Franchisee's Store that Franchisor may require.

(iii) Franchisor may periodically require Franchisee to update the Trade Dress used at Franchisee's Store. Such updates will be contained in the Confidential Operations Manual or otherwise provided to Franchisee in writing. Such updates may require Franchisee to install new color schemes, logos, signage or other visual elements. Franchisor anticipates that such Trade Dress updates will be required no more frequently than once every five years.

(b) Franchisor will only require the types of modifications and expenditures described herein where there is good cause. In this context, "good cause" means that Franchisor make a good faith determination that Franchisee's Store is substantially inconsistent with prevailing System-wide standards (for example, either in terms of the Trade Dress, the overall condition of the Store, or the type, quality or condition of the equipment needed to adequately prepare, promote and sell **San Chen™** Products) and that, as a result of its appearance or condition, Franchisee's Store is either (i) not adequately positioned to promote and sell **San Chen™** Products as then required or (ii) damaging the integrity of the **San Chen™** image, brand and/or Marks.

## **8.6 Relocation of Franchisee's Store.**

(a) If Franchisee desires to relocate the Store, Franchisee may do so provided that not less than 90 days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation in which event notice must be given as soon as possible), Franchisee makes a written request for consent to relocate, describing the reasons for the relocation and providing

complete written details respecting any proposed new location.

(b) Within 20 business days after receiving Franchisee's request, Franchisor will either approve or disapprove in writing such closure or relocation in Franchisor's reasonable discretion. In the event of disapproval of a proposed relocation, Franchisee may request an alternative proposed new location pursuant to the provisions of this section 8.6.

### **8.7 Record Keeping and Reporting Requirements.**

(a) Franchisee agrees to track, account for and report if requested by Franchisor on the financial performance of the Franchised Business.

(b) All financial or statistical information Franchisee provides to Franchisor must be accurate and correct in all material respects.

(c) Franchisor has the right to use any financial or statistical information that Franchisee provides Franchisor, as Franchisor deems appropriate. Franchisor will not identify Franchisee, Franchisee's Store or Franchisee's Territory as the source of the information and will not disclose any of this information except (i) with Franchisee's written consent, (ii) as required by law or compulsory order or (iii) in connection with audits or collections under this Agreement.

(d) Franchisee must maintain and preserve all books, records and accounts of or relating to the Franchised Business for at least five years after the close of the fiscal year to which the books records and accounts relate.

### **8.7 Signs and Display Materials.**

All signs, display materials, and other materials containing the Marks must be in full compliance with the specifications provided in, and in conformity with, the Confidential Operations Manual. Franchisor will designate or approve the suppliers of such signs, display materials and other materials containing the Marks in accordance with Confidential Operations Manual guidelines.

### **8.8 Telephone Numbers.**

At its sole expense, Franchisee must list the telephone number for Franchisee's Store in accordance with procedures prescribed by the Confidential Operations Manual. At the time of termination or expiration of this Agreement, for any reason, Franchisee must transfer the telephone numbers for Franchisee's Store to Franchisor or cancel them and de-list them from any applicable telephone directory or other telephone number listing service.

### **8.9 Insurance.**

(a) Franchisee must have in effect on the Opening Date and maintain during the term of this Agreement comprehensive general liability insurance and other insurance that is legally required or reasonably prudent for Franchisee to operate Franchisee's business (for example, workers' compensation insurance). Policy coverage requirements and limitations and other terms relating to insurance may be set forth in the Confidential Operations Manual. Any policies of insurance that Franchisee maintains must contain a separate endorsement naming Franchisor and the Owner of

the Marks (and Franchisor's other affiliated companies identified by Franchisor in writing), and their respective shareholders, members, managers, directors, officers, employees, and agents as additional insureds to the full extent of coverage provided under the insurance policies. Franchisee's insurance coverage will be primary as respects Franchisor, the Owner of the Marks, and other affiliated companies identified by Franchisor in writing, and their respective shareholders, members, managers, directors, officers, employees, and agents. Any insurance or self-insurance maintained by Franchisor, the Owner of the Marks, and other affiliated companies identified by Franchisor in writing, and their respective shareholders, members, managers, directors, officers, employees, and agents will be excess of Franchisee's insurance and will not contribute with it. Franchisee must provide Franchisor a copy of the policy and endorsement upon issuance and upon every renewal. Franchisee hereby grants Franchisor a waiver of any right of subrogation which any insurer of Franchisee may acquire against Franchisor by payment of any loss under such insurance. This provision applies regardless of whether Franchisor has received a waiver of subrogation endorsement from the insurer. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A: VII or better and authorized to do business in the state where the Franchisee's Store is located, unless otherwise approved in writing by Franchisor.

(b) Within 30 days after the Opening Date and within 30 days after each succeeding anniversary of the Opening Date, Franchisee must deliver to Franchisor a certificate evidencing such insurance is in full force and effect. Such insurance certificate must contain a statement to the effect the certificate cannot be canceled without 30 days (10 days for non-payment) prior written notice to Franchisee and to Franchisor. Franchisee must notify Franchisor in writing immediately regarding any cancellation, non-renewal or reduction in coverage or limits.

(c) The failure of Franchisee, for any reason, to procure and maintain the insurance coverage required under this Agreement will be deemed a material breach of this Agreement.

#### **8.10 Review and Inspection.**

(a) Franchisor has the right to send representatives at reasonable intervals at any time (announced or unannounced) during normal business hours, to Franchisee's Store (or any other facility from which Franchisee sells **San Chen™** Products or any other offices relating to Franchisee's conduct of the Franchised Business) to review and inspect Franchisee's operations, business methods, service, management and administration relating to the Franchised Business or its equivalent, to determine the quality thereof and the faithfulness of Franchisee's compliance with the provisions of this Agreement and the Confidential Operations Manual and to ensure Franchisee is in compliance with System standards prescribed by Franchisor and specified in the Confidential Operations Manual.

(b) Franchisor and its designated agents also have the right at all reasonable times, upon 10 days prior notice, to examine, copy and audit the books and records relating to the Store and Franchisee's operation of the Franchised Business. If an examination or audit discloses any underpayment of any fee, Franchisee must promptly pay the deficient amount plus interest calculated daily from the due date until paid at an annual percentage rate ("APR") of 10%. If an examination or audit discloses an underpayment or understatement of any amount due Franchisor by 5% or more, or if the examination or audit is made necessary by Franchisee's failure to furnish

required information or documents to Franchisor in a timely manner, or it takes Franchisor's auditors an unreasonable amount of time (more than eight hours) to assemble Franchisee's records for audit, Franchisee must reimburse Franchisor for the cost of having Franchisee's books and records examined or audited (this remedy will be in addition to any other rights or remedies Franchisor has under this Agreement or otherwise, including Franchisor's right to terminate this Agreement).

(c) Franchisee must fully cooperate in permitting Franchisor's representatives to access Franchisee's Store (or any other facility from which Franchisee sells **San Chen**<sup>TM</sup> Products or any other offices relating to Franchisee's conduct of the Franchised Business) during normal business hours to conduct reviews and inspections, and to render such assistance as Franchisor's representatives may reasonably request. Upon notice from Franchisor or Franchisor's representatives, Franchisee must immediately begin such steps as may be necessary to correct any deficiencies noted during any such inspection.

#### **8.11 Compliance with Laws.**

Franchisee must (i) operate the Franchised Business in compliance with all applicable laws, rules and regulations of all governmental authorities, (ii) comply with all applicable wage, hour and other laws and regulations of the federal, state or local governments, (iii) prepare and file all necessary tax returns and (iv) pay promptly all taxes imposed upon Franchisee or upon Franchisee's business or property. Franchisee represents and warrants that it will obtain and always maintain all necessary permits, certificates or licenses necessary to conduct the Franchised Business in the locality within which the Store is situated. Franchisee must immediately notify Franchisor of any litigation, arbitration, disciplinary action, criminal proceeding, or any other legal proceeding or action brought against or involving Franchisee, or any entity affiliated with Franchisee, or any agent, employee, owner, director or partner of Franchisee, which notification must include all relevant details in respect thereof.

#### **8.12 Web Site and Internet Marketing.**

(a) During the term of this Agreement, Franchisee will use the **San Chen**<sup>TM</sup> website and any other Internet or social media only as specifically authorized by Franchisor in section 6.2(a) of this Agreement, the Confidential Operations Manual or otherwise in writing to market the Franchised Business conducted at Franchisee's Store. Franchisee shall not register an Internet domain or social networking media outlet name using any of the Marks.

(b) All domain names used by Franchisee must be pre-approved by Franchisor who will control the usage and right to use of all domain names. Upon termination or expiration of, or transfer of the rights and obligations granted under, this Agreement, Franchisee will have no further need or right to use these domain names.

(c) Any alternative distribution methods and programs Franchisee would like to use to engage in the Franchised Business, including e-commerce, web sites, Internet sub-dealers, telesales and telemarketing, or any other non-retail method of distribution, are subject to Franchisor's prior written approval, which approval will be in Franchisor's sole discretion.

## IX. PROPRIETARY MARKS

### 9.1 License of the Marks.

(a) Franchisor hereby grants Franchisee the right during the term hereof to use and display the Marks in accordance with the provisions contained in this Agreement and in the Confidential Operations Manual, solely in connection with Franchisee's operation of the Franchised Business at the Store. Neither Franchisee nor any Principal Equity Owner nor any employee, agent, or representative thereof may use, display or permit the use or display of trademarks, trade names, service marks, insignias or logo types *other than* the Marks and other trademarks and service marks approved for use by Franchisor in connection with the Franchised Business. Neither Franchisee nor any Principal Equity Owner nor any employee, agent, or representative thereof may use or display the Marks in connection with the operation of any business or other activity that is outside the scope of the Franchised Business. Franchisee may only use the Marks and Franchisor's Intellectual Property on the Internet or other electronic media in the manner and as specifically authorized by Franchisor in the Confidential Operations Manual or otherwise in writing. Franchisee agrees to be responsible for and supervise all its employees and agents to insure the proper use of the Marks in compliance with this Agreement.

(b) Franchisee acknowledges and agrees Franchisee's use of the Marks is a temporary authorized use under this Agreement and that the Owner of the Marks retains all ownership interests in the Marks and that Franchisor, and the Owner of the Marks retain all ownership of the goodwill generated by the Marks. Franchisee acknowledges that the use of the Marks outside the scope of the terms of this Agreement without Franchisor's written consent is an infringement of the Owner of the Marks' and Franchisor's exclusive right, title and interest in and to the Marks. Franchisee agrees that as between Franchisee and Franchisor, all rights to use the Marks within the franchised System are Franchisor's exclusive property. Franchisee now asserts no claim and will hereafter assert no claim to any goodwill, reputation or ownership thereof by Franchisee's franchised use thereof or otherwise. It is expressly understood and agreed that ownership and title of the Trade Dress, Confidential Operations Manual and Franchisor's other manuals, bulletins, instruction sheets, forms, methods of operation and goodwill are and, as between Franchisee and Franchisor, remain vested solely in Franchisor, and the use thereof is only co-extensive with the term of this Agreement.

(c) Franchisee agrees that during the term of the Franchise, and after the repurchase, expiration or termination of the Franchise, Franchisee will not, directly or indirectly, commit an act of infringement or contest or aid others in contesting the validity, distinctiveness, secondary meaning, ownership or enforceability of the Marks or take any other action in derogation of the Marks, and that no monetary amount will be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Marks.

(d) Franchisee hereby grants Franchisor the right at any time to use the name, image and likeness of Franchisee and all Principal Equity Owners for commercial purposes in connection with the marketing and promotion of the Marks, Franchisor's Intellectual Property, **San Chen™** Products, any **San Chen™** retail shop and the System, without any form of compensation or remuneration. Franchisee also agrees

(i) to have any affected employee of Franchisee who is not a Principal Equity Owner sign a release in the form contained in the Confidential Operations Manual that authorizes Franchisor to also use the employee's name, image and likeness for the purposes described in this section 9.1(d), without compensation or remuneration, and

(ii) to provide Franchisor with a copy of such signed release. The terms of this section 9.1(d) survive termination or expiration of this Agreement.

[Franchisee's Initials: \_\_\_\_\_ Principal Equity Owners' Initials: \_\_\_\_\_]

(e) Franchisee acknowledges that Franchisor prescribes uniform standards respecting the nature and quality of **San Chen™** Products provided by Franchisee in connection with which the Marks are used. Nothing herein gives Franchisee any right, title or interest in or to any of the Marks, except a mere privilege and license during the term hereof to display and use the same and Franchisee agrees that all of Franchisee's use of the Marks under this Agreement inures to Franchisor's benefit and the benefit of the Owner of the Marks.

(f) Franchisee and all Principal Equity Owners agree that all materials associated with Franchisor, **San Chen™** Products or other services, artwork, graphics, layouts, slogans, domain names, other names, titles, text or similar materials incorporating, or being used in connection with, the Marks which may be created by Franchisee, Franchisee's employees, agents and subcontractors and any other party with whom Franchisee may contract to have such materials produced pursuant to this Agreement will become the sole property of the Owner of the Marks, including copyright and trademark rights. In furtherance thereof, Franchisee hereby and irrevocably assigns to Franchisor all such materials, artwork, graphics, layouts, slogans, names, titles, text or similar materials, whether presently or hereafter existing. Furthermore, Franchisee agrees on behalf of itself, its employees, its agents, its subcontractors and any other party with whom Franchisee may contract to have such materials produced, to promptly execute all appropriate documents in this regard. As between Franchisee and Franchisor, the Suggestions and all Intellectual Property Rights in and to the Suggestions are owned exclusively by Franchisor, except as otherwise set forth herein. Franchisee's Suggestions will not entitle Franchisee to any Intellectual Property Rights in and to the System; the System will not become a joint work of authorship because of Franchisee's Suggestions under any circumstances. Franchisee's Suggestions will be considered as a "work for hire" (as defined under the United States Copyright Act), and such Suggestions will be owned by and for the benefit of Franchisor. To the extent that any such Suggestions by Franchisee may not constitute a work for hire, Franchisee hereby grants, assigns and transfers all right, title and interest in and to such Suggestions, including all rights in and to the Intellectual Property therein, to Franchisor and agrees to execute all further documents and things reasonably required by Franchisor to effect and record such assignment. If Franchisee has any such rights that cannot be assigned to Franchisor, Franchisee waives the enforcement of such rights, and if Franchisee has any rights which cannot be assigned or waived, Franchisee hereby grants to Franchisor an exclusive, irrevocable, perpetual, worldwide, fully paid license (with right to sublicense through multiple tiers) to such rights. Franchisee acknowledges there are, and may be, future rights that Franchisee may otherwise become entitled to with respect to the Suggestions not yet existing, as well as new uses, media, means and forms of exploitation throughout the universe exploiting current or future technology

yet to be developed, and Franchisee specifically intends the foregoing assignment of rights to Franchisor will include all such now known or unknown uses, media and forms of exploitation throughout the universe.

(g) If necessary, Franchisee agrees to join with Franchisor and share the expenses in any application to enter Franchisee as a registered or permitted user, or the like, of the Marks with any appropriate governmental agency or entity. Upon termination of this Agreement for any reason whatsoever, Franchisor may immediately apply to cancel Franchisee's status as a registered or permitted user and Franchisee hereby consents to the cancellation and agrees to join in any cancellation petition. Franchisee will bear the expense of any cancellation petition.

## **9.2 Franchisee's Business Name.**

(a) In connection with Franchisee's operation of the Store, Franchisee agrees that at all times and in all advertising, promotions, signs and other display materials, on Franchisee's letterheads, business forms, and at the Store and other authorized business sites, in all of Franchisee's business dealings related thereto and to the general public, Franchisee will identify the Franchised Business solely under a trade name containing the Mark “**San Chen<sup>TM</sup>**” and authorized by Franchisor (“Business Name”) together with the words “INDEPENDENTLY OWNED AND OPERATED” on Franchisee's letterhead, contract agreements, invoices, authorized social media or Internet sites, advertising and other written materials containing the Marks as Franchisor may direct.

(b) Franchisee must file and keep current a fictitious business name statement, assumed name certificate or similar document regarding Franchisee's Business Name in the county or other designated jurisdiction in which Franchisee is conducting business and at such other places as may be required by law. Before Franchisee commences engaging in the Franchised Business under the Marks, Franchisee must supply evidence satisfactory to Franchisor that Franchisee has complied with relevant laws regarding the use of fictitious or assumed names.

(c) On expiration or sooner termination of this Agreement, Franchisor may, if Franchisee does not do so, execute in Franchisee's name and on Franchisee's behalf all documents necessary, in Franchisor's judgment, to end and cause a discontinuance of the use by Franchisee of the Marks and Business Name registrations and Franchisor is hereby irrevocably appointed and designated as Franchisee's attorney-in-fact to do so.

(d) Franchisee further agrees it will not identify itself as (i) Franchisor, (ii) a subsidiary, parent, division, shareholder, partner, agent or employee of Franchisor or the Owner of the Marks, or (iii) any of Franchisor's other franchisees.

(e) If Franchisee is an entity and not an individual proprietor, Franchisee cannot use any of the Marks in its legal name.

## **9.3 Trade Secrets and Proprietary Information.**

(a) Under this Agreement, Franchisor is licensing Franchisee access to Franchisor's Proprietary Information, Trade Secrets and other confidential data and information. Franchisee

acknowledges that the material and information now and hereafter provided or revealed to Franchisee pursuant to this Agreement (including in particular, but without limitation, the contents of the Confidential Operations Manual) are Franchisor's confidential trade secrets and are revealed in confidence, and Franchisee expressly agrees to keep and respect the confidences so reposed, both during the term of this Agreement and thereafter. Franchisor expressly reserves all rights with respect to the Marks, Proprietary Information, methods of operation and other proprietary information, except as may be expressly granted to Franchisee hereby or in the Confidential Operations Manual. Franchisor will disclose to Franchisee certain Trade Secrets as reasonably needed for the operation by Franchisee of the Franchised Business by loaning to Franchisee, for the term of this Agreement, the Confidential Operations Manual and other written materials containing the Trade Secrets, through training and assistance provided to Franchisee hereunder, and by and through the performance of Franchisor's other obligations under this Agreement.

(b) Franchisee acknowledges that Franchisor is the sole owner of all Proprietary Information, including Franchisor's Trade Secrets; that such information is being imparted to Franchisee only by reason of Franchisee's special status as a franchisee of the System; and that Franchisor's Proprietary Information is not generally known to Franchisor's industry or the public at large and are not known to Franchisee except by reason of such disclosure. To the extent that Trade Secrets are furnished in a printed "hard" copy rather than electronically, Franchisee will only grant authorized personnel access to the Trade Secrets and take adequate precautions to ensure that the Trade Secrets are kept in a locked receptacle at the Store when not in use by authorized personnel. To the extent that the Trade Secrets are furnished in electronically or in an equivalent format, Franchisee will only share the access password with authorized personnel. Franchisee will promptly notify Franchisor if any part of its Trade Secrets that is maintained in a tangible media is lost or destroyed for any reason. Franchisee further acknowledges that Franchisee will acquire no interest in the Proprietary Information and Trade Secrets disclosed to Franchisee, other than the right to use them in the development and operation of the Franchised Business during the term of this Agreement.

(c) Franchisee agrees that Franchisee will not do or permit any act or thing to be done in derogation of any of Franchisor's rights in connection with the Marks, either during the term of this Agreement or thereafter, and that Franchisee will use these only for the uses and in the manner franchised and licensed hereunder and as herein provided. Furthermore, Franchisee and Franchisee's employees and agents will not engage in any act or conduct that impairs the goodwill associated with the Marks.

(d) Franchisee agrees to indemnify Franchisor and hold Franchisor harmless from and against all "Losses" (as defined in section 16.2 below), which Franchisor may sustain as a result of any unauthorized use or disclosure of Proprietary Information or Marks by Franchisee or its employees and agents. Franchisee further agrees and acknowledges that the disclosure or use of Proprietary Information or Marks in a manner not authorized by this Agreement will cause immediate and irreparable damage to Franchisor that would be impossible or inadequate to measure and calculate and could not be fully remedied by monetary damages. Accordingly, Franchisor has the right to specifically enforce this Agreement and seek injunctive or other equitable relief as may be necessary or appropriate to prevent such unauthorized disclosures or use without the necessity of proving actual damages by reason of any such breach or threatened breach of this Agreement.

Franchisee further agrees that no bond or other form of security is required to obtain such equitable relief and Franchisee hereby consents to the issuance of such injunction and to the ordering of specific performance. Franchisee further agrees and acknowledges that such remedies are in addition to any other rights or remedies, whether at law or in equity, which may be available to Franchisor, including, but not limited to monetary damages.

(e) 18 USC Section 1833(b) states: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Accordingly, Franchisor and Franchisee will each have the right to disclose in confidence Trade Secrets to Federal, State, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. Franchisor and Franchisee also have the right to disclose Trade Secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. Section 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. Section 1833(b).

#### **9.4 Modification of Marks and Trade Dress.**

Franchisor may add to, substitute or modify any or all of the Marks or Trade Dress from time to time, by directive in the Confidential Operations Manual. Franchisee agrees to accept, use, display, or cease using, as may be applicable, the Marks and Trade Dress, including but not limited to, any such modified or additional trade names, trademarks, service marks, logo types and commercial symbols, and must within 30 days of receiving notification, commence to implement such changes and use its best efforts to complete such changes as soon as practicable.

#### **9.5 Mark Infringement Claims and Defense of Marks.**

(a) If Franchisee receives notice or otherwise becomes aware of any claim, suit or demand, threatened or pending, against Franchisee by any party other than Franchisor, the Owner of the Marks or any of Franchisor's affiliates on account of any alleged infringement, unfair competition or similar matter arising from Franchisee's use of the Marks in accordance with the terms of this Agreement, or any misuse of the Marks by third parties on the Internet or otherwise, Franchisee must notify Franchisor within 10 days of any such claim, suit, demand or misuse. Franchisee will have no power, right or authority to settle or compromise any such claim, suit or demand by a third party or to intervene to stop misuse, without Franchisor's prior written consent. Franchisor will defend, compromise or settle at Franchisor's discretion any such claim, suit or demand and take steps to stop misuse at Franchisor's cost and expense, using attorneys selected by Franchisor or the Owner of the Marks, and Franchisee agrees to cooperate fully in such matters.

(b) Franchisor will indemnify Franchisee and hold Franchisee harmless from and against all judgments resulting from any claim, suit or demand arising from Franchisee's authorized and use of the Marks or Franchisor's Intellectual Property in accordance with the terms of this Agreement. Franchisor has the sole discretion to determine whether a similar trademark or service mark that is being used by a third party is confusingly similar to the Marks or Franchisor's Intellectual Property

being used by Franchisee or constitutes a misuse of the Marks or Franchisor's Intellectual Property, and whether and what subsequent action, if any, should be undertaken with respect to such similar trademark or service mark or misuse.

(c) Franchisee hereby indemnifies Franchisor and holds Franchisor harmless from and against all judgments resulting from any claim, suit or demand arising from Franchisee's unauthorized and improper use of the Marks or Franchisor's Intellectual Property.

## **X. DELETED**

## **XI. NON-COMPETITION COVENANTS**

### **11.1 Exclusive In-Term Dealing.**

(a) Franchisee acknowledges it will receive valuable specialized training and access to Proprietary Information, including, without limitation, information regarding **San Chen™** Products and the operational, sales, promotional and marketing methods and techniques of the System and Franchisor's Trade Secrets. In consideration for the use and license of such valuable information, Franchisee agrees that it will not during the term of this Agreement operate, manage, own, assist or hold an interest in (direct or indirect as an employee, officer, director, shareholder, manager, member, partner or otherwise), or engage in, any competing business selling goods or offering services equivalent to **San Chen™** Products or the Franchised Business, without Franchisor's express prior written consent, which consent may be withheld in Franchisor's sole and absolute discretion.

(b) It is the intention of both Franchisee and Franchisor that Franchisee maximizes the Franchised Business within the Territory, and any action of Franchisee that diverts business to another entity or diminishes the Franchised Business being conducted in the Territory will be a material breach of this Agreement. Accordingly, neither Franchisee nor any Principal Equity Owner may, either directly or indirectly, for itself or themselves, or through, on behalf of, or in conjunction with, any person, persons, partnership, corporation or other entity, (i) divert or attempt to divert any business or customer of the Franchised Business to any competitor, by direct or indirect inducement or otherwise, or (ii) do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks or the System.

### **11.2 Post Termination Non-Competition Covenants.**

(a) For a period of one year after termination of this Agreement or its expiration without renewal pursuant to section 5.2 of this Agreement ("Expiration Date"), Franchisee agrees that neither Franchisee nor any Principal Equity Owner may (either directly or indirectly, for itself or themselves, or through, on behalf of, or in conjunction with, any person, persons, partnership, corporation or other entity) operate, manage, own, assist or hold an interest in (direct or indirect as an employee, officer, director, shareowner, partner or otherwise), or engage in, any competing business selling goods or offering services equivalent to **San Chen™** Products or the Franchised Business, within a radius of 25 miles of Franchisee's Territory or any other authorized retail location selling **San Chen™** Products, without Franchisor's express prior written consent, which

consent may be withheld in Franchisor's sole and absolute discretion. Following termination or expiration of this Agreement, Franchisee must always refrain from any use, direct or indirect, of any of Franchisor's Proprietary Information.

(b) If any valid, applicable law or regulation of a competent governmental authority having jurisdiction over this Agreement or the parties hereto limits Franchisor's rights under section 11.2(a) above, then section 11.2(a) will be deemed amended (or deleted) to conform to the requirements of such laws and regulations, but in such event (unless deleted) the provisions of the Agreement thus affected will be amended only to the extent necessary to bring it within the requirements of the law or regulation.

### **11.3 General Provisions regarding Non-Competition Covenants.**

(a) Franchisee acknowledges that the restrictions contained in this Article XI are reasonable and necessary in order to protect Franchisor's legitimate interests, and in the event of violation of any of these restrictions, Franchisor is entitled to recover damages including, without limitation, Royalty and other fees that would have been payable if such business were included in the Franchised Business, and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights and remedies will be cumulative and in addition to any other rights or remedies to which Franchisor is entitled at law or in equity.

(b) Franchisee agrees to indemnify Franchisor and hold Franchisor harmless from and against all Losses which Franchisor may sustain as a result of any breach of this Article XI by Franchisee, any Principal Equity Owner, or Franchisee's Store Manager. Franchisee further agrees that a breach of the non-competition covenants set forth above will cause immediate and irreparable damage to Franchisor that would be impossible or inadequate to measure and calculate and could not be fully remedied by monetary damages. Accordingly, Franchisor has the right to specifically enforce this Agreement and seek injunctive or other equitable relief as may be necessary or appropriate to prevent such breach or continued breach without the necessity of proving actual damages by reason of any such breach or threatened breach of this Agreement. Franchisee and each Principal Equity Owner further agree that no bond or other security will be required in obtaining such equitable relief and hereby consents to the issuance of such injunction and to the ordering of specific performance. Franchisee and each Principal Equity Owner further acknowledge that such remedies are in addition to any other rights or remedies, whether at law or in equity, which may be available to Franchisor, including, but not limited to, monetary damages.

(c) This Article XI applies to Franchisee's Store Manager, Principal Equity Owners and each of Franchisee's other managers, directors, officers, general partners and affiliates.

(d) Each provision of this Article XI is independent of each other provision of this Agreement. If any provision of this Article XI is held unreasonable or unenforceable by any court, agency or other tribunal of competent jurisdiction, Franchisee agrees to be bound by (i) the maximum duty permitted by law with respect to that provision, which will be deemed restated accordingly, and (ii) all other provisions of this Article XI.

## **XII. ASSIGNMENT**

### **12.1 Assignment by Franchisor.**

Franchisor has the right to Transfer this Agreement, and all of Franchisor's rights and privileges hereunder to any other person, firm or corporation ("Franchisor's Assignee"); provided that, in respect to any Transfer ("Assignment by Franchisor") resulting in the subsequent performance by Franchisor's Assignee of the functions of franchisor hereunder (i) at the time of Assignment by Franchisor, Franchisor's Assignee will be financially responsible and economically capable of performing the obligations of franchisor hereunder; and (ii) Franchisor's Assignee must expressly assume and agree to perform such obligations. If there is an Assignment by Franchisor in compliance with the terms set forth in the preceding sentence, Franchisor will be relieved of all obligations or liabilities after the effective date of the assignment.

### **12.2 Assignment by Franchisee.**

(a) This Agreement is being executed in reliance upon and in consideration of the singular personal skills and qualifications of Franchisee and its Principal Equity Owners and the trust and confidence Franchisor reposes in Franchisee and in them. Therefore, neither Franchisee's interest in this Agreement and the Franchise granted hereunder, nor more than 50% of the equity interest in Franchisee (if Franchisee is an entity), nor all or substantially all of the assets of the Franchised Business, nor any controlling interest or non-controlling interest in the Franchised Business may be assigned, transferred, shared or divided, voluntarily or involuntarily, in whole or in part, by operation of law or otherwise, in any manner (collectively, "Assignment by Franchisee"), without Franchisor's prior written consent and, except for any transfer of a non-controlling interest, subject to Franchisor's right of first refusal provided for in section 12.3 hereof. Franchisor's consent to a specific Assignment by Franchisee is not cumulative and will not apply to any subsequent assignments, in respect of each of which Franchisee must comply with this section 12.2.

(b) Prior to any Assignment by Franchisee, Franchisee must notify Franchisor of Franchisee's intent to sell, transfer or assign the Franchise, the Store, all or substantially all the assets of the Franchised Business, or a controlling or non-controlling interest in the Franchised Business. The notice must be in writing, delivered to Franchisor in accordance with section 16.1 hereof and include the following:

(i) The name and address of the proposed assignee ("Franchisee's Assignee");

(ii) If requested by franchisor, a copy of all agreements related to the sale, assignment, or transfer of the Franchise, the assets of the Franchised Business, or the interest in the Franchised Business; and

(iii) Franchisee's Assignee's application for approval to become the successor franchisee. The application must include all forms, financial disclosures and related information generally used by Franchisor when interviewing prospective new franchisees if those forms are readily made available to Franchisee. If the forms are not readily available, Franchisee must request that Franchisor deliver the forms to Franchisee by business courier in accordance with section 16.1 hereof within 15 calendar days. As soon as practicable after the receipt of Franchisee's Assignee's application, Franchisor will notify Franchisee and Franchisee's Assignee, in writing, of any additional information or documentation necessary to complete the transfer application. If Franchisor's then-existing standards for the approval of new or renewing franchisees are not readily available to Franchisee when Franchisee notifies Franchisor of Franchisee's intent to sell, transfer, or assign the Franchise, all or substantially all of the assets of the Franchised Business, or the controlling or non-controlling interest in the Franchised Business, Franchisor will communicate the standards to Franchisee within 15 calendar days.

(c) Within 30 days after the receipt of all necessary information and documentation required pursuant to section 12.2(b) above, or as specified by written agreement between Franchisor and Franchisee, Franchisor will notify Franchisee of the approval or disapproval of the proposed Assignment by Franchisee. The notice will be in writing and delivered to Franchisee by business courier in accordance with section 16.1 hereof. Should Franchisor elect not to exercise its right of first refusal, or should such right of first refusal be inapplicable, as herein provided, the proposed Assignment by Franchisee will be deemed approved, unless disapproved by Franchisor in writing and for reasons permitted by the law governing this Agreement. If the proposed sale, assignment or transfer is disapproved, Franchisor will include in the notice of disapproval a statement setting forth the reasons for the disapproval. Franchisor may impose, among other things, the following conditions precedent to Franchisor's consent to any such Assignment by Franchisee (these conditions are consistently applied to similarly situated franchisees operating under the Franchise brand):

(i) Franchisee's Assignee must complete Franchisor's application for a Franchise, and in connection therewith, Franchisee and Franchisee's Assignee must fully disclose in writing all terms and conditions of the Assignment by Franchisee;

(ii) Franchisee's Assignee and the principal equity owners of Franchisee's Assignee demonstrate they have the skills, qualifications, moral and ethical reputation, and economic resources necessary, in Franchisor's sole judgment, to conduct the business contemplated by this Agreement;

(iii) Franchisee's Assignee and each principal equity owner of Franchisee's Assignee expressly assume in writing for Franchisor's benefit all of Franchisee's obligations under this Agreement;

(iv) Franchisee's Assignee executes the then current form of Franchise Agreement being used by Franchisor for the remainder of the term of this Agreement or, in Franchisor's sole discretion, for the initial term of the then current form of Franchise Agreement (unless Franchisor has a reasonable basis not to allow this, Franchisee may elect to have Franchisee's Assignee assume this Agreement for the remainder of its term);

(v) Franchisee must have complied fully as of the date of any such Assignment by Franchisee with all of Franchisee's material obligations to Franchisor, whether under this Agreement or any other agreement, arrangement or understanding with Franchisor;

(vi) Franchisee's Assignee agrees that (A) a Store Manager successfully trained by Franchisor must at all times be employed to operate the Store and (B) Franchisor's Initial Training program described in section 6.1 hereof and any other training or orientation programs then required by Franchisor will be satisfactorily completed by Franchisee's Assignee's Store Manager and other necessary personnel within 30 days after the execution by Franchisee's Assignee of a Franchise Agreement, provided, however, that Franchisee's Assignee must agree to pay for all of their expenses incurred in connection therewith, including any fee Franchisor charges for training (at the rate in effect at the time of transfer), travel, hotel and meal expenses; and

(vii) Not later than 10 days before the transfer, Franchisee must pay Franchisor a non-refundable "Transfer Fee" of \$15,000 (the Transfer Fee is not payable if Franchisor exercises its right of first refusal pursuant to section 12.3 of this Agreement). The Transfer Fee is subject to adjustment in Franchisor's discretion based on corresponding changes in the CPI since the Effective Date.

(d) Franchisee does not have a right to pledge, encumber, hypothecate or otherwise give any third party a security interest in this Agreement in any manner whatsoever (except that with Franchisor's consent, which will not be unreasonably withheld, Franchisee may pledge a security interest in this Agreement in connection with a Small Business Administration loan), nor subfranchise or otherwise transfer, or attempt to subfranchise or otherwise transfer the Franchised Business, or to transfer or subfranchise a portion but not all of Franchisee's rights hereunder without Franchisor's express prior written consent, which will not be unreasonably withheld.

(e) Any attempt by Franchisee to assign or any purported Assignment by Franchisee in violation of this section 12.2 is void and will (i) constitute a material breach of this Agreement, (ii) cause this Agreement (and in Franchisor's sole discretion any or all other agreements between Franchisee and Franchisor, or between Franchisee and Franchisor's affiliates) to be subject to immediate termination without further notice, and (iii) confer no rights or interest whatsoever under this Agreement upon any other party.

(f) Upon Franchisor's consent to any Assignment by Franchisee, Franchisee must bring all accounts with Franchisor current and transfer to Franchisee's assignee all service agreements or contracts signed by customers of the Franchised Business conducted at Franchisee's Store. Also, Franchisee must (i) execute an agreement among Franchisee, Franchisor and Franchisee's assignee effecting the Assignment by Franchisee, which will include a mutual release between Franchisee and Franchisor and (ii) enter into an assignment of the lease for the Store premises (including an assignment to the assignee of Franchisee's rights, title and interest to telephone numbers and utilities respecting the Store).

### **12.3 Right of First Refusal.**

(a) Except for a Transfer (i) to Franchisee's heirs, personal representatives or conservators in the case of death or legal incapacity as provided in section 12.6 hereof or (ii) between or among individuals (including their immediate family members) who have guaranteed obligations under a Small Business Administration loan, Franchisee's right to Transfer Franchisee's entire interest in the Franchise granted by this Agreement under section 12.2 hereof is subject to Franchisor's right of first refusal, which will be exercised in accordance with the terms of this section 12.3.

(b) Franchisee must deliver to Franchisor a written notice setting forth (i) all of the terms and conditions of any *bona fide* offer relating to a proposed Assignment by Franchisee, and (ii) all available information concerning Franchisee's Assignee including a detailed summary of how the proposed assignee meets Franchisor's qualifications for a new **San Chen**<sup>TM</sup> franchisee, and any other related information requested by Franchisor. If the specified terms and conditions include consideration of a non-monetary nature, such consideration must be expressed in reasonably equivalent monetary terms, and if it involves matters that cannot be stated in monetary terms, such consideration will not be considered in connection with Franchisor's right of first refusal.

(c) Within 15 days after Franchisor's receipt of such notice (or if Franchisor requests additional information, within 10 days after receipt of such additional information), Franchisor may either (i) consent or withhold Franchisor's consent to such Assignment by Franchisee, in accordance with section 12.2 hereof, or (ii) at Franchisor's option, accept the Assignment by Franchisee itself or on behalf of Franchisor's nominee upon the terms and conditions specified in the notice.

(d) If Franchisor elects not to exercise its right of first refusal and consent to the Assignment by Franchisee, Franchisee will for a period of 60 days, and subject to the provisions of section 12.2 hereof, be free to assign this Agreement to such proposed Assignee upon the terms and conditions specified in said notice. If, however, these terms are modified in any material manner (as determined by Franchisor), or if said 60-day period expires, Franchisor will again have such right of first refusal with respect thereto and Franchisee will again be required to comply with section 12.3(b) above. Detailed terms of assignment must be delivered to Franchisor no later than 72 hours following the close of escrow or other consummation of the transaction.

#### **12.4 Transfers to Certain Family Members.**

Franchisee or a Principal Equity Owner, if a natural person, may with Franchisor's consent, which will not be unreasonably withheld, transfer the Franchised Business or an equity interest in Franchisee's franchised entity to such person's immediate family member (defined as a spouse or person having equivalent rights under applicable federal or state law, parent, sibling, niece, nephew, descendant or spouse's descendant) provided that adequate provision is made for the management of the Franchised Business and the transferor guarantees, in form and substance satisfactory to Franchisor, the performance of the transferee's obligations under this Agreement. No transfer under this section 12.4 will be subject to Franchisor's right of first refusal set forth in section 12.3 hereof or the Transfer Fee set forth in section 12.2(b)(vii) hereof. However, Franchisee must comply with sections 12.2(b)(i) through (vi) and (to the extent applicable) section 12.2(c) above, as well as provide full disclosure of the terms of said transfer and deliver to Franchisor no later than three business days prior to the close of the transaction. In addition, copies of fully executed paperwork must be delivered to Franchisor no less than three business days following the close of the transaction.

### **12.5 Transfers to Affiliated Entities.**

Franchisee or a Principal Equity Owner may without Franchisor's consent, upon 30 days prior written notice to Franchisor, Transfer the Franchised Business or an equity interest in Franchisee's franchised entity to an entity that is (i) organized for the purpose of operating the Franchised Business and (ii) owned in the same proportionate amount of ownership as prior to such Transfer, provided that adequate provision is made for the management of the Franchised Business. No Transfer under this section 12.5 will be subject to Franchisor's right of first refusal set forth in section 12.3 hereof or the Transfer Fee set forth in section 12.2(b)(vii) hereof. However, Franchisee must comply with sections 12.2(b)(i) through (vi) and (to the extent applicable) section 12.2(c) above, as well as provide full disclosure of the terms of said transfer and deliver to Franchisor no later than three business days prior to the close of the transaction. In addition, copies of fully executed paperwork must be delivered to Franchisor no less than three business days following the close of the transaction. Also Franchisee acknowledges and agrees that any Transfer to an affiliate will not relieve Franchisee from its obligations under this Agreement.

### **12.6 Transfers upon the Death or Incapacity of an Individual Franchisee or Majority Equity Owner.**

(a) Notwithstanding the foregoing, in the event of Franchisee's death or legal incapacity, if Franchisee is an individual, or the death or legal incapacity of a Principal Equity Owner holding a majority equity interest in the franchisee entity ("Majority Equity Owner"), if Franchisee is an entity (corporation, limited liability company or partnership), the transfer of Franchisee's or the deceased Majority Equity Owner's interest in this Agreement to his or her heirs, personal representatives or conservators, as applicable, will not be deemed an Assignment by Franchisee provided that a responsible management employee or agent of Franchisee that has been satisfactorily trained by Franchisor will be responsible for the Franchised Business.

(b) In the event of the death of a sole proprietor Franchisee or the death of a Majority Equity Owner, such person's interest in this Agreement or its equity interest in the franchise entity must Transfer as soon as practicable (but not more than 270 days) after the date of death in accordance with such person's will or, if such person dies without a will, in accordance with laws of intestacy governing the distribution of such person's estate, provided that adequate provision is made for the management of the Franchised Business. If Franchisor determines (i) there is no imminent sale to a qualified successor or (ii) there is no heir or other Principal Equity Owner capable of operating the Franchise, Franchisor may (but is not obligated to) immediately commence operating the Store on Franchisee's behalf for a period of up to 90 days, renewable as necessary for up to one year and Franchisor will periodically discuss the status with the heirs of the decedent. For such management assistance, Franchisee or the successor in interest must pay a reasonable *per diem* management fee/charge to Franchisor for serving as the interim manager.

(c) No Transfer under this section 12.6 will be subject to (i) Franchisor's right of first refusal set forth in section 12.3 hereof or (ii) the Transfer Fee set forth in section 12.2(b)(vii) above, although such refusal right and Transfer Fee will be applicable to any subsequent Transfer by Franchisee's (or a Majority Equity Owner's) heirs, personal representatives or conservators. However, Franchisee must comply with sections 12.2(b)(i) through (vi) and (to the extent

applicable) section 12.2(c) above, as well as provide Franchisor with full disclosure of the terms of said transfer not later than three business days prior to the close of the transaction. In addition, copies of fully executed paperwork must be delivered to Franchisor no less than three business days following the close of the transaction.

### **12.7 Other Transfers.**

Except as otherwise provided in this Agreement and subject to Franchisor's right of first refusal provided in section 12.3 hereof, Franchisee or an Principal Equity Owner may consummate any Transfer of a direct or indirect interest in this Agreement, the Franchised Business or the economic benefits derived therefrom, or any equity interest in Franchisee's franchised entity, not permitted by the preceding sections 12.4, 12.5 and 12.6, only after written notice to Franchisor and only with Franchisor's written consent, which will not be unreasonably withheld. Franchisor will exercise Franchisor's good faith business judgment in determining whether to give or withhold Franchisor's consent to a Transfer under this section 12.7. Such exercise of good faith business judgment may include Franchisor's consideration of certain skills and qualifications of the prospective transferee which are of business concern to Franchisor, including without limitation, the following: experience in businesses similar to the Franchised Business, financial and operational skills and qualifications, economic resources, reputation and character of such prospective transferee; the ability of such prospective transferee to fully and faithfully conduct the Franchised Business as contemplated by this Agreement; and the effect that the Transfer and the prospective transferee will have or may reasonably be expected to have on the reputation or business operations of the Franchised Business, the System or Franchisor or any of Franchisor's affiliates.

## **XIII. DEFAULT AND TERMINATION**

### **13.1 General.**

(a) This Agreement may be terminated only for good cause, which means a failure of a party to substantially comply with the lawful requirements imposed upon it by this Agreement after being given notice at least 60 days in advance of the termination and a reasonable opportunity, which in no event will be less than 60 days from the date of the notice of noncompliance, to cure the failure (provided that this section 13.1(a) does not apply when there are grounds for immediate termination without notice pursuant to section 13.2 below).

(b) If Franchisor is in material breach of this Agreement, Franchisee may terminate this Agreement by giving Franchisor prior written notice setting forth the asserted breach of this Agreement and giving Franchisor 60 days in which to cure the default. A material breach of this Agreement by Franchisor means any unauthorized action or omission seriously impairing or adversely affecting Franchisee or the relationship between Franchisor and Franchisee created by this Agreement. However, if Franchisor becomes insolvent or declares bankruptcy, Franchisee will continue to have the right to operate under this Agreement unless a state or federal court issues an order otherwise. If because of the nature of the breach, it would be unreasonable for Franchisor to be able to cure the default within 60 days, Franchisor will be given additional time (up to 30 additional days) as is reasonably necessary to cure said breach, upon condition that Franchisor must, upon receipt of such notice from Franchisee, immediately commence to cure such breach and continue to use best efforts to do so.

(c) Notwithstanding anything contained herein to the contrary, in those circumstances under which Franchisor has the right to terminate this Agreement, Franchisor also has the option, to be exercised in its sole discretion, to choose alternative remedies to its right to terminate the entire Agreement.

(d) Notwithstanding anything contained herein to the contrary, in those circumstances under which Franchisor has the right to terminate this Agreement, Franchisor also has the right to exercise all remedies available to it at law or in equity, including without limitation specific performance and damages (including punitive damages). All rights and remedies provided herein are in addition to and not in substitution of all other rights and remedies available to a party at law or in equity.

### **13.2 Immediate Termination.**

(a) Franchisor has the right to immediately terminate this Agreement upon notice to Franchisee without an opportunity to cure if:

(i) Franchisee admits its inability to pay its debts as they come due, or Franchisee or the business to which the Franchise relates (A) has been the subject of an order for relief in bankruptcy, (B) is judicially determined to be insolvent or (C) has all or a substantial part of its assets assigned to or for the benefit of any creditor;

(ii) Franchisee Abandons the Franchise by failing to operate the Store for five consecutive business days during which Franchisee is required to operate the business under the terms of this Agreement, or any shorter period after which it is not unreasonable under the facts and circumstances for Franchisor to conclude that Franchisee does not intend to continue to operate the Franchise, unless such failure to operate is due to fire, flood, earthquake or other similar causes beyond Franchisee's control;

(iii) Franchisor and Franchisee agree in writing to terminate the Franchise;

(iv) Franchisee makes any material misrepresentations relating to the acquisition of the Franchise or Franchisee engages in conduct that reflects materially and unfavorably upon the operation and reputation of the Franchised Business or the System;

(v) Franchisee fails, for a period of 10 business 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;

(vi) after curing any failure in accordance with section 13.3 below, Franchisee engages in the same noncompliance whether or not such noncompliance is corrected after notice;

(vii) Franchisee repeatedly fails to comply with one or more material requirements of this Agreement, whether or not corrected after notice;

(viii) the Franchised Business or the business premises of the Franchise are seized,

taken over or foreclosed by a government official in the exercise of his or her duties, or seized, taken over or foreclosed by a creditor, lien holder or lessor, provided that a final judgment against Franchisee remains unsatisfied for 60 days (unless an appeal bond has been filed); or a levy of execution has been made upon the license granted by this Agreement or upon any property used in the Franchised Business, and it is not discharged within five days of such levy;

(ix) Franchisee is convicted of a felony or any other criminal misconduct which is relevant to the operation of the Franchise;

(x) Franchisee fails to pay any franchise fees or other amounts due to Franchisor or its affiliate within five (5) days after receiving written notice that such fees are overdue;

(xi) an audit or investigation conducted by Franchisor discloses that Franchisee knowingly maintained false books or records, or submitted false reports to Franchisor, or knowingly understated Franchisee's Gross Revenues or withheld the reporting of any of Franchisee's Gross Revenues; or

(xii) Franchisor makes a reasonable determination that Franchisee's continued operation of the Franchise will result in an imminent danger to public health or safety.

(b) The parties recognize that some breaches may involve conduct which undermines the basis for the Agreement such that the expectation of full and proper contract performance cannot be restored, even if the specific activity giving rise to the claim of breach has ended. In such cases, no period of "cure" will be required. However, the termination will not take effect for 10 days to enable the parties to consider whether other alternatives may be possible.

(c) If Franchisee's rights under this Agreement are terminated by Franchisor because of an event described in section 13.2(a) above, section 14.1 below is not applicable, and Franchisor may immediately commence an action under section 14.2 or 14.3 below, as applicable, to collect damages or otherwise enforce its rights.

### **13.3 Termination After Notice.**

(a) Except as provided in section 13.2 above, Franchisor may terminate this Agreement only for good cause (as defined in section 13.1(a) above) after giving Franchisee prior written notice setting forth the asserted breach of this Agreement and giving Franchisee 60 days in which to cure the default. Upon receipt of a notice of default, Franchisee must immediately commence diligently to cure said breach, and if Franchisee cures said breach within 60 days, Franchisor's right to terminate this Agreement will cease. If because of the nature of the breach, it would be unreasonable for Franchisee to be able to cure the default within 60 days, Franchisee will be given additional time (up to 30 additional days) as is reasonably necessary in Franchisor's determination to cure said breach, upon condition that Franchisee must, upon receipt of such notice from Franchisor, immediately commence to cure such breach and continue to use Franchisee's best efforts to do so.

(b) If Franchisee's rights under this Agreement are terminated by Franchisor for material

breach, Franchisor may, at its option, declare Franchisee in default of all of the other franchise agreements or other agreements Franchisee has with Franchisor, and terminate Franchisee's rights under those other agreements as well.

(c) If Franchisee's rights under this Agreement are terminated by Franchisor for Franchisee's failure to make any payment due under this Agreement, section 14.1 below is not applicable, and Franchisor may immediately commence an action under section 14.2 below to collect damages or otherwise enforce its rights.

(d) The description of any default in any notice served by Franchisor hereunder upon Franchisee in no way precludes Franchisor from specifying additional or supplemental defaults in any action, arbitration, mediation, hearing or suit relating to this Agreement or the termination thereof.

(e) If Franchisee and Franchisor agree to mutually terminate this Agreement, Franchisee must return a signed counterpart of any document Franchisor prepares to evidence the termination not later than 10 days after Franchisee receives it, or the mutual agreement to terminate will be voidable by Franchisor, and Franchisor may thereafter immediately and unilaterally terminate this Agreement and require payment of all sums due and payable to Franchisor at the date of termination.

#### **13.4 Description of Default.**

The description of any default in any notice served by Franchisor hereunder upon Franchisee in no way precludes Franchisor from specifying additional or supplemental defaults in any action, arbitration, mediation, hearing or suit relating to this Agreement or the termination thereof.

#### **13.5 Statutory Limitations.**

Notwithstanding anything to the contrary in this Article XIII, if any valid, applicable law or regulation of a competent governmental authority having jurisdiction over this Agreement or the parties hereto limits Franchisor's rights of termination hereunder or requires longer notice periods than those set forth herein, and if the parties are prohibited by law from agreeing to the shorter periods set forth herein, then this Agreement will be deemed amended to conform to the requirements of such laws and regulations, but in such event the provisions of the Agreement thus affected will be amended only to the extent necessary to bring it within the requirements of the law or regulation.

#### **13.6 Extended Cure Period.**

Notwithstanding anything contained herein to the contrary, including, without limitation, section 13.3(c) hereof, in those circumstances under which Franchisor has the right to terminate this Agreement, Franchisor also has the right, to be exercised in its sole discretion, to grant to Franchisee in writing only, in lieu of termination of this Agreement, an extended period of time to cure the breach which gave rise to Franchisor's right to terminate, but in no event may such extended cure period exceed six months from the last day of the cure period otherwise applicable to such breach. Franchisee acknowledges that Franchisor's election to grant an extended cure period to Franchisee will not operate as a waiver of any of Franchisor's rights hereunder.

### **13.7 Franchisor's Right to Cure Franchisee's Defaults.**

In addition to all other remedies herein granted, if Franchisee defaults in the performance of any of its obligations or breaches any term or condition of this Agreement or any related agreement involving third parties, Franchisor may, at its election, immediately or at any time thereafter, without waiving any claim for breach hereunder and without notice to Franchisee, cure the default for Franchisee's account and on Franchisee's behalf, and all costs or expenses including attorney's fees incurred by Franchisor on account thereof will be due and payable by Franchisee to Franchisor on demand.

### **13.8 Waiver and Delay.**

No waiver by Franchisor of any breach or series of breaches or defaults in performance by Franchisee and no failure, refusal or neglect of Franchisor either to exercise any right, power or option given to Franchisor hereunder or to insist upon strict compliance with or performance of Franchisee's obligations under this Agreement or the Confidential Operations Manual, constitutes a waiver of the provisions of this Agreement or the Confidential Operations Manual with respect to any subsequent breach thereof or a waiver by Franchisor of its right at any time thereafter to require exact and strict compliance with the provisions thereof.

### **13.9 Collection Costs.**

Franchisor is entitled to reimbursement from Franchisee upon Franchisor's demand of all costs Franchisor has incurred (including reasonable attorneys' fees and investigator's fees) to enforce Franchisor's rights under this Agreement, including actions to collect any amounts due and delinquent hereunder.

### **13.10 Continuance of Business Relations.**

Any continuance of business relations between Franchisee and Franchisor after termination of this Agreement will not be construed as a renewal, extension or continuation of this Agreement.

## **XIV DISPUTE RESOLUTION**

### **14.1 Initial Steps to Resolve a Dispute; Mediation.**

(a) Franchisor and Franchisee have entered into a long-term franchise relationship which gives rise to an obligation, subject to and consistent with the terms of this Agreement, to endeavor to make the relationship succeed, considering the overall best interests of the System, as contemplated by this Agreement. To that end, Franchisee and Franchisor acknowledge that Franchisee and Franchisor need to attempt to resolve disagreements or disputes before such disagreements or disputes negatively impact the relationship. Good faith communications between Franchisee and Franchisor are important aspects of that obligation. The parties hereby pledge and agree that they will first attempt to resolve any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof (collectively, "Dispute") by first having Franchisor's executive officers and Franchisee's Principal Equity Owners meet (without their respective legal counsel) in person at Franchisor's principal executive office (or in Franchisor's discretion by videoconference) within five business days after a party notifies the other party that a Dispute has arisen to conduct a good faith discussion and negotiation of the issues with a view to arriving at a settlement. Franchisor may proceed to terminate this Agreement in either of the following two situations without a settlement meeting or

mediation proceeding: (i) if there is any breach of this Agreement by Franchisee that may result in an immediate termination of this Agreement pursuant to section 13.2 above, or (ii) if Franchisee fails to pay any sums due Franchisor under this Agreement which may result in termination of this Agreement pursuant to section 13.3 above. Also, if a party refuses to participate in the settlement meeting or mediation within the respective time frames set forth in this section 14.1, the other party may immediately commence an arbitration proceeding pursuant to section 14.2 below.

(b) If the parties are unable to settle the Dispute at the settlement conference described in section 14.1 above, within 10 business days after the date this conference took place (or should have taken place), Franchisee and Franchisor may submit the dispute to non-binding mediation in California conducted by and before a mediator, and at a location, mutually agreeable to both parties; provided however the mediator must be a franchise attorney who is a State Bar of California Board of Legal Specialization Certified Specialist in Franchise and Distribution Law. If the Dispute is not referred to mediation within 10 business days after the settlement conference took place (or should have taken place), the Dispute may be immediately submitted to binding resolution through arbitration proceedings pursuant to section 14.2 below. Any mediation proceedings may take place at any mutually agreed location and should be completed within 60 days following the date either party first gives notice of mediation. The fees and expenses of the mediator will be shared equally by the parties. The mediator will be disqualified as a witness, expert or counsel for any party with respect to the Dispute and any related matter.

(c) Mediation is a compromise negotiation and will constitute privileged communications under the law governing this Agreement. The entire mediation process will be confidential and the conduct, statements, promises, offers, views and opinions of the mediator and the parties will not be discoverable or admissible in any legal proceeding for any purpose; provided, however, that evidence which is otherwise discoverable or admissible will not be excluded from discovery or admission because of its use in the mediation.

## **14.2 Arbitration.**

**(a) Except as specifically provided in sections 13.2(c) and 13.3(c) above, any Dispute between Franchisor (and/or its affiliated entities) and Franchisee (and/or its Principal Equity Owners or affiliated entities) not settled through the procedures described in section 14.1 above, or any determination of the scope or applicability of this agreement to arbitrate, will be resolved through binding arbitration by one arbitrator administered by American Arbitration Association or if the parties in dispute mutually agree, through binding arbitration by one arbitrator administered by any other mutually agreeable arbitration organization. It is explicitly agreed by each of the parties hereto that no arbitration of any Dispute may be commenced except in accordance with this section 14.2.**

**(b) All hearings and other proceedings will take place at the American Arbitration Association business location in 725 S Figueroa St #400, Los Angeles, CA 90017, USA.**

**(c) Either party may present briefs and affidavits of witnesses who are unable to attend hearings. A limited amount of discovery is permitted within the discretion of the arbitrator (including affidavits, interrogatories and depositions). The arbitrator will have the right to**

award or include in the award any relief that the arbitrator deems proper in the circumstances, including money damages (with interest on unpaid amounts from the date due), specific performance and injunctive relief, provided that the arbitrator will not have the right to declare any Mark generic or otherwise invalid or to award punitive damages. If either party fails to appear or participate in the arbitration proceeding, the other party will be entitled to a default judgment award. The arbitration award will be final and binding on the parties, and judgment on the award may be entered in any federal or state court having jurisdiction.

**(d) TO THE MAXIMUM EXTENT PERMITTED BY LAW, ALL CLAIMS BROUGHT UNDER THIS AGREEMENT WILL BE BROUGHT IN AN INDIVIDUAL CAPACITY. THIS AGREEMENT MAY NOT BE CONSTRUED TO ALLOW OR PERMIT THE CONSOLIDATION OR JOINDER OF OTHER CLAIMS OR CONTROVERSIES INVOLVING ANY OTHER FRANCHISEES OR PERMIT SUCH CLAIMS OR CONTROVERSIES TO PROCEED AS A CLASS ACTION, CLASS ARBITRATION, COLLECTIVE ACTION, OR ANY SIMILAR REPRESENTATIVE ACTION. NO ARBITRATOR WILL HAVE THE AUTHORITY UNDER THIS AGREEMENT TO ORDER ANY SUCH CLASS OR REPRESENTATIVE ACTION. BY SIGNING BELOW, FRANCHISEE ACKNOWLEDGES FRANCHISEE IS AGREEING TO WAIVE ANY SUBSTANTIVE OR PROCEDURAL RIGHTS THAT FRANCHISEE MAY HAVE TO BRING AN ACTION ON A CLASS, COLLECTIVE, REPRESENTATIVE OR OTHER SIMILAR BASIS. ACCORDINGLY, FRANCHISEE EXPRESSLY AGREES TO WAIVE ANY RIGHT FRANCHISEE MAY HAVE TO BRING AN ACTION ON A CLASS, COLLECTIVE, REPRESENTATIVE OR OTHER SIMILAR BASIS.**

**(e) TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE PARTIES WAIVE ALL RIGHTS THEY MAY HAVE TO SEEK PUNITIVE DAMAGES FROM ONE ANOTHER. ACCORDINGLY, THE ARBITRATOR WILL HAVE NO POWER TO ASSESS PUNITIVE DAMAGES AGAINST EITHER PARTY.**

**(f) This arbitration provision is deemed to be self-executing and will remain in full force and effect after expiration or termination of this Agreement. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party by default or otherwise notwithstanding said failure to appear.**

**(g) The provisions of this section 14.2 are intended to benefit and bind certain third-party non-signatories and will continue in full force and effect after (and notwithstanding) the expiration or termination of this Agreement. Furthermore, this section 14.2 will be construed as independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of such provisions are unlawful in any way, the court is respectfully requested to modify or interpret such provisions to the minimum extent necessary to comply with the law.**

**[Franchisor's Initials: \_\_\_\_\_ Franchisee's Initials: \_\_\_\_\_]  
[Principal Equity Owners' Initials: \_\_\_\_\_]**

### **14.3 Injunctive Relief.**

Any party has the right in a situation where there is an imminent threat of harm to the legal rights of a party and damages would not be adequate relief to seek a temporary restraining order and temporary or preliminary injunctive relief from a court of competent jurisdiction in California, without the necessity of first complying with sections 14.1 and 14.2 above or posting any bond, and if bond is nevertheless required by a court of competent jurisdiction, the parties agree that the sum of \$1,000 will be a sufficient bond (this amount may be adjusted by changes in the CPI since the Effective Date). If an arbitration proceeding has already commenced pursuant to section 14.2 above when a party seeks injunctive relief, then the party seeking such injunctive relief agrees to contemporaneously submit the merits of its dispute to the arbitrator. The existence of a proceeding commenced under section 14.1 or 14.2 above will in no event abate or otherwise affect the ability of party to seek injunctive relief under this section 14.3. Franchisee acknowledges that its failure to comply fully with any of the terms of this Agreement respecting the obligations regarding examinations, audits and the Marks could cause irreparable damage to Franchisor or other affiliated persons or entities, and Franchisor or Franchisor's affiliates are empowered to seek injunctive relief to protect the Marks. This covenant is independent, severable and enforceable notwithstanding any other rights or remedies that any party may have.

### **14.4 Legal Fees and Expenses.**

The prevailing party in any arbitration or litigation to resolve a dispute between any of the parties hereto will be entitled to recover from the losing party reasonable legal fees (and incurred costs of the prevailing party's counsel) and all other "Expenses" (as defined in section 16.2(e) below) incurred by the prevailing party in bringing or defending such arbitration, action or proceeding and/or enforcing any resulting award or judgment (including without limitation arbitration or court filing fees, expert and other witness fees, discovery expenses and compensation payable to the arbitrator), whether incurred prior to or in preparation for or in contemplation of the filing of the action or thereafter. The prevailing party will be determined by the arbitrator or court. This section 14.4 is intended to be expressly severable from the other provisions of this Agreement, is intended to survive any judgment and is not to be deemed merged into the judgment.

### **14.5 Survival.**

The terms of this Article XIV survive termination, expiration or cancellation of this Agreement.

## **XV. OBLIGATIONS AND RIGHTS UPON TERMINATION OR EXPIRATION**

### **15.1 Franchisee's Obligations.**

(a) In the event of termination, cancellation or expiration of this Agreement whether by reason of Franchisee's breach, default, non-renewal, lapse of time or other cause, in addition to any other obligations provided for in this Agreement, Franchisee must forthwith discontinue the use or display of the Marks in any manner whatsoever, and Franchisee may not thereafter operate or do business under the Marks or any other **San Chen™** brand or any other name or in any manner that might tend to give the general public the impression that Franchisee is in any way associated or affiliated with Franchisor, or any of the businesses conducted by Franchisor or the Owner of the Marks, including without limitation repainting the business premises in a

distinctively different color and removing or rearranging distinctive elements of the Trade Dress. Franchisee must contact online review sites and other online directories and websites which has mentioned Franchisee's Outlet during the 18 months prior to the date this Agreement terminates, is cancelled or expires, and request the removal of all use of the trademarks in connection with the former franchised Store (and the physical address of the former Store) and all use of former reviews from the period Franchisee was a **San Chen™** franchisee. And, Franchisee also must comply with section 15.2 respecting the return to Franchisor of certain materials and must not thereafter use, in any manner, or for any purpose, directly or indirectly, any of Franchisor's trade secrets, procedures, techniques, or materials acquired by Franchisee by virtue of the relationship established by this Agreement, including, without limitation, (i) any training or other materials, manuals, bulletins, instruction sheets, or supplements thereto, or (ii) any equipment, videotapes, videodiscs, forms, advertising matter, devices, insignias, slogans or designs used from time to time in connection with the Franchised Business.

(b) If there is a termination, cancellation or expiration as described in section 15.1(a) above, Franchisee must comply with section 11.2 of this Agreement respecting post-termination competition and:

(i) Remove at Franchisee's expense all signs erected or used by Franchisee and bearing the Marks, or any word or mark indicating that Franchisee is associated or affiliated with Franchisor;

(ii) Erase or obliterate from letterheads, stationery, printed matter, advertising or other forms used by Franchisee the Marks and all words indicating that Franchisee is associated or affiliated with Franchisor;

(iii) Permanently discontinue all advertising of Franchisee that states or implies Franchisee is associated or affiliated with Franchisor or the System (if Franchisee engages in any business thereafter, Franchisee must use trade names, service marks or trademarks that are significantly different from those under which Franchisee had done business and must use sign formats that are significantly different in color and type face; and take all necessary steps to ensure that Franchisee's present and former employees, agents, officers, shareholders and partners observe the foregoing obligations); and

(iv) Assign all interest and right to use all telephone numbers and all listings applicable to the Store in use at the time of such termination to Franchisor and take all action necessary to change all such telephone numbers immediately and change all such listings as soon as possible.

(c) If Franchisee fails or omits to make or cause to be made any removal or change described in section 15.1(b)(i) through 15.1(b)(iv) above, then Franchisor will have the right within 15 days after written notice to enter Franchisee's Store or other premises from which the Franchised Business is being conducted without being deemed guilty of trespass or any other tort, and make or cause to be made such removal and changes at Franchisee's expense, which expenses Franchisee agrees to pay to Franchisor promptly upon demand; and Franchisee hereby irrevocably appoints Franchisor as Franchisee's lawful attorney upon termination of this Agreement with authority to file any document in the name of and on Franchisor's behalf for the purpose of terminating all of

Franchisee's rights in any trade name Franchisee has used that contains any of the Marks.

## **15.2 Franchisor's Rights.**

(a) The termination, cancellation, expiration or assignment of this Agreement will be without prejudice to any of Franchisor's rights against Franchisee and such termination, cancellation, expiration or assignment will not relieve Franchisee of any of Franchisee's obligations to Franchisor existing at the time of termination, cancellation, expiration or assignment or terminate those obligations of Franchisor which, by their nature, survive the termination, cancellation, expiration or assignment of this Agreement.

(b) Franchisor may direct that all applicable suppliers immediately cease providing Franchisee with equipment, inventory, marketing materials, email access, website access, accessories and other items comprising or to be used to provide **San Chen™** Products.

(c) Franchisee is obligated to return, at no expense to Franchisor, all copies of the Confidential Operations Manual and all other **San Chen™** proprietary materials and any other items that were supplied by Franchisor for Franchisee's use without additional charge in connection with the operation of the Franchised Business. Franchisee must also permanently erase anything relating to Franchisor or the Franchised Business from any computers and other media storage devices Franchisee retains after expiration, cancellation or termination of this Agreement.

(d) Upon a lawful termination or nonrenewal of this Agreement, Franchisor will purchase from Franchisee, at the value of price paid, minus depreciation, all inventory, supplies, equipment, fixtures, and furnishings purchased or paid for under the terms of this Agreement or any ancillary or collateral agreement by Franchisee to Franchisor or Franchisor's approved suppliers and sources, that are, at the time of the notice of termination or nonrenewal, in Franchisee's possession or used by Franchisee in the Franchised Business. Franchisor is not required to purchase any personalized items, inventory, supplies, equipment, fixtures, or furnishings not reasonably required to conduct the operation of the Franchised Business in accordance with this Agreement or any ancillary or collateral agreement or to which Franchisee, at the cessation of operation of the Franchised Business by Franchisee, cannot lawfully, or does not, grant Franchisor clear title and possession upon Franchisor's payment to Franchisee for the inventory, supplies, equipment, fixtures, or furnishings (we have the right to receive clear title to and possession of all items purchased from Franchisee under this section 15.2(d)). Franchisor may offset against the amounts owed to Franchisee under any such purchase under this section 15.2(d) any amounts Franchisee owes to Franchisor. Notwithstanding the foregoing however, Franchisor's requirement to purchase from Franchisee under this section 15.2(d) will not apply:

(i) if Franchisee declines a *bona fide* offer of renewal from Franchisor;

(ii) if Franchisor does not prevent Franchisee from retaining control of the Outlet or other principal place of the Franchised Business;

(iii) to any termination or nonrenewal of the Franchise due to a publicly announced and nondiscriminatory decision by Franchisor to completely withdraw from all Franchise activity

within the relevant geographic market area in which the Franchise is located;

(iv) if Franchisor and Franchisee mutually agree in writing to terminate and not renew the franchise.

#### **XIV. GENERAL TERMS AND PROVISIONS**

##### **16.1 Notices.**

(a) All notices that the parties hereto are required or may desire to give under or in connection with this Agreement must be in writing and (unless personally delivered by an agent of the sending party) must be sent by reliable overnight courier, for delivery on the next business day and addressed as follows:

(i) If to Franchisor:

(ii) If to Franchisee:

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(b) Unless previously delivered in person by an agent of the sending party, notices between Franchisee and Franchisor will be deemed given the next business day after deposit with a reliable overnight courier, properly addressed and marked for delivery on the next business day.

(c) Any change in the addresses listed in section 16.1(a) above must be sent to the other party as soon as practicable after the change occurs by reliable overnight courier or in person by an agent of the sending party.

(d) Any notices sent to Franchisee which include a statement of intent to terminate or not renew the Franchise must provide (i) the reasons why and (ii) the effective date of such termination or nonrenewal or expiration.

##### **16.2 Indemnity.**

(a) Franchisee and its Principal Equity Owners, jointly and severally, hereby agree to protect, defend and indemnify Franchisor, and all of Franchisor's past, present and future owners, affiliates, officers, directors, employees, attorneys and designees, and each of them, and hold them harmless from and against all Losses arising out of or in connection with any "Proceeding" (as defined in section 16.2(f) below) concerning Franchisee's intentional tort or negligence, or the intentional tort or negligence of Franchisee's agents, servants or representatives, relating to Franchisee's development, maintenance or operation of the Store and the Franchised Business, except if caused by Franchisor's intentional misfeasance, gross negligence or material default of any terms of, or Franchisor's obligations arising under, this Agreement.

(b) Franchisor hereby agrees to protect, defend and indemnify Franchisee, its Principal Equity Owners, other owners, affiliates, officers, directors, employees and attorneys and each of them, from any Losses any of them may incur as a result of any third party Proceeding arising out of Franchisor's intentional misfeasance, negligence or material breach of Franchisor's obligations under this Agreement, except if caused by the intentional misfeasance of, negligence of, or material breach by, Franchisee (or any of its Principal Equity Owners, or other owners, affiliates, officers, directors, employees or attorneys of Franchisee) of any terms of, or Franchisee's obligations arising under, this Agreement.

(c) In order for the indemnification to be effective, each indemnified party ("Indemnified Party") will give the indemnifying party ("Indemnifying Party") reasonable notice of each claim or loss for which the Indemnified Party demands indemnity and defense, except that failure to provide such notice will not release the Indemnifying Party from any obligations hereunder except to the extent that the Indemnifying Party is materially prejudiced by such failure. The Indemnifying Party will assume, at its sole cost and expense, the defense of such Proceeding through legal counsel reasonably acceptable to the Indemnified Party, except that the Indemnified Party may at its option and expense select and be represented by separate counsel. The Indemnifying Party will have control over the Proceeding, including the right to settle; provided, however, the Indemnifying Party will not, absent the written consent of the Indemnified Party, consent to the entry of any judgment or enter into any settlement that:

(i) provides for any admission of liability on the part of the Indemnified Party or relief other than the payment of monetary damages for which the Indemnifying Party will be solely liable; or

(ii) adversely affects the rights of the Indemnified Party under this Agreement, or

(iii) does not release the Indemnified Party from all Proceedings and "Losses" (as defined in section 16.2(d) below) in respect thereof. In no event will the Indemnified Party be liable for any Losses that are compromised or settled in violation of this section 16.2. The Indemnifying Party's duty to defend is independent of its duty to indemnify. Each indemnified party must submit all of its claims to its insurers in a timely manner. Any payments made by an indemnified party will be net of benefits received by any indemnified party on account of insurance in respect of such claims.

(d) The term "Losses" means, refers to, and includes all "Expenses" (as defined in section 16.2(e) below), liabilities, obligations, losses, fines, penalties, costs, or damages including all reasonable out of pocket fees and disbursements of legal counsel in the investigation or defense of any of the same or in asserting any party's respective rights hereunder but excluding punitive damages (unless resulting from third party claims).

(e) The term "Expenses" means, refers to, and includes, all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding casts, telephone charges, postage, delivery Royalty and all other disbursements or expenses of the types customarily incurred in connection with prosecuting,

defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses will also include Expenses incurred in connection with any appeal resulting from any Proceeding and any federal, state, local or foreign taxes imposed on the Indemnatee as a result of the actual or deemed receipt of any payments under this Agreements, including without limitation the premium, security for, and other costs relating to any cost bond, supersede as bond, or other appeal bond or its equivalent.

(f) The term “Proceeding” means, refers to, and includes any threatened pending or completed suit, claim, demand, action, suit, arbitration, alternative dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether civil, criminal, administrative or investigative.

### **16.3 Franchisee's Relationship to Franchisor as Franchisee; Customer Reviews.**

(a) It is expressly agreed by the parties they intend by this Agreement to establish between themselves the relationship of franchisee and franchisor. It is further agreed neither Franchisee nor any Principal Equity Owner has the authority to create or assume in Franchisor's name or on Franchisor's behalf, any obligation, express or implied, or to act or purport to act as agent or representative on Franchisor's behalf for any purpose whatsoever. Neither Franchisee (nor any Principal Equity Owner) nor Franchisor is the employer, employee, agent, partner, fiduciary or co-venturer of or with the other, each being independent. Franchisee and all Principal Equity Owners jointly and severally agree none will hold itself out as Franchisor's agent, employee, partner or co-venturer or the Owner of the Marks. All employees or agents hired or engaged by or working for Franchisee will be only the employees or agents of Franchisee and will not for any purpose be deemed employees or agents of Franchisor or the Owner of the Marks, nor subject to Franchisor's control; and in particular, Franchisor will have no authority to exercise control over the hiring or termination of these employees, independent contractors, or others who work for Franchisee, their compensation, working hours or conditions, or their day-to-day activities, except to the extent necessary to protect the Marks. Franchisee and Franchisor agree to file their own tax, regulatory and payroll reports with respect to their respective employees or agents and operations.

(b) Franchisee agrees to diligently consider customer reviews and respond to customer indications of dissatisfaction with services rendered by Franchisee, its employees and agents, in a diligent and professional manner and Franchisee agrees to cooperate with representatives of Franchisor or the Owner of the Marks in any investigation undertaken by Franchisor of complaints respecting Franchisee's activities.

### **16.4 No Third-Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity (other than financing sources to whom Franchisor may have granted or consented to a collateral assignment of this Agreement) will be entitled to any rights hereunder by so-called “third party beneficiary rights” or otherwise.

**16.5 Survival of Covenants.**

The covenants contained in this Agreement that by their terms require performance by the parties after the expiration or termination of this Agreement will be enforceable notwithstanding said expiration or other termination of this Agreement for any reason whatsoever.

**16.6 Successors and Assigns.**

Subject to restrictions on Assignment by Franchisee contained herein, this Agreement is binding upon (i) Franchisor and inures to the benefit of Franchisor's successors and assigns, (ii) Franchisee and inures to the benefit of Franchisee's successors and assigns, and (iii) Principal Equity Owners and inures to the benefit of their respective successors and assigns.

**16.7 Joint and Several Liabilities.**

If Franchisee consists of more than one person or entity, or a combination thereof, the obligations and liabilities of each such person or entity to Franchisor are joint and several.

**16.8 Titles for Convenience Only.**

Section titles used in this Agreement are for convenience only and do not affect the meaning or construction of any of the terms, provisions, covenants or conditions of this Agreement.

**16.9 Gender.**

All terms used in any one number or gender will extend to mean and include any other number and gender as the facts, context or sense of this Agreement or any section may require.

**16.10 Severability; Partial Invalidity.**

Nothing contained in this Agreement will be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between (i) any provisions of this Agreement or the Confidential Operations Manual and (ii) any present or future statute, law, ordinance, regulation or judicial decision, contrary to which the parties have no legal right under this Agreement, the latter will prevail, but in such event the provision of this Agreement or the Confidential Operations Manual thus affected will be curtailed and limited only to the extent necessary to bring it within the requirements of the law. If any part, article, section, sentence or clause of this Agreement or the Confidential Operations Manual is held to be indefinite, invalid or otherwise unenforceable, that specific language will be deemed deleted but the remaining parts thereof will continue in full force and effect.

**16.11 Counterparts.**

This Agreement may be executed in multiple copies, each of which will be deemed to be an original, and both of which together will be deemed to be one and the same instrument.

**16.12 Compliance with U.S. Anti-Terrorism and Other U.S. Federal Laws.**

(a) Franchisee and each of the Principal Equity Owners certify that none of Franchisee, the Principal Equity Owners, employees, or anyone associated with Franchisee is listed in the Annex to Executive Order 13224 (available at <http://treasury.gov/offices/enforcement/ofac/sanctions/terrorism.html>). Franchisee covenants not to hire or have any dealings with a person listed in the Annex. Franchisee certifies that it has no

knowledge or information that, if generally known, would result in Franchisee, the Principal Equity Owners, employees or anyone associated with Franchisee being listed in the Annex to Executive Order 13224. Franchisee and each of the Principal Equity Owners will comply with and assist Franchisor to the fullest extent possible in Franchisor's efforts to comply with the Anti-Terrorism Laws (as defined below). In connection with such compliance, Franchisee and each of the Principal Equity Owners certify, represent and warrant that none of Franchisee's respective property or interests is subject to being "blocked" under any of the Anti-Terrorism Laws and that Franchisee and the Principal Equity Owners are not otherwise in violation of any of the Anti-Terrorism Laws. Franchisee is solely responsible for ascertaining what actions must be taken by Franchisee to comply with all such Anti-Terrorism Laws. Franchisee specifically acknowledges and agrees that its indemnification responsibilities as provided in this Agreement also pertain to its obligations under this section 16.12. Any misrepresentation by Franchisee under this section 16.12 or any violation of the Anti-Terrorism Laws by Franchisee, any of the Principal Equity Owners, or employees will constitute grounds for immediate termination of this Agreement and any other agreement Franchisee entered into with Franchisor or one of Franchisor's Affiliates. "Anti-Terrorism Laws" means Executive Order 13224 issued by the President of the United States, the Terrorism Sanctions Regulations (Title 31, Part 595 of the U.S. Code of Federal Regulations), the Foreign Terrorist Organizations Sanctions Regulations (Title 31, Part 597 of the U.S. Code of Federal Regulations), the Cuban Assets Control Regulations (Title 31, Part 515 of the U.S. Code of Federal Regulations), the USA PATRIOT Act, and all other present and future federal, state and local laws, ordinances, regulations, policies, lists, and any other requirements of any United States governmental authority (including, without limitation, the United States Department of Treasury Office of Foreign Assets Control) addressing or in any way relating to terrorist acts and acts of war.

(b) Neither Franchisee nor any Principal Equity Owner conducts any activity, or has failed to conduct any activity, if such action or inaction constitutes a money laundering crime, including any money laundering crime prohibited under any applicable Anti-Terror Legislation.

(c) Neither Franchisee nor any Principal Equity Owner nor any employee of either is named as a "Specially Designated National" or "Blocked Person" as designated by the U.S. Department of the Treasury's Office of Foreign Assets Control and published at [www.treas.gov/offices/enforcement/ofac/sdn/](http://www.treas.gov/offices/enforcement/ofac/sdn/). Franchisee acknowledges that Franchisee is not directly or indirectly owned or controlled by the government of any country that is subject to an embargo imposed by the United States of America, nor does Franchisee or any Principal Equity Owner act directly or indirectly on behalf of the government of any country that is subject to an embargo imposed by the United States of America. Franchisee and the Principal Equity Owners agree that Franchisee will notify Franchisor in writing immediately of the occurrence of any event that renders the foregoing representations and warranties of this section 16.12 incorrect.

[Franchisee's Initials: \_\_\_\_\_ Principal Equity Owners' Initials: \_\_\_\_\_]

### **16.13 Governing Law.**

The Federal Arbitration Act (9 U.S.C. §1 *et seq.*) governs the arbitration of disputes under this Agreement. Otherwise, the laws of California govern this Agreement and all related matters, documents and agreements, without regard to conflicts of laws. If any provision of this Agreement

is impermissible under a governing law, the provision will be deemed amended to conform to that law while maintaining to the maximum extent possible the original intent of the provision, or if the provision as amended cannot substantially maintain the original intent, then the provision will be deemed deleted.

#### **16.14 Entire Agreement.**

(a) The parties to this Agreement each acknowledge and warrant to each other that they wish to have all of the terms of this business relationship defined solely in and by this written Agreement and the Confidential Operations Manual. Recognizing the costs on all parties which attend uncertainty, the signatories to this Agreement each confirm that neither wishes to enter into a business relationship with the other in which any terms or obligations are the subject of alleged oral statements or in which oral statements or non-contract writings (which have been or may in the future be exchanged between them) serve as the basis for creating rights or obligations different than or supplementary to the rights and obligations set forth herein. Accordingly, the signatories each agree and promise each other that this Agreement, the Confidential Operations Manual, and the representations made by Franchisor in the **San Chen™** Franchise Disclosure Document (“FDD”) that was provided to Franchisee, supersede and cancel any prior and/or contemporaneous discussions or writings (whether described as representations, inducements, promises, agreements, understandings or any other term), by any of the parties or by anyone acting on their behalf, with respect to the rights and obligations of the parties to this Agreement or the relationship between them. Each signatory to this Agreement agrees and promises the other that they have placed, and will place, no reliance on any such discussions or writings.

(b) In accordance with the foregoing section 16.14(a), the parties to this Agreement agree that this Agreement, and the Confidential Operations Manual, constitutes the entire agreement between the parties and contain all of the terms, conditions, rights and obligations of the parties with respect to the Franchised Business contemplated by this Agreement and any other aspect of the relationship between the parties; provided however, that nothing in this Agreement or in any related agreement or writing is intended to disclaim the representations made in the FDD that was provided to Franchisee.

(c) This Agreement cannot be modified or changed except by written instrument signed by all the parties hereto.

### **XVII. EFFECTIVENESS OF AGREEMENT**

This Agreement will become effective only upon the execution thereof by Franchisee and by Franchisor and only after Franchisee was provided a complete FDD. HOWEVER, THIS AGREEMENT IS NOT BINDING ON FRANCHISOR UNLESS AND UNTIL IT HAS BEEN ACCEPTED AND SIGNED BY FRANCHISOR.

### **XVIII. ACKNOWLEDGMENTS AND REPRESENTATIONS**

#### **18.1 Acknowledgments and Representations.**

(a) Franchisee and each of Franchisee's Principal Equity Owners hereby jointly and severally represent and warrant that the following statements in this section 18.1 are true and accurate.

(b) Franchisee does not seek to obtain the Franchise for purely speculative purposes and has no present intention to sell or transfer or attempt to sell or transfer the Franchised Business or the Franchise within 12 months after the Opening Date.

(c) Franchisee understands and acknowledges the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the Confidential Operations Manual and the necessity of operating the Franchised Business under the standards set forth in the Confidential Operations Manual. Franchisee represents that it has the capabilities, professionally, financially and otherwise, to comply with Franchisor's standards.

(d) If Franchisee is an entity, Franchisee is duly organized and qualified to do business in the state and any other applicable jurisdiction within which the Store is located.

(e) Franchisee's execution of this Agreement will not constitute or violate any other agreement or commitment to which Franchisee is a party.

(f) Any individual executing this Agreement on Franchisee's behalf is duly authorized to do so and the Agreement constitutes a valid and binding obligation of Franchisee and all of Franchisee's Principal Equity Owners.

(g) Franchisee and its Principal Equity Owners (i) carefully read this Agreement and all other related documents to be executed by Franchisee concurrently or in conjunction with the execution hereof, (ii) conducted an independent investigation of the business contemplated by this Agreement, (iii) obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement, (iv) understand the nature of this Agreement, and (v) intend to comply with the terms hereof and be bound hereby. Franchisee also recognizes that the Franchise involves significant risks, making the success of the Store largely dependent on Franchisee's abilities and attention. Franchisor expressly disclaims the making of, and Franchisee agrees that Franchisee has not received or relied on, any representation or warranty from Franchisor regarding the likelihood of Franchisee's success at Franchisee's Store or in Franchisee's operating the Franchised Business.

(h) IN ENTERING INTO THIS AGREEMENT, FRANCHISEE HAS NOT RELIED ON ANY REPRESENTATION BY FRANCHISOR, OR ANY OF FRANCHISOR'S OFFICERS, MANAGERS, DIRECTORS, PARTNERS, SHAREHOLDERS, EMPLOYEES OR AGENTS, CONCERNING THE FRANCHISED BUSINESS CONTRARY TO THE TERMS OF THIS AGREEMENT, THE DOCUMENTS INCORPORATED INTO THIS AGREEMENT (OR ATTACHED TO IT), OR THE FDD THAT WAS PROVIDED TO FRANCHISEE.

(i) Franchisee agrees that complete and detailed uniformity among Franchisor's franchisees under varying conditions may be inadvisable, impractical or impossible, and accordingly agree that Franchisor, in its sole discretion, may modify or vary aspects of the System as to any franchisee

or group of franchisees based on, for example, local sales potential, demographics, competition, business practices or other conditions. Franchisee further agrees that Franchisor has no obligation to disclose or offer the same or similar variances to Franchisee. Franchisee is aware that other **San Chen™** franchisees may operate under different agreements and, consequently, that Franchisor's obligations and rights as to those franchisees may differ materially in certain circumstances.

(j) Franchisee received an FDD and a copy of this Agreement at least 15 calendar days before it signed this Agreement.

(k) Franchisee made no payment to Franchisor before Franchisee signed this Agreement.

(l) Franchisee and each Principal Equity Owner acknowledge that in operating the System, Franchisor must take consider the needs of the entire System and the need to protect the Marks, even if Franchisor's actions are contrary to Franchisee's individual interests as a franchisee.

(m) Franchisee and each Principal Equity Owner acknowledge that the success of the business venture is speculative and depends in large part on Franchisee's participation in the daily affairs of the Franchised Business.

## **18.2 Additional Information Respecting Franchisee and Franchisee's Principal Equity Owners.**

(a) Attached as Exhibit 2 is a schedule containing complete information regarding Franchisee's Principal Equity Owners.

(b) The address (written notice of any change in this information after the Effective Date must be delivered to Franchisor pursuant to section 16.1 hereof) where Franchisee's financial and other records are maintained is either [ ] the same address as provided in section 16.1 hereof, or [ ] the following address:

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**IN WITNESS WHEREOF**, the parties executed this Agreement as of the Effective Date.

FRANCHISEE:

FRANCHISOR:

\_\_\_\_\_

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

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

\_\_\_\_\_  
[PRINTED NAME AND TITLE]

\_\_\_\_\_  
Chief Executive Officer

AREA DEVELOPER'S PRINCIPAL EQUITY OWNERS:

*(Note: each Principal Equity Owner is signing below as a party to this Agreement, and is individually obligated to perform or guarantee the performance by an entity Area Developer of all duties and obligations of the Area Developer under this Agreement)*

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

List of Exhibits to Franchise Agreement:

Exhibit 1 – Territory, Location of Store and Design Fee Exhibit 2 – Names and Addresses of  
Principal Equity Owners

## **EXHIBIT 1 – TERRITORY, LOCATION OF SHOP AND DESIGN FEE**

The Territory is either ☐ a radius of \_\_\_\_\_ miles around the Store or ☐ the geographical area surrounding the Store as depicted in a map attached to this Exhibit 1.

The Store is located at:

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(If the address of the Store is unknown when this Agreement is signed, as soon as the address is determined, it will be inserted later into the space above or added by addendum attached to this Exhibit 1.)

The Design Fee is set at \$3.3 per square foot, and the amount due and payable is \$\_\_\_\_\_.

## EXHIBIT 2 - NAMES AND ADDRESSES OF PRINCIPAL EQUITY OWNERS

If Franchisee is a corporation or limited liability company, list below the names, residential addresses and respective percentage equity ownership interests of each Principal Equity Owner:

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

4. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

5. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

6. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ %

## FINANCIAL STATEMENT

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SAN CHEN™

San Chen

EXHIBIT B

# **CHICHIA SAN CHEN CORPORATION**

**Financial Statements for the  
Five Months Ended August 31, 2020**



**CHICHIA SAN CHEN CORPORATION**  
**BALANCE SHEET**

|                                                                                 | <b>August 31,<br/>2020</b> |
|---------------------------------------------------------------------------------|----------------------------|
| Current Assets                                                                  |                            |
| Other current assets                                                            | \$ 217                     |
| Security deposits                                                               | 210                        |
| <b>Total Assets</b>                                                             | <b>\$ 427</b>              |
| Current Liabilities                                                             |                            |
| Due to related parties                                                          | \$ 1,464                   |
| Total liabilities                                                               | 1,464                      |
| Stockholders' Equity                                                            |                            |
| Common stock,<br>100,000 shares authorized, 1,000 shares issued and outstanding | 1,000                      |
| Accumulated deficit                                                             | (2,037)                    |
| Total stockholders' equity                                                      | (1,037)                    |
| <b>Total Liabilities and Stockholders' Equity</b>                               | <b>\$ 427</b>              |

**CHICHIA SAN CHEN CORPORATION**  
**STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS**

|                                  | <b>For the Five Months<br/>Ended August 31,<br/>2020</b> |
|----------------------------------|----------------------------------------------------------|
|                                  | <hr/>                                                    |
| General & Administrative Expense | \$ 2,037                                                 |
| loss before income tax           | <hr/> (2,037)                                            |
| Income tax provision             | <hr/> -                                                  |
| <b>Net loss</b>                  | <hr/> (2,037)                                            |
| <b>Comprehensive loss</b>        | <hr/> <hr/> \$ (2,037)                                   |

**CHICHIA SAN CHEN CORPORATION**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

|                            | Common stock |          | Accumulated |            |
|----------------------------|--------------|----------|-------------|------------|
|                            | Shares       | Amount   | Deficit     | Total      |
| Balance at April 24, 2020  | -            | \$ -     | \$ -        | \$ -       |
| Capital contributions      | 1,000        | 1,000    | -           | 1,000      |
| Net loss                   | -            | -        | (2,037)     | (2,037)    |
| Balance at August 31, 2020 | 1,000        | \$ 1,000 | \$ (2,037)  | \$ (1,037) |

**CHICHIA SAN CHEN CORPORATION**  
**STATEMENT OF CASH FLOWS**

**For the Five Monthes**  
**Ended August 31,**  
**2020**

**Cash flows from operating activities:**

|                                                                                             |              |
|---------------------------------------------------------------------------------------------|--------------|
| Net loss                                                                                    | \$ (2,037)   |
| Adjustments to reconcile net income (loss) to<br>net cash provided by operating activities: |              |
| Change in assets and liabilities:                                                           |              |
| Other current assets                                                                        | (217)        |
| Other payables                                                                              | 1,464        |
| <b>Net cash used in operating activities</b>                                                | <b>(790)</b> |

**Cash flows from investing activities:**

|                               |       |
|-------------------------------|-------|
| Increase in security deposits | (210) |
|-------------------------------|-------|

**Cash Flows from Financing Activities**

|                       |       |
|-----------------------|-------|
| Capital contributions | 1,000 |
|-----------------------|-------|

**Net increase in cash and cash equivalents**

|   |
|---|
| - |
|---|

**Cash, cash equivalents and restricted cash**

|                     |      |
|---------------------|------|
| Beginning of period | \$ - |
| End of period       | \$ - |

**Cash Paid During the Period for:**

|                   |      |
|-------------------|------|
| Income taxes paid | \$ - |
| Interest paid     | \$ - |

# CHICHIA SAN CHEN CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE FIVE MONTHS ENDED AUGUST 31, 2020 (In United States Dollars)

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### 1. DESCRIPTION OF BUSINESS

CHICHIA SAN CHEN CORPORATION (the "Company", "we") was incorporated in the California and commenced business in April 2020. The Company engages in regular chain and franchisee of chain restaurant and selling related products.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Estimates and Assumptions

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Examples include, but are not limited to, estimates for inventory reserves, asset and goodwill impairments, assumptions underlying self-insurance reserves, income from unredeemed stored value cards, stock-based compensation forfeiture rates, future asset retirement obligations and the potential outcome of future tax consequences of events that have been recognized in the financial statements. Actual results and outcomes may differ from these estimates and assumptions.

#### b. Revenue Recognition

The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by franchisees. Revenues from franchised restaurants include initial fees and royalties based on a percent of sales. The Company's revenue also include sale of products to franchisees.

The Company adopts ASC Topic 606, "Revenue from Contracts with Customers (Topic 606). Topic 606 requires the Company to recognize revenues when control of the promised goods or services and receipt of payment is probable. The Company recognizes revenue based on the five criteria for revenue recognition established under Topic 606: 1) identify the contract, 2) identify separate performance obligations, 3) determine the transaction price, 4) allocate the transaction price among the performance obligations, and 5) recognize revenue as the performance obligations are satisfied. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services.

#### Company-Operated Sales

The Company's recognition of revenue from Company-operated restaurants as those sales are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes.

#### Franchise Fee Revenue

The Company sells individual franchises. The franchise agreements typically require the franchisee to pay an initial fee prior to opening the respective location(s). The Company requires an initial franchise fee from the franchisee upon the execution of the franchise agreement. The franchise fee is non-refundable, except certain conditions as provided in the franchise agreement. Each franchised

restaurant operates under a separate franchise agreement. Under the terms of the franchise agreements, the Company typically promises to provide franchise rights, pre-opening services such as blueprints, operational materials and training courses. Upon adoption of ASC 606, initial fees are recognized as the Company satisfies the performance obligation over the franchise term.

#### Royalty Fees

Continuing royalty fees are recognized as revenue when earned. The Company accrued royalty fees based on a percentage of franchisee sales on a monthly basis. Royalty fee is recognized as revenue during the respective franchise agreement based on the royalties earned each period as the underlying franchise restaurants sales occur.

#### c. Leases

We lease office space for corporate administrative purposes under operating leases.

The Company evaluates each lease for classification as either a capital lease or an operating lease. If substantially all of the benefits and risks of ownership have been transferred to the Company as lessee, the Company records the lease as a capital lease at its inception. The Company performs this evaluation at the inception of the lease and when a modification is made to a lease. If the lease agreement calls for a scheduled rent increase during the lease term, the Company recognizes the lease expense on a straight-line basis over the lease term.

#### d. Income Taxes

We compute income taxes using the asset and liability method, under which deferred income taxes are recognized based on the differences between the financial statement carrying amounts and the respective tax bases of our assets and liabilities. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which we expect the temporary differences to reverse. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized. In evaluating our ability to recover our deferred tax assets within the jurisdictions from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Under FASB ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. As of August 31, 2020, the Company has not taken any uncertain tax position.

#### e. Related parties

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully

pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

### 3. LEASES

Rent expense under operating lease agreements:

| <b>FISCAL YEAR ENDED</b> | <b>2020</b>     |
|--------------------------|-----------------|
| Minimum rent             | \$ 228          |
| Contingent rent          | <u>839</u>      |
| Total                    | <u>\$ 1,067</u> |

### 4. RELATED PARTY TRANSACTIONS

Besides disclosures elsewhere in other notes, details of transactions between the Company and other related parties are disclosed below.

#### a. Other payables

| <b>Related Party Categories</b> | <b><u>August 31<br/>2020</u></b> |
|---------------------------------|----------------------------------|
| Key management personnel        | <u>\$ 1,464</u>                  |

**LIST OF FRANCHISE OUTLET**

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**SAN CHEN™**

**San Chen**

**EXHIBIT C**

## **LIST OF FRANCHISE OUTLETS**

As of October 1, 2020, we do not have any outlets open and operating. We do not sign any agreement with any person or entity.

**LIST OF TERMINATED FRANCHISE**

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**SAN CHEN™**

**San Chen**

**EXHIBIT D**

## **LIST OF TERMINATED FRANCHISES**

As of October 1, 2020, no **San Chen**<sup>TM</sup> franchisee had an outlet terminated, canceled, or not renewed, or otherwise voluntarily or involuntarily ceased to do business under its franchise agreement during the past 12 months.

No franchisee has failed to communicate with us within the 10 weeks ending on the date of this disclosure document.

**AREA DEVELOPMENT AGREEMENT**

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**SAN CHEN™**

**San Chen**

**EXHIBIT E**

## AREA DEVELOPMENT AGREEMENT

This Area Development Agreement (“Agreement”) is made on\_\_\_\_\_, 20\_\_\_\_ (the “Effective Date”) by and between Chichia San Chen Corporation, a California limited liability company doing business as **San Chen™** (“Franchisor”), \_\_\_\_\_ (“Area Developer”), and (if Area Developer is not a sole proprietorship) each person owning 20% or more of the Area Developer entity, who will sign and be a party to this Agreement (in such context, “Principal Equity Owner”).

Area Developer or its affiliated company is concurrently entering into a Franchise Agreement with Franchisor, under the terms of which the franchisee is being granted a right to open and operate a **San Chen™** franchised business at a retail store (“Store”) Franchisor has consented to, under **San Chen™** trademarks and in accordance with Franchisor’s business format.

In consideration of the mutual promises, covenants, agreements and conditions contained in this Agreement, and other good and valuable consideration, Area Developer and Franchisor hereby agree as follows.

### I. GRANT OF RIGHTS TO OPEN ADDITIONAL STORES

#### 1.1 Additional Stores.

(a) Subject to the terms and conditions contained herein, Franchisor hereby grants to Area Developer the right to, and Area Developer hereby agrees to, establish and operate itself or through affiliated entities additional Stores in accordance with the schedule of openings attached hereto as Exhibit 1 (the “Development Schedule”).

(b) So long as Area Developer’s obligations under the Development Schedule are being met on a timely basis and until this Agreement terminates, Franchisor will not itself operate a Store within the geographical area (the “Development Area”) indicated in the Development Schedule, nor allow any of its affiliates, or other licensees or Area Developers, to do so.

(c) Area Developer’s rights to open and operate Stores under this Agreement do not extend to a “Non-Traditional Venue” (defined as a business operated under the “**San Chen™**” marks that is located within another primary business or in conjunction with other businesses or at institutional settings, including toll roads, stadiums, airports, colleges and universities, schools, hospitals, military and other governmental facilities, office facilities, and any site for which the lessor, owner or operator thereof has indicated its intent to prefer or limit the operation of its facilities to a master concessionaire or contract service provider).

(d) If Franchisor becomes insolvent or declares bankruptcy or is no longer authorized to offer and sell franchises in Area Developer’s state because of a lapse of applicable franchise registration or other reason, Area Developer will continue to have the right to operate under this Agreement unless a state or federal court issues an order otherwise.

#### 1.2 Franchise Agreements.

(a) When Area Developer (or its affiliated entity) opens an additional Store under the Development Schedule, Area Developer (or its affiliated entity) must enter into Franchise Agreement for that additional Store with Subfranchisee. So long as Area Developer is in good standing under this Agreement, Area Developer (or its affiliated entities) will continue to have the right to open and operate Stores in the Development Area in accordance with the Development Schedule.

(b) Each Franchise Agreement executed pursuant hereto will provide that Franchisor and its affiliates may not open or operate, or franchise or license the operation of, any other Store within the protected “Territory” of the Store (a defined area surrounding the Store) opened by Area Developer (or its affiliated entity) pursuant to such Franchise Agreement.

### **1.3 Term.**

The term of this Agreement commences on the Effective Date and, unless sooner terminated by Area Developer’s material breach hereof, will continue 5 years or until termination as provided in Article XI hereof. There will be no extensions or renewal periods relating to the Development Schedule unless done so in writing. Upon termination of this Agreement, Area Developer (and its affiliated entities) will no longer have the right to open future Stores under the Development Schedule.

## **II. DEVELOPMENT OBLIGATIONS**

### **2.1 Development Obligations.**

(a) Area Developer (or its affiliated entity) must construct, equip and open each additional Store not later than the date specified in Exhibit 1 applicable to the Store, and thereafter continue to operate the Store or assign it with Franchisor’s consent to another **San Chen™** Area Developer.

(b) Any Store developed hereunder that is open and operating and which has been assigned to an affiliate of Area Developer, or to another **San Chen™** Area Developer, or to a third party with Franchisor’s consent will continue to be considered as partial satisfaction of Area Developer’s obligations under the Development Schedule for so long as the assignee remains in good standing under the Franchise Agreement relating to that Store.

### **2.2 Deleted.**

### **2.3 Force Majeure.**

(a) The term “*Force Majeure*” means natural disasters (such as tornadoes, earthquakes, hurricanes, floods, fires or other natural catastrophes); strikes, lockouts or other industrial disturbances; war, terrorist acts, riot, or other civil disturbance; epidemics; or other similar forces which Area Developer could not by the exercise of reasonable diligence have avoided; provided however, that neither an act or failure to act by any federal, state, county, municipal and local governmental and quasi-governmental agency, commission or authority, nor the performance, non-performance or exercise of rights under any agreement with Area Developer by any lender, landlord, or other person will be a *Force Majeure*, except to the extent that such act, failure to act,

performance, non-performance or exercise of rights results from an act that is otherwise a *Force Majeure*. For the avoidance of doubt, Area Developer's financial inability to perform or Area Developer's insolvency will not be a *Force Majeure* hereunder.

(b) Subject to Area Developer's continuing compliance with section 2.3(c) below, should Area Developer be unable to meet Area Developer's development obligation for a scheduled additional Store solely as the result of a *Force Majeure* which results in Area Developer's inability to construct or operate the Stores pursuant to the terms of this Agreement, the date on which the scheduled additional Store is to be opened will be extended by an amount of time equal to the time period during which the *Force Majeure* exists.

(c) In the event of the occurrence of a *Force Majeure*, Area Developer must notify Franchisor in writing within 10 business days following commencement of the alleged *Force Majeure* of the specific nature and extent of the *Force Majeure*, and how it has impacted Area Developer's performance hereunder. Area Developer must continue to provide us with updates and all information as may be requested by Franchisor, including Area Developer's progress and diligence in responding to and overcoming the *Force Majeure*.

(d) Franchisor will not be liable to Area Developer for any consequential damages, including lost profits, interest expense, increased construction or occupancy costs, or other costs and expenses incurred by Area Developer due to any conduct not due to Franchisor's gross negligence or intentional misfeasance.

## 2.4 Deleted

# III. DEVELOPMENT FEE

## 3.1 Development Fee.

(a) In consideration of the Area Developer receiving the opportunity to establish or subfranchise the Franchise Business, Area Developer shall pay to Franchisor, upon execution of this Agreement, an initial, non-recurring, non-refundable Development Fee in the amount of \$\_\_\_\_\_. The Development Fee shall be deemed to be fully earned by the Franchisor upon execution of this Agreement by Franchisor and in consideration of the grant by it to Area Developer of the opportunity to establish or subfranchise the franchise business herein provided. Area Developer shall not be entitled to a refund of any part thereof, regardless of the date of expiration or termination of this Agreement, excepted as specifically provided herein.

(b) Deleted.

(c) If Area Developer (or its affiliated entity) does not successfully complete initial franchise training required by the first **San Chen™** Franchise Agreement Area Developer (or its affiliated entity) enters into, Franchisor will refund Area Developer's Development Fee, less any expenses Franchisor incurred relating to this Agreement. **Otherwise, the Development Fee is not refundable.**

## 3.2 Deleted

### **3.3 Security Deposit.**

Area Developer shall pay Franchisor the sum of \$50,000 as a deposit for guaranty of its performance of obligation under this Agreement. Nevertheless, Franchisor shall return the deposit without interest attached after expiration or termination of this Agreement. In the event that the Agreement is terminated by Franchisor because of Area Developer's breach of the Agreement, Franchisor may deduct reasonable amount of deposit fee as compensation or damages.

### **3.4 Franchise Fee.**

Area Developer shall pay Franchisor the sum of \$8,000 of Franchise Fee per one additional Franchise Store. Area Developer shall be liable for the Franchise Fee regardless of whether such Franchise Store is owned by Area Developer or other Subfranchisee(s). Area Developer is obligated to provide Franchise Agreement executed between Area Developer and Subfranchisee(s) to Franchisor before grand open of the Franchise Store.

### **3.5 Continuing Royalty.**

In return for the ongoing rights and privileges granted to Area Developer, Area Developer shall pay to Franchisor, throughout the term of this Agreement, a royalty of 4% of Gross Sales of all Stores for each month. All royalties are payable in arrears on or before 15<sup>th</sup> of each month for the Gross Sales generated by Area Developer during the immediately preceding week.

### **3.6 Design Fee.**

Area Developer shall be responsible of Design Fee for \$3.3/ft<sup>2</sup> to Franchisor of all Stores operated in its territory in the event that Franchisor is asked to conduct design. Nevertheless, in the event that Area Developer engages local designer to perform the design, Area Developer shall obtain Franchisor's prior written consent of the design before construction of any Store.

### **3.7 Renewal Fee.**

Upon written noticed of renewal is delivered to Franchisor not less than 90 days before the end of existing term hereof, Area Developer may renew its right granted under this Agreement for additional 5 years commencing on the expiration date of previous term. On or before the execution of the renew Area Development Agreement, Area Developer shall pay Franchisor a "Renewal Fee" of \$10,000 per Store.

### **3.8 Payment Terms.**

Area Developer agrees that all payment shall be made with U.S. Dollars and remittance hereof shall be limited to one bank account.

## **IV SUPPLY AND OPERATION**

### **4.1 Ingredients, Materials, and Management Procedures**

In order to ensure the quality of product, Area Developer shall order specified raw ingredients and materials from Franchisor. As for unspecified materials, for instance, milk and fruits, Franchisor shall assist Area Developer select qualified and reputed suppliers. Area Developer shall develop appropriate store procurement and inventory management procedures. The management procedures shall be implemented after Franchisor's prior written consent.

#### **4.2 Safety of Ingredients and Materials**

Franchisor shall provide qualitative raw ingredients and materials to Area Developer. In the event that raw ingredients and materials have safety issues identified by local health authorities, Area Developer may apply return or exchange; all expenses arising out of or relating to the return or exchange shall be borne by Franchisor.

#### **4.3 Payment Conditions**

The payment and shipping terms of the ingredients and materials is as following:

(a) Franchisor shall start to prepare the shipment after receives seventy percent (70%) of the payment of Area Developer's purchase order; and

(b) Shipment shall be made within forty-five (45) working days after Franchisor receives the payment specified in section 4.3(a); and

(c) The remaining thirty percent (30%) of the payment shall be paid three (3) days before the shipment is made; and

(d) Area Developer should place order on 5th, 10th, or 20th of each month (Taiwan Date).

(e) After the complete payment, Franchisor shall deliver to the place designated by Area Developer, and Area Developer shall accept the goods after inspection thereof. The freight, insurance, and related expenses shall be borne by Area Developer.

#### **4.4 Prohibition to Alter Goods or Service Provided**

Area Developer shall not alter price, name of goods or service provides or will provide to customers or combine the goods or service with other types of goods or service that it provides to customers without a prior written consent by Franchisor.

#### **4.5 Rebate**

Franchisor shall provide rebate of 5% to total payment of ingredients and materials to Area Developer from order made in the following month.

#### **4.6 POS System**

All Stores located within Area Developer's territory shall install the POS system designated by Franchisor. Additionally, Area Developer's shall be liable for all fees arising out of or relating to the implementation and operation of POS system.

#### **4.7 FOB Taiwan**

The shipping terms of goods is FOB Taiwan. FOB means that Franchisor shall be liable for cost of goods transported to any port located in Taiwan. Area Developer shall be liable for insurance and transportation fee of the goods once the goods are delivered to freight carriers.

#### **4.8 Damage**

In the event that Area Developer violates obligation prescribed in this Article, Area Developer

shall be liable for liquidated damages equivalent to the sum of USD \$20,000.

## **V. TRAINING**

### **5.1 First Stage of Training**

Area Developer shall dispatch two to four personnel to Franchisor's place (located in Taiwan) to receive a ten (10) day training. Area Developer shall communicate with Franchisor 30 days prior to initiation of training to facilitate and ascertain details of training. Area Developer shall be responsible for accommodation, transportation, or other necessary fees for its personnel.

### **5.2 Second Stage of Training**

One month before first day of trial operation, Area Developer shall communicate with Franchisor once the ingredients, materials, facilities, and personnel are ascertained. Franchisor shall dispatch one to two supervisors to Area Developer's Store and perform on-site assistance for fourteen (14) days. The fourteen (14) day period includes two days off and round trip travel time. Area Developer shall be liable for transportation and accommodation of Franchisor's personnel.

### **5.3 Special Requirement of Accommodation and Training Fees**

Unless agreed otherwise, Area Developer shall provide Franchisor's personnel with single room in hotel rated at least four (4) stars. Area Developer shall provide USD \$200/day for each of Franchisor's personnel as training fees.

### **5.4 Special Obligation of Area Developer**

In the event that Area Developer's business performs poorly in the future, Area Developer shall send two (2) more personnel back to Franchisor's office to receive additional training.

### **5.5 Inspection and Training for New Goods**

The Franchisor may at its sole discretion inspect goods or service provided on-site or provide training twice a year for new products; Area Developer shall not refuse. Each training shall continue for five (5) days, and Area Developer shall be liable for transportation and accommodation for personnel dispatched by Franchisor.

## **VI. MARKETING**

### **6.1 Design Guidelines**

Franchisor shall provide Area Developer with a digital copy of Design Guidelines, nevertheless, Area Developer shall be solely responsible for print out of the Design Guidelines.

### **6.2 Marketing Activities and Projects**

Franchisor authorizes Area Developer to plan marketing activities or projects within its territory, however, Area Developer is obligated to notify Franchisor one month before the promulgation of marketing activities or projects. Franchisor shall be responsible to provide professional advice to marketing activities or project. In the event that Franchisor deems the marketing materials inconsistent with **San Chen**<sup>TM</sup>'s brand image, Area Developer shall revise or amend the marketing activities or projects until Franchisor's satisfaction. Franchisor shall consider local culture and incorporate into its advice for revision or amendment to marketing materials. Area Developer shall bore the fees arising out of or relating to the marketing activities or projects.

### **6.3 Restrictions of Marketing Activities**

Area Developer's advertising materials or content shall not violate local laws or regulations, in the event that violation occurs and Area Developer encounters litigations, Area Developer shall be responsible solely. Franchisor may terminate the Area Development Agreement in the event that its brand, trademark, or reputation is damaged because of illegal activities of Area Developer.

### **6.4 Unified Advertising Campaign**

Franchisor may promulgate a unified advertising campaign at its sole discretion; Area Developer shall cooperate and execute accordingly to the campaign.

### **6.5 Social Media**

Area Developer shall establish and manage its own Social Media Homepage, and any fees arising out of or relating to the management and maintenance of the Social Media homepage shall be borne by Area Developer only.

### **6.6 Portrait Rights**

Area Developer shall respect portrait rights of all public figures. Any violation of laws or regulations shall be attributed to Area Developer, Franchisor shall not be responsible to it.

## **VII. OPERATION**

### **7.1 Supervision by Franchisor**

Area Developer shall supervise all Subfranchisees' operation of Store, meanwhile, Area Developer shall provide monthly and seasonal report to Franchisor. Additionally, Area Developer shall grant access to Franchisor the right to monitor POS system and supervise sales turnover at each and every Store. Any fee arising out of and relating to the access shall be borne by Area Developer.

### **7.2 Store Inspection**

Franchisor may dispatch personnel to Store and its ancillary building during business hours. The scope of inspection hereof includes display of goods, storage of inventory, ship order and stock, management of raw ingredients and materials, facility, logistics, apparatus, procedure of manufacture and techniques, service content, health and safety, matters of management and operation. In order to inspect, audit and provide appropriate advice, Franchisor may conduct inspection, sampling, recording, filing, and demand store/outlet to provide relevant goods, files, report, accounting document, and other records. Area Developer may not refuse, hide, or obstruct Franchisor's right mandated in the Article.

### **7.3 Health and Safety Standard**

Franchisor may dispatch personnel to Store to inspect goods; alternatively, Area Developer may provide samples of goods and send it to Franchisor's specified institution or entity for further inspection. The standard of inspection shall follow laws and regulations of health and safety standard mandated by local authorities. In the event that inspection failed the standard, the inspection shall continue until it passes the standard. The fees arising out of or relating to inspection and re-inspection shall be borne by Area Developer.

### **7.4 Other Business Qualifications**

Area Developer shall acquire its own business qualifications required by local government. The qualification includes, but is not limited to Franchise Disclosure Document, Incorporation of Company, and Acquisition of Tax Number.

## **VIII. TRADEMARK**

### **8.1 Prohibition of Illegal Use**

Area Developer shall not use the same or similar trademark, alternative trademark, Franchisor or its affiliated enterprise name, as the name of Area Developer's company. Additionally, Area Developer shall not register any domain name, advertise Franchisor's trademark on vehicles, signs, business cards, or other items.

### **8.2 Removal**

Within seven (7) days after expiration, termination or rescission of this Agreement, Area Developer and the Stores shall, at its own expense, remove any signs, printing and publicity materials, business system supplies, signs, names, equipment and other articles and documents attached with Franchisor's intellectual property rights, including but not limited to licensed trademark, other trademarks, service marks, copyrights, patents, or enterprise identification system. In the event that Area Developer or Stores fails to remove immediately, Area Developer shall be responsible for the sum of USD\$2,000/day to compensate Franchisor until the date of removal. Franchisor may remove, at its discretion, the signs, printing and publicity materials after ten (10) days of expiration, termination or rescission of this Agreement. Area Developer shall be liable for the fees.

## **IX. TRANSFER OR ASSIGNMENT**

### **9.1 Assignability.**

(a) Franchisor has executed this Agreement in reliance upon and in consideration of the singular personal qualifications, trust and confidence that Franchisor reposes in Area Developer. Accordingly, although Area Developer may assign individual Franchise Agreements, Area Developer may not assign this Agreement except as provided in Section 9.2 below.

(b) Franchisor may assign this Agreement in Franchisor's sole discretion and without Area Developer's consent, and Area Developer acknowledges that Franchisor is permitted to do so without liability or obligation to Area Developer, and Area Developer expressly and specifically waives any claims, demands or damages arising from or related to any such assignment.

### **9.2 Transfers from Area Developer to an Affiliated Entity.**

Upon not less than 30 days' prior written notice to Franchisor, Area Developer may without Franchisor's consent assign and transfer this Agreement to an entity that is (i) organized to operate as a developer of Stores and (ii) entirely owned by Area Developer. Any assignment and transfer to an affiliated entity must be evidenced by a written instrument, in form reasonably satisfactory to Franchisor, under the terms of which said business entity expressly assumes all of Area Developer's obligations hereunder, whether accrued at the time of such assignment or arising thereafter, and the assignee agrees to be bound by all the terms and provisions of this Agreement to the same extent and in the same manner as Area Developer is. A copy of said instrument,

executed by both Area Developer and said business entity must be delivered to Franchisor before the effective date of the transfer.

## **X. NON-COMPETITION**

### **10.1 Restriction on Competitive Activities.**

During the term of this Agreement and for one year after it is terminated or expires, Area Developer and each of its “Principal Equity Owners” (persons owning more than 20% of Area Developer) must comply with the non-competition covenants. Area Developer and each of its “Principle Equity Owner” shall not invest, operate, or manage same or similar products or service within the same specified area.

### **10.2 Website and Unauthorized Advertising.**

During the term of this Agreement, neither Area Developer nor any of its Principal Equity Owners may establish a website or register an Internet domain name using, or otherwise advertise on the Internet or anywhere else, the trademark “**San Chen™**”, or any combination or derivations thereof, or similar marks, or any other trademarks of ours, except as Franchisor specifically authorizes in writing.

## **XI. DEFAULT AND TERMINATION**

### **11.1 General.**

In addition to a termination pursuant to section 2.3 above, this Agreement may be terminated by Franchisor if Area Developer (i) fails to substantially comply with any obligation, duty or promise under this Agreement, including failure to open a Store within the time specified in the Development Schedule, after being given a notice of default and reasonable opportunity to cure the default (no more than 30 days), or (ii) is in material breach of any Franchise Agreement that Area Developer (or its affiliated entity) entered into with Franchisor.

### **11.2 Operation of Opened Stores after Termination or Expiration.**

If Franchisor terminates this Agreement for the reasons described in section 11.1 above, Area Developer (or its affiliated entities) will be able to maintain ownership and operation of the Stores which Area Developer has developed so long as Area Developer is not in material breach of the applicable Agreement; however, Area Developer will forfeit (i) any further exclusive rights under the Development Schedule and this Agreement, and (ii) any rights to have a credit applied against the Initial Franchise Fee for Stores that were not developed.

### **11.3 Condition of Termination**

In the event that Area Developer has any of the following circumstances, Franchisor may, except as otherwise provided in this Agreement, terminate this Agreement.

(a) Area Developer violates or fails to perform the obligations, or statement or warranty stipulated herein, and fails to make a correction within thirty days after receipt of a written notice from Franchisor.

(b) Area Developer fails to make any payment payable on time in accordance with the Agreement and fails to correct delay payment within twenty days receipt of a written notice from

Franchisor.

(c) Area Developer is under the procedure of dissolution, liquidation, bankruptcy or company reorganization, or unable to conduct business because of court or government order.

(d) Area Developer involves in activities that may damage Franchisor's public image or good will.

## **XII. DISPUTE RESOLUTION**

### **12.1 Mediation.**

(a) Franchisor and Area Developer have entered into a long-term franchise relationship which gives rise to an obligation, subject to and consistent with the terms of this Agreement, to endeavor to make the relationship succeed, considering the overall best interests of the entire System, as contemplated by this Agreement. To that end, Area Developer and Franchisor acknowledge that Area Developer and Franchisor need to attempt to resolve disagreements or disputes before such disagreements or disputes negatively impact the relationship. Good faith communications between Franchisor and Area Developer are important aspects of that obligation. The parties hereby pledge and agree that they will first attempt to resolve any dispute, claim or controversy arising out of or relating to this Agreement or any alleged breach hereof, including any claim that this Agreement or any part hereof is invalid, illegal or otherwise voidable or void (collectively, "Dispute") by first having Franchisor's executive officers and Area Developer's Principal Equity Owners meet in person within five business days after a party notifies the other party that a Dispute has arisen at Franchisor's principal executive office (without their respective legal counsel) to conduct a good faith discussion and negotiation of the issues with a view to arriving at a settlement. If a party refuses to participate in the settlement meeting or mediation within the respective time frames set forth in this section 12.1, the other party may immediately commence an arbitration proceeding pursuant to section 12.2 below.

(b) If the parties are unable to settle the Dispute at the settlement conference described in section 12.1 above, within 10 business days after the date this conference took place (or should have taken place), Area Developer and Franchisor may submit the dispute to non-binding mediation at a location in California (or another location mutually agreeable to both parties) conducted by a mutually acceptable mediator. If the Dispute is not referred to mediation within 10 business days after the settlement conference took place (or should have taken place), the Dispute may be immediately submitted to binding resolution through arbitration proceedings pursuant to section 12.2 below. Any mediation proceedings should be completed within 60 days following the date either party first gives notice of mediation. The fees and expenses of the mediator will be shared equally by the parties. The mediator will be disqualified as a witness, expert or counsel for any party with respect to the Dispute and any related matter.

(c) Mediation is a compromise negotiation and will constitute privileged communications under the law governing this Agreement. The entire mediation process will be confidential and the conduct, statements, promises, offers, views and opinions of the mediator and the parties will not be discoverable or admissible in any legal proceeding for any purpose; provided, however, that

evidence which is otherwise discoverable or admissible will not be excluded from discovery or admission because of its use in the mediation. The fees charged by a mediator and any other related fees and costs will be divided equally between the parties.

## **12.2 Arbitration.**

**(a) Any Dispute between Franchisor (and/or its affiliated entities) and Area Developer (and/or its Principal Equity Owners or affiliated entities) not settled through the procedures described in section 12.2 above, or any determination of the scope or applicability of this agreement to arbitrate, will be resolved through binding arbitration by one arbitrator from AMERICAN ARBITRATION ASSOCIATION, or if the parties in dispute mutually agree, through binding arbitration by one arbitrator administered by any other mutually agreeable arbitration organization. It is explicitly agreed by each of the parties hereto that no arbitration of any Dispute may be commenced except in accordance with this section 12.2.**

**(b) All hearings and other proceedings will take place at the AMERICAN ARBITRATION ASSOCIATION business location in 725 S Figueroa St #400, Los Angeles, CA 90017, USA.**

**(c) Either party may present briefs and affidavits of witnesses who are unable to attend hearings. A limited amount of discovery is permitted within the discretion of the arbitrator (including affidavits, interrogatories and depositions). The arbitrator will have the right to award or include in the award any relief that the arbitrator deems proper in the circumstances, including money damages (with interest on unpaid amounts from the date due), specific performance and injunctive relief, provided that the arbitrator will not have the right to declare any Mark generic or otherwise invalid or to award punitive damages. If either party fails to appear or participate in the arbitration proceeding, the other party will be entitled to a default judgment award. The arbitration award will be final and binding on the parties, and judgment on the award may be entered in any federal or state court having jurisdiction.**

**(d) TO THE MAXIMUM EXTENT PERMITTED BY LAW, ALL CLAIMS BROUGHT UNDER THIS AGREEMENT WILL BE BROUGHT IN AN INDIVIDUAL CAPACITY. THIS AGREEMENT MAY NOT BE CONSTRUED TO ALLOW OR PERMIT THE CONSOLIDATION OR JOINDER OF OTHER CLAIMS OR CONTROVERSIES INVOLVING ANY OTHER FRANCHISEES OR PERMIT SUCH CLAIMS OR CONTROVERSIES TO PROCEED AS A CLASS ACTION, CLASS ARBITRATION, COLLECTIVE ACTION, OR ANY SIMILAR REPRESENTATIVE ACTION. NO ARBITRATOR WILL HAVE THE AUTHORITY UNDER THIS AGREEMENT TO ORDER ANY SUCH CLASS OR REPRESENTATIVE ACTION. BY SIGNING BELOW, FRANCHISEE ACKNOWLEDGES FRANCHISEE IS AGREEING TO WAIVE ANY SUBSTANTIVE OR PROCEDURAL RIGHTS THAT FRANCHISEE MAY HAVE TO BRING AN ACTION ON A CLASS, COLLECTIVE, REPRESENTATIVE OR OTHER SIMILAR BASIS. ACCORDINGLY, FRANCHISEE EXPRESSLY AGREES TO WAIVE ANY RIGHT FRANCHISEE MAY HAVE TO BRING AN ACTION ON A CLASS, COLLECTIVE, REPRESENTATIVE OR OTHER SIMILAR**

## **BASIS.**

**(e) TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE PARTIES WAIVE ALL RIGHTS THEY MAY HAVE TO SEEK PUNITIVE DAMAGES FROM ONE ANOTHER. ACCORDINGLY, THE ARBITRATOR WILL HAVE NO POWER TO ASSESS PUNITIVE DAMAGES AGAINST EITHER PARTY.**

**(f) This arbitration provision is deemed to be self-executing and will remain in full force and effect after expiration or termination of this Agreement. If either party fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party by default or otherwise notwithstanding said failure to appear.**

**(g) The provisions of this section 14.2 are intended to benefit and bind certain third-party non-signatories and will continue in full force and effect after (and notwithstanding) the expiration or termination of this Agreement. Furthermore, this section 14.2 will be construed as independent of any other covenant or provision of this Agreement; provided, however, that if a court of competent jurisdiction determines that any of such provisions are unlawful in any way, the court is respectfully requested to modify or interpret such provisions to the minimum extent necessary to comply with the law.**

**[Franchisor's Initials: \_\_\_\_\_ Area Developer's Initials: \_\_\_\_\_]  
[Principal Equity Owners' Initials: \_\_\_\_\_]**

### **12.3 Injunctive Relief.**

Any party has the right in a situation where there is an imminent threat of harm to the legal rights of a party and damages would not be adequate relief to seek a temporary restraining order and temporary or preliminary injunctive relief from a court of competent jurisdiction in California, without the necessity of first complying with sections 12.1 and 12.2 above or posting any bond, and if bond is nevertheless required by a court of competent jurisdiction, the parties agree that the sum of \$1,000 will be a sufficient bond (this amount may be adjusted by changes in the Consumer Price Index since the Effective Date). If an arbitration proceeding has already commenced pursuant to section 12.2 above when a party seeks injunctive relief, then the party seeking such injunctive relief agrees to contemporaneously submit the merits of its dispute to the arbitrator. The existence of a proceeding commenced under section 12.1 or 12.2 above will in no event abate or otherwise affect the ability of party to seek injunctive relief under this section 12.3. Area Developer acknowledges that its failure to comply fully with any of the terms of this Agreement respecting the obligations regarding examinations, audits and the Marks could cause irreparable damage to Franchisor or other affiliated persons or entities, and Franchisor or Franchisor's affiliates are empowered to seek injunctive relief to protect the Marks. This covenant is independent, severable and enforceable notwithstanding any other rights or remedies that any party may have.

### **12.4 Legal Fees and Expenses.**

The prevailing party in any arbitration or litigation to resolve a dispute between any of the parties hereto will be entitled to recover from the losing party reasonable legal fees (and incurred costs of the prevailing party's counsel) and all other Expenses incurred by the prevailing party in bringing or defending such arbitration, action or proceeding and/or enforcing any resulting award or judgment (including without limitation arbitration or court filing fees, expert and other witness

fees, discovery expenses and compensation payable to the arbitrator), whether incurred prior to or in preparation for or in contemplation of the filing of the action or thereafter. The prevailing party will be determined by the arbitrator or court. This section 12.4 is intended to be expressly severable from the other provisions of this Agreement, is intended to survive any judgment and is not to be deemed merged into the judgment.

#### **12.5 Survival.**

The terms of this Article XII survive termination, expiration or cancellation of this Agreement.

### **XIII. NOTICES**

#### **13.1 Notices.**

(a) All notices that the parties hereto are required or may desire to give under or in connection with this Agreement must be in writing and (unless personally delivered by an agent of the sending party) must be sent by reliable overnight courier, for delivery on the next business day and addressed as follows:

(i) If to Franchisor:

(ii) If to Area Developer:

(b) Unless previously delivered in person by an agent of the sending party, notices between Area Developer and Franchisor will be deemed given the next business day after deposit with a reliable overnight courier, properly addressed and marked for delivery on the next business day.

(c) Any change in the addresses listed in section 13.1(a) above must be sent to the other party as soon as practicable after the change occurs by reliable overnight courier or in person by an agent of the sending party.

### **XIV. GENERAL TERMS AND PROVISIONS**

#### **14.1 Governing Law.**

The laws of California govern this Agreement, without regard to conflicts of laws. If any provision of this Agreement is impermissible under the governing law, the provision will be deemed amended to conform to that law while maintaining to the maximum extent possible the original intent of the provision.

#### **14.2 Modification.**

This Agreement cannot be modified or changed except by a written instrument signed by all of the parties hereto.

#### **14.3 Waiver and Delay.**

No waiver by Franchisor of any breach or series of breaches or defaults in performance by Area Developer and no failure, refusal or neglect by Franchisor either to exercise any of its rights hereunder or to insist upon strict compliance with or performance of Area Developer's obligations under this Agreement, will constitute a waiver of the provisions of this Agreement with respect to any subsequent breach thereof or a waiver by Franchisor of its right at any time thereafter to require exact and strict compliance with the provisions thereof.

#### **14.4 Severability; Partial Invalidity.**

Nothing contained in this Agreement will be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provisions of this Agreement and any present or future statute, law, ordinance, regulation or judicial decision, contrary to which the parties have no legal right under this Agreement, the latter will prevail, but in such event the provision of this Agreement thus affected will be curtailed and limited only to the extent necessary to bring it within the requirements of the law. If any part, article, section, sentence or clause of this Agreement is held to be indefinite, invalid or otherwise unenforceable, the indefinite, invalid or unenforceable provision will be deemed appropriately modified, and the remaining parts thereof will continue in full force and effect.

#### **14.5 Titles for Convenience Only.**

Section titles used in this Agreement are for convenience only and will not be deemed to affect the meaning or construction of any of the terms, provisions, covenants or conditions of this Agreement.

#### **14.6 No Third-Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity (other than financing sources to whom Franchisor has granted or consented to a collateral assignment of this Agreement) will be entitled to any rights hereunder under so-called "third party beneficiary rights" or otherwise.

#### **14.7 Survival of Covenants.**

The covenants contained in this Agreement that by their terms require performance by the parties after the expiration or termination of this Agreement will be enforceable notwithstanding said expiration or other termination of this Agreement for any reason whatsoever.

#### **14.8 Successors and Assigns.**

Subject to the restrictions on any assignment by Area Developer contained herein, this Agreement is binding upon (i) Franchisor and inures to the benefit of its successors and assigns and (ii) Area Developer and inures to the benefit of its successors and assigns.

#### **14.9 Counterparts.**

This Agreement may be executed in any number of copies, each of which will be deemed to be an original, and all of which together will be deemed to be one and the same instrument.

#### **14.10 Entire Agreement.**

- (a) This Agreement contains all the terms and conditions agreed upon by Area Developer

and Franchisor regarding the subject matter hereof, provided however, that nothing in this Agreement or in any related agreement is intended to disclaim the representations made in the **San Chen™** franchise disclosure document that was provided to Area Developer. No other agreements oral or otherwise will be deemed to exist or to bind any of the parties hereto and all prior agreements and understandings are superseded hereby. Area Developer acknowledges that it executed this Agreement without reliance upon any unauthorized representation or promise.

(b) This Agreement cannot be modified or changed except by written instrument signed by all the parties hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**IN WITNESS WHEREOF**, the parties executed this Agreement as of the Effective Date.

AREA DEVELOPER:

FRANCHISOR:

\_\_\_\_\_

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

\_\_\_\_\_

\_\_\_\_\_

[PRINTED NAME AND TITLE]

AREA DEVELOPER'S PRINCIPAL EQUITY OWNERS:

*(Note: each Principal Equity Owner is signing below as a party to this Agreement, and is individually obligated to perform or guarantee the performance by an entity Area Developer of all duties and obligations of the Area Developer under this Agreement)*

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

x \_\_\_\_\_

\_\_\_\_\_  
[PRINTED NAME]

## **EXHIBIT 1 - DEVELOPMENT SCHEDULE**

All Stores will be opened at sites located in the “Development Area” described as follows:

Area Developer must open (and thereafter maintain) Stores in accordance with the following schedule:

| <b>NUMBER OF STORE</b> | <b>DATE BY WHICH STORE MUST BE OPENED</b> |
|------------------------|-------------------------------------------|
| 1                      |                                           |
| 2                      |                                           |
| 3                      |                                           |
| 4                      |                                           |
| 5                      |                                           |

**STATE FRANCHISE ADMINISTRATORS AND  
AGENTS FOR SERVICE OF PROCESS**

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**SAN CHEN™**

**San Chen**

**EXHIBIT F**

## STATE FRANCHISE ADMINISTRATORS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. The following are the state administrators responsible for the review, registration and oversight of franchises in these states:

### **California:**

Department of Financial Protection and Innovation  
2101 Arena Boulevard, Sacramento, CA 95834  
Toll-free (866) 275-2677  
(916) 445-7205

### **Hawaii:**

Commissioner of Securities, Dept. of Commerce and  
Consumer Affairs, Business Registration Div.,  
Securities Compliance Branch  
335 Merchant St., Rm. 203, Honolulu  
HI 96813-2921  
(808) 586-2722

### **Illinois:**

Office of the Attorney General  
Franchise Division  
500 S. 2<sup>nd</sup> St., Springfield IL 62701-1771  
(217)782-4465

### **Indiana:**

Indiana Securities Division, Franchise Section  
302 W. Washington St., Rm E111  
Indianapolis, IN 46204-2738  
(317) 232-7781

### **Maryland:**

Office of the Attorney General  
Securities Division  
200 Saint Paul Pl. Baltimore, MD 21202-2020  
(410)576-6360

### **Michigan:**

Michigan Attorney General  
Consumer Protection Division  
PO Box 30213, Lansing, MI 48909-7713  
(517)373-7117

### **Minnesota:**

Commissioner of Commerce  
85 7<sup>th</sup> Pl. E., Ste 280  
Saint Paul, MN 55101-3165  
(651) 539-1600

### **New York:**

NYS Department of Law  
Investor Protection Bureau  
28 Liberty St., 21st Flr.  
New York, NY 10005-1495  
(212) 416-8236

### **North Dakota:**

Securities Department  
600 E. Boulevard Ave., 5<sup>th</sup> Flr.  
Bismarck, ND 58505-0510  
(701) 328-4712

### **Rhode Island:**

Dept. of Business Regulations  
Division of Securities  
1511 Pontiac Ave. Bldg. 69-1  
Cranston, RI 02920-4407  
(401)462-9527

### **South Dakota:**

Division of Insurance, Securities Regulation  
124 S. Euclid Ave., Ste.104  
Pierre SD 57501-3168

### **Virginia:**

State Corporation Commission, Div. of Securities &  
Retail Franchising  
1300 E. Main St., 9<sup>th</sup> Flr.  
Richmond, VA 23219-3630  
(804) 371-9051

### **Washington:**

Dept. of Financial Institutions  
Securities Division  
150 Israel Rd. SW, Tumwater, WA 98501-6456  
(360) 902-8760

### **Wisconsin:**

Securities Division  
201 W. Washington Ave. Ste. 300  
Madison, WI 53703-2640  
(608) 266-8557

## AGENTS FOR SERVICE OF PROCESS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. If we register the franchise (or otherwise comply with the franchise investment laws) in any of these states, we will designate the following state offices or officials as our agents for service of process in those states:

### **California:**

Commissioner of Financial Protection and  
Innovation  
Department of Financial Protection and  
Innovation  
2101 Arena Boulevard, Sacramento, CA 95834

### **Hawaii:**

Commissioner of Securities  
Dept. of Commerce and Consumer Affairs,  
Business Registration Div., Securities  
Compliance Branch  
335 Merchant St., Rm. 203  
Honolulu, HI 96813-2921  
(808) 586-2722

### **Illinois:**

Office of the Attorney General  
Franchise Division  
500 S. 2<sup>nd</sup> St., Springfield IL 62701-1771  
(217)782-4465

### **Indiana:**

Secretary of State  
302 W. Washington St., Rm E111  
Indianapolis, IN 46204-2738  
(317) 232-7781

### **Maryland:**

Maryland Securities Commissioner  
200 Saint Paul Pl.  
Baltimore, MD 21202-2020  
(410)576-6360

### **Michigan:**

Michigan Attorney General, Consumer  
Protection Division  
PO Box 30213, Lansing, MI 48909-7713  
(517)373-7117

### **Minnesota:**

Commissioner of Commerce  
85 7<sup>th</sup> Pl. E., Ste 280, Saint Paul, MN 55101-  
3165  
(651) 539-1600

### **New York:**

Secretary of State  
28 Liberty St., 21st Flr.,  
New York, NY 10005-  
1495  
(212) 416-8236

### **North Dakota:**

Securities Commissioner  
600 E. Boulevard Ave., 5<sup>th</sup> Flr.  
Bismarck, ND 58505-0510  
(701) 328-4712

### **Rhode Island:**

Director of the Division of Business Regulation  
1511 Pontiac Ave. Bldg. 69-1  
Cranston RI 02920-4407  
(401)462-9527

### **South Dakota:**

Director of the Division of Securities  
124 S. Euclid Ave., Ste.104  
Pierre SD 57501-3168

### **Virginia:**

Clerk, Virginia State Corporation Commission  
1300 E. Main St., 9<sup>th</sup> Flr.  
Richmond, VA 23219-3630  
(804) 371-9051

### **Washington:**

Director of Financial Institutions  
150 Israel Rd. SW  
Tumwater, WA 98501-6456  
(360) 902-8760

### **Wisconsin:**

Administrator, Division of Securities  
Department of Financial Institutions  
201 W. Washington Ave. Ste. 300, Madison, WI 53703-  
2640  
(608) 266-8557

**STATEMENT OF FRANCHISEE**

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**SAN CHEN™**

**San Chen**

**EXHIBIT G**

## STATEMENT OF FRANCHISEE

Chichia San Chen Corporation and you are entering into a Franchise Agreement or Area Development Agreement under the terms of which you will operate a **San Chen™** franchise outlet. The purposes of this Statement of Franchisee are (i) to verify compliance with franchise disclosure legal requirements and (ii) to determine whether any statements or promises were made to you that we did not authorize or that may be untrue, inaccurate or misleading. *This Statement of Franchisee must be completed, signed and dated on the same day you sign your initial **San Chen™** Franchise Agreement.*

This statement must be completed when you sign your initial **San Chen™** Franchise Agreement.

A. The following dates are true and correct:

1. \_\_\_\_\_, 20\_\_\_\_  
(Date) (Initials)

The date on which I received a Franchise Disclosure Document ("FDD") about the **San Chen™** Franchise.

2. \_\_\_\_\_, 20\_\_\_\_  
(Date) (Initials)

The date on which I signed the **San Chen™** Franchise Agreement (must be at least 15 days after the date in A.1)

3. \_\_\_\_\_, 20\_\_\_\_  
(Date) (Initials)

The earliest date on which I delivered cash, check or other consideration to a **San Chen™** Franchise sales representative (must be at least 15 days after the date in A.1)

B. Representations:

1. No oral, written or visual claim or representation which contradicted or was not disclosed in the **San Chen™** was made to me, except:

Initial: \_\_\_\_\_

(If none was made, you must write "none")

2. Chichia San Chen Corporation made no oral, written or visual claim or representation which stated or suggested any financial performance, sales, income or profit levels to me, except:

Initial: \_\_\_\_\_

(If none was made, you must write "none")

I/we certify the above is true and correct to the best of my/our knowledge.

Franchisee

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

**APPENDIX FOR CALIFORNIA FRANCHISEES**

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**SAN CHEN™**

**San Chen**

**EXHIBIT H**

**CHIHIA SAN CHEN CORPORATION  
ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT  
REQUIRED BY THE STATE OF CALIFORNIA**

In recognition of the requirement of the California Franchise Investment Law, Cal. Corporations Code Section 31000 et seq. the Franchise Disclosure for Chichia San Chen Corporation for use in the State of California shall be amended as follows:

1. Neither Chichia San Chen Corporation (“we” or “us”) nor any person identified in Item 2 of the Disclosure Document is currently 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. 78a, et seq., suspending or expelling such persons from membership in such association or exchange.

2. Item 5 of the Disclosure Document shall be supplemented with the following:

The Department of Financial Protection and Innovation (formerly the Department of Business Oversight) requires that we defer the collection of all initial fees from California franchisees until we have completed all of our pre-opening obligations and you are open for business. For California franchisees who sign a development agreement, the payment of the development and initial fees attributable to a specific unit is deferred until that unit is open.

3. Item 17 of each chart of the Disclosure Document shall be supplemented to include the following:

California Business & Professions Code Sections 20000 through 20043 provide rights to you concerning termination, transfer, or nonrenewal of a franchise. If the Franchise Agreement and Development 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.A. Sec. 101 seq.)

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

You must sign a general release if you transfer your rights under the Franchise Agreement and Development Agreement. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 20010 voids a waiver of your rights under the Franchise Regulations Act (Business and Professions Code 20000 through 20043).

4. Item 11 of the Disclosure Document shall be supplemented with the following:

The Antitrust Law Section of the Office of the California Attorney General views minimum or maximum price agreements as per se violations of the Cartwright Act.

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

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

7. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT AT [www.DBO.ca.gov](http://www.DBO.ca.gov).

**CHIHIA SAN CHEN CORPORATION  
ADDENDUM TO FRANCHISE AGREEMENT  
REQUIRED BY THE STATE OF CALIFORNIA**

In recognition of the requirements of the California Franchise Investment Law, the parties to the attached Franchise Agreement and Area Development Agreement (the "Agreement") hereby agree as follows:

1. Article 4.1 of Franchise Agreement and Article 3.1 of the Area Development Agreement under the heading "Initial Franchise Fee" is hereby added as following.

All the payment of fees is postponed until after all of Franchisor's initial obligations are completed and the first New Outlet is open for business.

2. Each provision of this Amendment shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the California Franchise Investment Law are met independently without reference to this Amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed this California Amendment to the Franchise Agreement and Area Development Agreement in duplicate on the date indicated below.

**CHIHIA SAN CHEN CORPORATION**

Name: Kuo Liang Wang

Title: CEO

Date: \_\_\_\_\_

**MASTER FRANCHISEE**

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

Date: \_\_\_\_\_

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

**STATE EFFECTIVE DATES**

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**SAN CHEN™**

**San Chen**

**EXHIBIT I**

### 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 exempted from registration, as of the Effective Date stated below:

| State        | Effective Date |
|--------------|----------------|
| California   | N/A            |
| Illinois     | N/A            |
| Indiana      | N/A            |
| Maryland     | N/A            |
| Michigan     | N/A            |
| Minnesota    | N/A            |
| New York     | N/A            |
| North Dakota | N/A            |
| Rhode Island | N/A            |
| Virginia     | N/A            |
| Washington   | N/A            |
| Wisconsin    | N/A            |

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.

**RECEIPTS**

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**SAN CHEN™**

**San Chen**

**EXHIBIT J**

## RECEIPT

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 Chichia San Chen Corporation 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.

**Michigan, Oregon, and Washington require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.**

If Chichia San Chen Corporation 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 law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on **Exhibit F**.

The franchisor is Chichia San Chen Corporation, located at 101 California Street, Suite 2710, San Francisco, CA 94111. Its telephone number is (415) 365-9600.

Date of Issuance: October 1, 2020

The franchise seller for this offering is Kuo Liang Wang, Chief Executive Officer, 101 California Street, Suite 2710, San Francisco, CA 94111, (415) 365-9600.

Chichia San Chen Corporation authorizes the respective state agencies identified on **Exhibit F** to receive service of process for it in the particular state.

I receive a disclosure document dated October 1, 2020 that included the following Exhibits:

- “A” Franchise Agreement
- “B” Financial Statements
- “C” List of Franchise Outlets
- “D” List of Terminated Franchises
- “E” Area Development Agreement
- “F” State Franchise Administrators and Agents for Service of Process
- “G” Statement of Franchisee
- “H” Appendix for California Franchisees
- “I” State Effective Dates
- “J” Receipts

DATED: \_\_\_\_\_ (Do not leave blank)

Signature of Prospective Franchisee or Area Developer: \_\_\_\_\_

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

Please date and sign this page, and then keep it for your records.

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DATED: \_\_\_\_\_ (Do not leave blank)

Signature of Prospective Franchisee or Area Developer: \_\_\_\_\_

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

You may return the signed receipt either by signing, dating, and mailing it to Chichia San Chen Corporation at 101 California Street, Suite 2710, San Francisco, CA 94111, or by e-mail to 108020@teashop168.com.tw.