



FRANCHISE DISCLOSURE DOCUMENT

PalgongTea Franchising LLC
an Illinois limited liability company
1625 North Milwaukee Avenue
Glenview, Illinois 60025
(773) 600-6950
www.palgongteausa.com

The franchise offered is to operate a shop under the “PALGONG TEA™” name and other trademarks featuring a variety of teas (including bubble teas), coffee and other beverages and related products.

The total investment necessary to begin operation of a franchised Palgong Tea Shop business ranges from \$147,500 to \$185,700. This includes \$20,000 that must be paid to the franchisor or affiliate. If you sign a Development Agreement, you will pay us a development rights fee in an amount equal to 50% of the initial franchise fee due for each Palgong Tea Shop for which you are granted the right to develop and open (this fee is applied to initial franchise fees due).

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Mike Choi, Director of Franchising, at 1625 North Milwaukee Avenue, Glenview, Illinois 60025, (773) 600-6950.

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

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

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

Issuance Date: September 27, 2021, as amended July 29, 2022

How to Use This Franchise Disclosure Document

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

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

What You Need To Know About Franchising *Generally*

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

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

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

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

Competition from franchisor. 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 A.

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

Special Risks to Consider About *This Franchise*

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement and development agreement require you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Illinois. 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 Illinois 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.
3. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.

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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Item 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS AND AFFILIATES

The Franchisor

The franchisor is PalgongTea Franchising LLC (“PalgongTea,” “we,” “us” or “our”). “You” means the person or entity to whom we grant a franchise and, if applicable, development rights. If you are a corporation, partnership or limited liability company or if the franchise agreement is assigned to a corporation, partnership or limited liability company, your principal owners must sign our “Principal Owner’s Guaranty.” This means that your principal owners will be bound by the terms of our Franchise Agreement (Exhibit B).

We are an Illinois limited liability company organized on November 18, 2020. Our principal business address is 1625 North Milwaukee Avenue, Glenview, Illinois 60025. We conduct business under our corporate name and the trademarks described in Item 13 and no other name.

We have offered franchises and development rights for Palgong Tea Shops (defined below) since this Disclosure Document’s issuance date. We have no other business activities and have not offered franchises in other lines of business. We have never operated a Palgong Tea Shop (although our affiliate does).

If we have an agent in your state for service of process, we disclose that agent in Exhibit A.

Parents, Predecessors, and Affiliates

We are a wholly-owned subsidiary of PalgongTea USA, Inc. (“PalgongTea USA”), an Illinois limited liability company organized in August 2020. PalgongTea USA shares our principal business address.

An affiliate of ours, PalgongTea of Glenview LLC (“PalgongTea Glenview”), has owned and operated one Palgong Tea Shop located at 1661 North Milwaukee Avenue, Glenview, Illinois 60025 since May 2021. PalgongTea Glenview is an Illinois company organized in October 2020. PalgongTea Glenview shares our principal business address. A company associated with us by common ownership, PalgongTea Co., Ltd., a Korean-based company (“PalgongTea Korea”), owns and operates approximately 320 Palgong Tea Shops in Korea as of December 31, 2020. PalgongTea Korea began franchising Palgong Tea Shops in Korea beginning in May 2017. PalgongTea Korea’s principal business address is 155, Misagangbyeonhangang-ro (Mangwol-dong, Misagangbyeon SK V1 center), Hanam-si, Gyeonggi-do. PalgongTea Korea also owns the Marks (defined below) that we license to you.

We have no predecessors or other parents or affiliates disclosable in this Item 1. None of our affiliates offer franchises in any line of business or provide products or services to our franchisees.

The Franchise Offered

We grant franchise rights to develop and operate shops identified by the Marks (defined below) that currently operate under a system we and our affiliates have developed (the “System”) that feature a variety of teas (including bubble teas), coffee and other beverages and related products. In this Disclosure Document, we call these shops “Palgong Tea Shops”; we call the Palgong Tea Shop you will operate under the Franchise Agreement the “Shop.” Palgong Tea Shops operate under certain trademarks, service marks and other commercial symbols, including “Palgong Tea,” and certain associated designs and logos, which we may change or add to periodically (the “Marks”). Palgong Tea Shops offer dine-in, carry-out, catering services (“Catering Services”) and delivery services (“Delivery Services”).

If you want to pursue a franchise and you have located a site for your Shop, you will sign our standard franchise agreement (the “Franchise Agreement”) when you purchase a franchise. The Franchise Agreement is attached as Exhibit B. If you want to pursue a franchise and you have not located a site for your Shop, we may enter into a site selection agreement (the “Site Selection Agreement”) with you before you sign a Franchise Agreement with us. Once a site is located, you will sign the Franchise Agreement. The Site Selection Agreement is attached as Exhibit C.

In certain areas of the country, we grant multi-unit development rights to qualified franchisees, who then will have the right to develop multiple Palgong Tea Shops within a defined geographic area (the “Designated Territory”). We grant these rights under the Development Agreement (Exhibit D). If you sign the Development Agreement, you will sign our then current form of franchise agreement for each Palgong Tea Shop developed under the Development Agreement. Each then current form of franchise agreement may differ from the version of Franchise Agreement attached to this Disclosure Document.

Competition

The market for coffee and tea shops is well-established. You will need to compete with a variety of coffee and tea concepts. The coffee and tea business is highly competitive concerning price, service, location, and quality, and is often affected by changes in consumer tastes, economic conditions, population and traffic patterns. We compete within each market with locally-owned coffee and tea shops, as well as with national and regional coffee and tea chains. There is also active competition for management personnel as well as for attractive commercial real estate sites suitable for Palgong Tea Shops.

Industry Specific Regulations

In addition to the laws, regulations and ordinances applicable to businesses generally, such as the Americans with Disabilities Act, Federal Wage and Hour Laws, and the Occupation, Health and Safety Act, you should consider that certain aspects of the restaurant are heavily regulated by federal, state and local laws, rules and ordinances. The U.S. Food and Drug Administration, the U.S. Department of Agriculture, as well as state and local department of health and other agencies have laws and regulations concerning the preparation of food, sanitary conditions of restaurant facilities and menu labeling. State and local agencies routinely conduct

inspections for compliance with certain of these requirements. You will need to understand and comply with those laws in operating the Shop.

Item 2

BUSINESS EXPERIENCE

President: John Park

John Park has been our President since we were organized in November 2020. Mr. Park has been President of our parent company, PalgongTea USA, since it was incorporated in August 2020 and President of PalgongTea Glenview since its formation in October 2020. Since December 2014, Mr. Park has been a franchisee of Wyndham Hotel Group and operates, through Glenview Hotels, Inc., a Baymont by Wyndham hotel located in Glenview, Illinois. Mr. Park was President of M2G Investment, Inc., with offices located in Glenview, Illinois, which oversaw the development and operation of Dairy Queen restaurants in South Korea from on or about August 2016 to on or about September 2020 under an agreement with American Dairy Queen Corporation.

Director of Franchising: Mike Choi

Mike Choi has been our Director of Franchising since we were organized in November 2020. Mr. Choi has been Manager of our parent company, PalgongTea USA, since it was incorporated in August 2020 and Director of Operations of PalgongTea Glenview since its formation in October 2020. Since April 2016, Mr. Choi has been the General Manager of the Baymont by Wyndham hotel located in Glenview, Illinois, owned and operated by Glenview Hotels, Inc.

Director of Operations: Jeremiah Park

Jeremiah Park has been our Director of Operations since we were organized in November 2020. Mr. Park also has been Director of Operations of PalgongTea Glenview since its formation in October 2020. Prior to joining us, Mr. Park was an undergraduate student at the University of Illinois in Campaign, Illinois, majoring in business.

Item 3

LITIGATION

No litigation is required to be disclosed in this Item.

Item 4

BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

Item 5

INITIAL FEES

Site Selection Agreement

If you sign a Site Selection Agreement with us because you have not located a site for your Shop, you must pay us a \$10,000 deposit at the time that you sign the Site Selection Agreement. We will apply the deposit toward the initial franchise fee if we and you move forward with a franchise.

You may terminate the Site Selection Agreement at any time before you sign the Franchise Agreement. We may terminate the Site Selection Agreement if you do not select and we do not approve an acceptable site within 90 days after the agreement date. Upon termination, we will refund the deposit, less \$5,000 to cover our expenses incurred in connection with your acquisition of the Shop. The deposit is otherwise fully earned when paid and is not refundable in whole or in part under any other circumstances.

Franchise Agreement

You must pay us an initial franchise fee in a lump sum when you sign the Franchise Agreement. Our standard initial franchise fee for a standard Palgong Tea Shop is currently \$20,000. The deposit will be applied toward the initial franchise fee. The initial franchise fee for a Palgong Tea Shop is fully earned when paid and is not refundable under any circumstances.

Development Agreement

If you sign a Development Agreement, you will pay us a development rights fee in an amount equal to 50% of the initial franchise fee due for each Palgong Tea Shop for which you are granted the right to develop and open. You will pay us the development rights fee when you sign the Development Agreement. The development rights fee is fully earned upon execution of the Development Agreement and is not refundable under any circumstances.

Item 6

OTHER FEES

Column 1 Type of Fee¹	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Royalty Fee	5% of Gross Sales ⁽²⁾	Payable by the 15th day of the month on Gross Sales for the preceding month	

Column 1 Type of Fee¹	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Marketing Fund Contribution	3% of Gross Sales ⁽²⁾	Same as Royalty Fee	We can increase or decrease the amount of the contribution. However, at no time will your contribution exceed 3% of gross sales or defer collection of these payments.
Local Advertising	At least 1.5% of Gross Sales ⁽²⁾	Must be spent annually (or during such other period we designate)	
Local and Regional Advertising Cooperatives	0% to 1.5% of Gross Sales	As required by the cooperative	Any contributions will count toward your local advertising obligations (see above).
Late Payments	Highest applicable legal rate for open account business or if there is no maximum, 1.5% per month	From the date payments are due	Charged on any late payments of Royalty Fees, Marketing Fund contributions, or other amounts due for product purchases or any other amounts due us or our affiliates.
Administrative Fee	\$100	Upon receipt of invoice from us	Due for each dishonored payment.
Audit Expenses	Cost of audit and inspection, plus the charges of attorneys and any independent accountants, and the travel expenses, room and board and applicable per diem charges for our employees	Upon receipt of invoice	Payable if 2% or more discrepancy in amounts owed or if you fail to submit required reports.

Column 1 Type of Fee¹	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Transfer Fee	50% to 75% of then current initial franchise fee	At the time of transfer	Applies to a transfer of the Franchise Agreement, the Shop or a controlling interest in the franchise. The Transfer Fee is 50% of our then current initial franchise fee if the transfer is to an existing franchisee, or 75% of our then current initial franchise fee if the transfer is to a new franchisee.
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	Payable to us if we have to take action to enforce the provisions of the Franchise Agreement, in defending our actions related to the Franchise Agreement or resulting from your breach of the Franchise Agreement.
Indemnification	Will vary under circumstances	As incurred	You must indemnify, defend and hold us harmless and reimburse us for any damages arising out of the operation of your Shop.

Notes:

1. Except as otherwise noted in this Item 6, all fees are imposed and collected by, and payable to, us. Except as provided above and described in the Notes below, all fees are non-refundable and currently are uniformly imposed.
2. "Gross Sales" means all revenue that you receive or otherwise derive from operating the Shop, whether on premises or off premises (such as through Catering Services or Delivery Services) or whether from cash, check, credit and debit card, barter, exchange, trade credit, or other credit transactions, exclusive of sales taxes or other taxes collected from customers of the Shop. Gross Sales will include the purchase price of the menu items charged to the customer by a third-party service ("TPS") (which will not include any separate fee charged by the TPS to the customer that appears as a separate line item charge on the customer's bill and will not be adjusted to reflect any discounts, credits, or coupons deducted from the customer's total order by the TPS, but will include any fee that is incorporated into or deducted from the menu price of menu items), regardless of the amount of revenue you actually receive from the TPS as a result of the customer's purchase (recognizing that though the TPS may pay you an amount equal to the purchase price charged to the customer less a commission, other fees, and any discounts, credits, or coupons applied to the order, such commission, fees, discounts, credits, and coupons will not be deducted from your Gross Sales).

3. We may require you to participate in an electronic funds transfer program under which Royalty Fees and Marketing Fund contributions are deducted or paid electronically from your bank account (the “Account”). In the event you are required to authorize us to initiate debit entries, you must make the funds available in the Account for withdrawal by electronic transfer no later than the due date for payment. The amount actually transferred from the Account to pay Royalty Fees and Marketing Fund contributions will be based on the Shop’s Gross Sales reported to us. If you have not reported the Gross Sales of the Shop to us for any reporting period, we will be authorized to debit the Account in an amount equal to the Royalty Fee and Marketing Fund contributions transferred from the Account for the last reporting period for which a report of the Gross Sales of the Shop was provided to us. If at any time we determine that you have under-reported the Gross Sales of the Shop or underpaid Royalty Fees or Marketing Fund contributions due us under this Agreement, we will be authorized to initiate immediately a debit to the Account in the appropriate amount in accordance with the foregoing procedure, including interest as provided for in this Agreement. An overpayment will be credited to the Account through a credit effective as of the first reporting date after we and you determine that such credit is due.

Item 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Column 1 Type of expenditure	Column 2 Amount	Column 3 Method of payment	Column 4 When due	Column 5 To whom payment is to be made
Initial franchise fee ⁽¹⁾	\$20,000	Lump Sum	When you sign the Franchise Agreement	Us
Rent, security deposit, and other real estate services and costs ⁽²⁾	See Note 2	As agreed	As agreed	Landlord
Leasehold improvements ⁽³⁾	\$50,000 to \$70,000	As incurred	As incurred	Suppliers and other third parties
Signage	\$4,500 to \$5,000	As incurred	Before opening	Suppliers and vendors
Furniture and fixtures ⁽⁴⁾	\$10,000 to \$15,000	As incurred	Before opening	Suppliers and vendors
Equipment ⁽⁵⁾	\$15,000 to \$20,000	As incurred	Before opening	Suppliers and vendors

Column 1 Type of expenditure	Column 2 Amount	Column 3 Method of payment	Column 4 When due	Column 5 To whom payment is to be made
Point-of-sale hardware and software ⁽⁶⁾	\$5,000	Lump Sum	Before opening	Suppliers and vendors
Business licenses and permits ⁽⁷⁾	\$1,000 to \$1,200	Lump Sum	Before opening	Third parties
Professional fees ⁽⁸⁾	\$5,000	As arranged	Before opening	Accountants, lawyers and other third parties
Initial inventory ⁽⁹⁾	\$8,000 to \$10,000	Lump Sum	Before opening	Suppliers and vendors
Insurance	\$2,000 to \$2,500	As incurred	As incurred	Insurance broker
Training expenses ⁽¹⁰⁾	\$5,000	Out of pocket travel-related expenses, as incurred	During training	Third parties
Grand opening advertising	\$2,000	As incurred	Before opening	Contractors/ Vendors
Additional funds – 3 months ⁽¹¹⁾	\$20,000 to \$25,000	As incurred	As incurred	Employees, suppliers, and other third parties
TOTAL ESTIMATED INITIAL INVESTMENT⁽¹²⁾	\$147,500 to \$185,700 (does not include real estate costs or security deposit)			

All fees and payments are non-refundable unless otherwise stated in this Disclosure Document or unless otherwise arranged between you and the supplier or vendor.

Notes:

1. If you have paid us a deposit because you have signed a Site Selection Agreement with us, we will apply the deposit toward the initial franchise fee if we and you move forward. If you have signed a Development Agreement, you will pay us a development rights fee in an amount equal to 50% of the initial franchise fee due for each Shop for which you are granted the right to develop and open.
2. A standard Palgong Tea Shop occupies approximately 1,000 to 1,500 square feet of space. The typical location is in a strip center or shopping mall in metropolitan or

suburban areas. Rent depends on geographic location, size, local rental rates, businesses in the area, site profile, and other factors, varies from market to market, and could be higher in large metropolitan areas than in suburban markets and smaller metropolitan areas. Your landlord likely will require you to pay a security deposit equal to one month's rent or more. Rent is estimated to be \$3,000 to \$5,000 per month with a security deposit of approximately \$10,000, but both monthly rents and security deposits can range significantly depending on the market and site-specific factors described in this Note 2. Your lease negotiations with your landlord and the size and market area of the Shop's location ultimately will dictate when your rental payments will begin.

We expect you to rent the Shop's location. It is possible, however, that you will choose to buy, rather than rent, real estate on which a building suitable for the Shop already is constructed or could be constructed. Real estate costs depend on location, size, visibility, economic conditions, accessibility, competitive market conditions, and the type of ownership interest you are buying. Because of the numerous variables affecting the value of a particular piece of real estate, this initial investment table does not reflect the potential purchase cost of real estate or the costs of constructing a building suitable for the Shop.

3. Leasehold improvement costs – which could include floor covering, wall treatment, counters, ceilings, painting, window coverings, electrical, carpentry and similar work, and contractor's fees – depend on the site's condition, location, and size; the demand for the site among prospective lessees; the site's previous use; the build-out required to conform the site for your Shop; and any construction or other allowances the landlord grants. Our estimates do not include any benefits you might receive from tenant improvement allowances a landlord gives you to retrofit or renovate the site. Your costs might be more or less than these estimates depending on the site's existing condition and where you plan to operate your Shop.
4. The estimate includes amounts for counters, tables, and chairs.
5. This estimate assumes you will purchase the equipment for the Shop from approved vendors or suppliers.
6. We describe the required Computer System in Item 11.
7. This estimates the costs of business licenses and permits required to operate the Shop.
8. This estimates the costs of professional advisors (like an attorney, architect, and accountant) for the initial advice consistent with the start-up of a franchised business. We strongly recommend that you seek professional assistance when evaluating this franchise opportunity and our franchise documents. Your professional advisors also should review the lease and other contracts you sign for your Shop.
9. This includes costs for an initial inventory of ingredients, products and supplies for the Shop.

10. We describe training in Item 11. Although we do not impose a fee for the initial training program, this figure estimates your and your personnel's costs for travel and other expenses during training. The costs in Chicago, Illinois vary greatly based on the distance you must travel and the time of year and choices you make for hotels, restaurants, etc.
11. This estimates the funds needed to cover your operating expenses for the first 3 months of operation (other than the items identified separately in the table). These funds could be offset by revenue earned during that period. Your costs will depend on how closely you follow our methods and procedures; your management skill, experience, and business acumen; local economic conditions; the prevailing wage rate; competition; and your Shop's sales during the initial period.
12. We relied on the experience of our affiliate-owned Palgong Tea Shop in Glenview, Illinois to compile these estimates (including the estimate of additional funds). You should review these figures carefully with a business advisor before deciding to acquire the franchise. We do not offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing depend on many factors, including the availability of financing generally, your creditworthiness and collateral, and lending policies of financial institutions from which you request a loan. We strongly recommend that you use these categories and estimates as a guide to develop your own business plan and budget and investigate specific costs in your area.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Lease or Purchase of Premises

You must obtain lawful possession of the premises for the Shop through lease or purchase within 90 days after signing the Franchise Agreement. You will not execute a lease without our advance written approval. The lease for the premises must contain the terms and provisions we reasonably approve.

Prototype and Construction Plans and Specifications

We will assist in the design, decoration, furnishings, furniture, layout, equipment, fixtures and signs for a Shop. It will then be your responsibility to have plans and specifications prepared to comply with our requirements and with the Americans with Disabilities Act (the "ADA") and similar rules governing public accommodations for persons with disabilities, other applicable ordinances, building codes, permit requirements, and lease requirements and restrictions applicable to the premises using an architect we approve. You must submit final construction plans and specifications to us for our review and approval before you begin construction at the premises, and must construct the Shop in accordance with those approved plans and specifications. Our review is limited to ensuring your compliance with our design requirements. Our review is not designed to assess compliance with federal, state, or local laws and regulations,

including the ADA, as compliance with those laws and regulations is your responsibility. You must remedy, at your expense, any noncompliance or alleged noncompliance with those laws and regulations. We may periodically inspect the premises while you are developing the Shop or require you to send us pictures and images (including video recordings) of the interior and/or exterior of the Shop to review your development of the Shop according to our specifications and standards and the Operations Manual (defined in Item 11).

Development of the Shop

You must at your own expense do the following within a reasonable time after you have obtained possession of the premises of the Shop: (1) secure all financing required to fully develop the Shop; (2) obtain all required building, utility, sign, health, sanitation and business permits and licenses and any other required permits and licenses; (3) construct the Shop according to the construction plans and specifications we have approved; (4) decorate the Shop in compliance with plans and specifications we have approved; (5) purchase and install all required equipment, furniture, furnishings and signs; (6) cause the training requirements of Section 4 of the Franchise Agreement (described in Item 11) to be completed; (7) purchase an opening inventory of products, beverages and other supplies and materials; (8) do any other acts necessary to open the Shop for business; (9) obtain our approval to open the Shop for business; and (10) open the Shop for business. You must open the Shop for business within 180 days after signing the Franchise Agreement.

Computer System

You must use in the development and operation of the Shop the cash registers, management system, computer terminals, hardware components, operating software, printers, dedicated communication and power lines, and other computer-related accessories and peripheral equipment (collectively, the “Computer System”) that we specify periodically. Currently, any cash register system that meets our requirements (i.e., order taking, sales information, billing) is approved for use in a Shop. Our modification of the specifications for the components of the Computer System may require you to incur costs to purchase, lease and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System during the term of the Franchise Agreement. We cannot estimate the future costs of the Computer System (or additions, upgrades or modifications), and the cost to you of obtaining the Computer System (including software licenses) (or additions, upgrades or modifications thereto) may not be fully amortizable over the remaining term of the Franchise Agreement. We have the right to charge up-front and ongoing fees for software or systems modifications and enhancements specifically made for us that are licensed to you and other maintenance and support services that we or our affiliates provide to you related to the Computer System.

Equipment, Furniture, Fixtures, Furnishings and Signs

You must use in the development and operation of the Shop only those brands, types, and/or models of equipment, furniture, fixtures, furnishings, cash registers and signs we have approved.

Approved Products, Distributors and Suppliers

We have developed standards and specifications for menu items, ingredients, beverages, materials and supplies incorporated in or used in the preparation, presentation and delivery of prepared food and beverage products authorized for sale at Palgong Tea Shops. These standards include specifications for beverages, ingredients, recipes, and cups used in the operation of the Shop. Your Shop must (a) offer for sale all menu items prescribed by us from time to time, and other products and services that we from time to time authorize; (b) offer and sell approved products and services only in the manner we have prescribed; (c) not offer for sale or sell at the Shop, the premises or any other location any menu items or other products or services we have not approved; (d) not use the premises for any purpose other than the operation of the Shop; and (e) discontinue selling and offering for sale any products or services that we at any time decide (in our sole discretion) to disapprove in writing. You must maintain an inventory of approved beverages, ingredients and other products sufficient in quantity and variety to realize the full potential of your Shop.

We may, from time to time, conduct market research and testing to determine consumer trends and the saleability of new products and services. You must cooperate by participating in our market research programs, and by providing us with timely reports and other relevant information regarding that market research. In connection with any test marketing, you will be required to purchase a reasonable quantity of the tested products and effectively promote and make a reasonable effort to sell them.

We have and will continue to periodically approve suppliers and distributors of the above products that meet our standards and requirements, including, standards and requirements relating to product quality, prices, consistency, reliability, financial capability, labor relations and customer relations. None of our officers listed in Item 2 currently owns an interest in any supplier. You must (1) purchase products for sale from the Shop in the quantities we designate; (2) utilize the formats, formulae and containers for products we prescribe; and (3) purchase all beverages, products, menus, straws, napkins, paper and plastic products, packaging or other materials, and utensils only from distributors and other suppliers we have approved.

We may approve a single distributor or other supplier (collectively “supplier”), for any product and may approve a supplier only as to certain products. We may concentrate purchases with one or more suppliers to obtain lower prices or the best advertising support or services for any group of the Palgong Tea Shops franchised or operated by us. Approval of a supplier may be conditioned on requirements relating to the frequency of delivery, concentration of purchases, standards of service, including prompt attention to complaints, or other criteria and may be temporary, pending our continued evaluation of the supplier periodically.

If you would like to purchase any items from any unapproved supplier, you must submit to us a written request for approval of the proposed supplier. (Or the proposed supplier may submit its own request.) We have the right to inspect the proposed supplier’s facilities, and to require product samples from the proposed supplier to be delivered at our option either directly to us or to any independent, certified laboratory which we designate for testing. Either you or the proposed supplier must pay us a fee (not to exceed the reasonable cost of the inspection and the actual cost of the test) to make the evaluation. We will notify you of our decision to approve

or disapprove your request for approval of a proposed supplier within a reasonable time after we receive your written request, but never to exceed 90 days after we receive your written request and all other information we may have requested from you and after completion of any inspection we deem appropriate. We reserve the right to periodically re-inspect the facilities and products of any approved supplier and to revoke our approval if the supplier does not continue to meet any of our criteria by notifying you and/or the supplier. We do not make our supplier approval criteria available to franchisees but will do so upon reasonable request. (Please note: Do not construe the new-supplier approval process just explained as requiring us to approve any proposed supplier.)

We will issue specifications or identify approved suppliers in our Operations Manual or bulletins or releases issued to franchisees. We will also issue specifications to approved suppliers. Neither we, nor any of our affiliates, are currently approved suppliers for any products but may be approved suppliers for products in the future. Neither we nor our affiliates have derived income or other material consideration as a result of required purchases or leases but may do so in the future. We currently do not negotiate purchase arrangements with suppliers for the benefit of our franchisees, but we reserve the right to do so in the future. We also do not provide material benefits (for example, renewal or granting additional franchises) to a franchisee based on a franchisee's purchase of particular products or services or use of particular suppliers from our list of approved suppliers. We estimate that approximately 95% of your purchases or leases to start and operate your business will be made from us, approved or designated suppliers or in accordance with our specifications or requirements. There are presently no purchasing or distribution cooperatives.

We have the right to charge and/or retain royalties, commissions and rebates from vendors which supply Palgong Tea Shops. Because we commenced franchising in 2021 and currently do not have any franchisees, during 2021 we and our affiliates did not derive any revenues or other material consideration from franchisees' direct purchases or leases. We and our affiliates did not receive any payments from designated and approved suppliers on account of franchisee purchases or leases of required and approved items from those suppliers in our previous fiscal year.

Insurance

Before you open the Shop, you must obtain the following insurance coverage under policies of insurance issued by carriers of your choice whom we approve: (1) property for special risk or perils for the replacement value of the Shop and its contents; (2) worker's compensation insurance for all employees, including employer liability containing minimum liability coverage of \$2,000,000; and (3) general liability coverage of \$2,000,000 per occurrence and excess or umbrella coverage of \$1,000,000, including coverage for automobile, hired and non-owned automobile, personal injury and advertising liability. We will not unreasonably withhold our approval of an insurance carrier that is licensed to do business in the state in which the Shop is located and rated A- or higher by A.M. Best and Company, Inc. You must maintain these policies in force during the entire term of the Franchise Agreement. We may periodically increase or decrease the amounts of coverage required under these insurance policies and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher

damage awards or other relevant changes in circumstances. Each insurance policy must name us (and, if we request it, our directors, employees, owners and affiliates) as an additional insured and must provide us with 30 days' advance written notice of any material modification, cancellation, or expiration of the policy. Before the expiration of the term of each insurance policy, you must provide us with a copy of each policy you are to maintain for the upcoming term, along with evidence of the payment of the premium for each.

Item 9

FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement	Item in Disclosure Document
a. Site selection and acquisition/lease	Section 2 of the Site Selection Agreement; Section 3.1 of the Franchise Agreement	Item 8
b. Pre-opening purchases/leases	Sections 3.2, 3.3, 3.4 and 3.5 of the Franchise Agreement	Item 8
c. Site development and other pre-opening requirements	Sections 3.2 and 3.3 of the Franchise Agreement	Item 8
d. Initial and ongoing training	Section 4 of the Franchise Agreement	Item 11
e. Opening	Section 3.6 of the Franchise Agreement	Item 11
f. Fees	Section 5 of the Site Selection Agreement; Section 9 of the Franchise Agreement; Section 5 of the Development Agreement	Items 5 and 6
g. Compliance with standards and policies/operating manual	Section 10 of the Franchise Agreement	Item 11
h. Trademarks and proprietary information	Section 6 of the Franchise Agreement	Item 13
i. Restrictions on products/services offered	Section 10 of the Franchise Agreement	Item 8
j. Warranty and customer service requirements	Section 10 of the Franchise Agreement	

Obligation	Section in Agreement	Item in Disclosure Document
k. Territorial development and sales quotas	Sections 2.3 and 2.4 of the Franchise Agreement; Sections 2 and 3 of the Development Agreement	Item 12
l. On-going product/service purchases	Section 10.4 of the Franchise Agreement	Item 8
m. Maintenance, appearance and remodeling requirements	Section 10.2 of the Franchise Agreement	Item 8
n. Insurance	Section 10.9 of the Franchise Agreement	Item 8
o. Advertising	Sections 9.4 and 11 of the Franchise Agreement	Item 11
p. Indemnification	Section 7.3 of the Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Section 10.8 of the Franchise Agreement	Item 11
r. Records and reports	Section 12 of the Franchise Agreement	Item 6
s. Inspections and audits	Section 13 of the Franchise Agreement	Item 6
t. Transfer	Section 7 of the Site Selection Agreement; Section 14 of the Franchise Agreement; Section 9 of the Development Agreement	Item 17
u. Renewal	Section 2.7 of the Franchise Agreement	Item 17
v. Post-termination obligations	Section 16 of the Franchise Agreement	Item 17
w. Non-competition covenants	Sections 8.3 and 16.5 of the Franchise Agreement	Item 17
x. Dispute resolution	Section 8 of the Site Selection Agreement; Sections 17.7, 17.8 and 17.9 of the Franchise Agreement; Sections 14, 15, 16 and 17 of the Development Agreement	Item 17

Item 10

FINANCING

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

Before you open your Shop, we or our designee will:

(1) Expend the time and effort and incur the expenses as may reasonably be required to inspect sites you proposed for a Shop (Site Selection Agreement – Section 3). If you do not have an approved site, prior to entering into a Franchise Agreement with us, you will enter into a Site Selection Agreement with us to allow you to locate a site. You must use your best efforts to seek and select a proposed site within the Designated Area (defined in Item 12) in the Site Selection Agreement acceptable to us as suitable for the operation of the Shop within 90 days of the date of the Site Selection Agreement. You must submit to us, in the form we specify, a description of the site and the other information or materials we may reasonably require. We will not unreasonably withhold approval of a site that meets our standards for general location and neighborhood, traffic patterns, parking size, layout and other physical characteristics for Palgong Tea Shops. Our approval of a site will not constitute, nor be deemed, a judgment as to the likelihood of success of a Shop at the location or a judgment as to the relative desirability of the site in comparison to other sites within the area. If you are unable to locate an acceptable site within the time specified above, we may, at any time thereafter, terminate the Site Selection Agreement. The deposit you paid under the Site Selection Agreement will be refunded under the circumstances described in Item 5. We typically will not own the Shop's site and lease it to you.

(2) Approve the terms of the lease for the premises of your Shop (Site Selection Agreement – Section 3; Franchise Agreement – Section 3.1). You will not execute a lease without our advance written approval. The lease for the premises must, if we require it, permit us to take possession of the premises under certain conditions if the Franchise Agreement is terminated. It must also contain the terms and provisions we reasonably approve. You must obtain lawful possession of the premises for the Shop through lease or purchase within 90 days after signing the Franchise Agreement and, if you fail to do so, we may terminate the Franchise Agreement upon written notice to you.

(3) Assist in the preparation of plans, specifications and other materials, reflecting our suggestions and requirements for layout, equipment, fixtures and signs for your Shop (Franchise Agreement – Section 3.2).

(4) Approve final construction plans and specifications for your Shop (Franchise Agreement – Section 3.2).

(5) Specify the Computer System for your Shop (Franchise Agreement – Section 3.4).

(6) Provide an initial training program (see below) (Franchise Agreement – Section 4(a)).

During the operation of your Shop, we or our designee will:

(1) Provide you with guidance and assistance in the following areas: (a) food preparation and presentation, packaging, sale and delivery of the products authorized for sale by the Shop and specifications, standards, and operating procedures used by Palgong Tea Shops; (b) purchasing approved equipment, furniture, furnishings, signs, food and beverage products, operating materials and supplies; (c) development and implementation of local advertising and promotional programs; (d) administrative, bookkeeping, accounting, inventory control and general operating and management procedures; (e) supervisory employee training methods and procedures (although you are solely responsible for the terms and conditions of employment of all Shop employees); and (f) changes in any of the above that occur periodically; and (g) specify approved brands, types and/or models of equipment, furniture, fixtures and signs. If you request and we agree to provide additional or special guidance, assistance or training, you must pay our then applicable charges, including our personnel's per diem charges and any travel and living expenses. (Franchise Agreement – Section 5.1).

(2) Provide access to you during the term of the franchise of our operating manual and/or other manuals (collectively, the "Operations Manual"). The Table of Contents of our Operations Manual is attached as Exhibit H. The total number of pages in the current Operations Manual is 29 pages. It will be made available to you prior to opening. The Operations Manual will contain mandatory and suggested specifications, standards, and operating procedures that we prescribe periodically for Palgong Tea Shops, as well as information relative to other obligations you have in the operation of the Shop. Our Operations Manual may be modified to reflect changes in the specifications, standards, operating procedures and other obligations in operating Palgong Tea Shops (Franchise Agreement – Section 5.2). Our Operations Manual is confidential and remains our property. You must keep your copy of the Operations Manual current and communicate all updates to your employees in a timely manner.

(3) Indemnify you against and reimburse you for all damages for which you are held liable in any proceeding arising out of your use of our Marks in compliance with the Franchise Agreement and all costs reasonably incurred by you in the defense of this kind of claim, so long as you have timely notified us of the claim (Franchise Agreement – Section 6.5).

(4) Review and approve or disapprove of suppliers and distributors you have proposed. We have the right to charge a fee to make this evaluation (Franchise Agreement – Section 10.4).

Advertising

We may administer an advertising fund (the “Marketing Fund”) for advertising and promotional programs as we may deem necessary or appropriate. Upon notice from us, you must contribute to the Marketing Fund up to 3% of the Gross Sales of the Shop payable with, and in the same manner as, your Royalty Fee. We have the right to increase your contribution to the Marketing Fund upon 30 days written notice to you. You will not be obligated to contribute more than 3% of the Gross Sales of the Shop to the Marketing Fund. Palgong Tea Shops owned by us or our affiliates will contribute to the Marketing Fund on the same percentage as you do.

If established, we will direct all advertising and promotion financed by the Marketing Fund, with sole discretion over the creative concepts, materials, and endorsements used in them. You agree that the Marketing Fund may be used to pay for any advertising, promotion, marketing and brand-related activities, including preparing, producing and placing video, audio and written materials (such as newspaper or television ads), electronic media and social media; developing, maintaining and administering online sales capabilities, mobile applications, lead management and customer retention programs; administering national, regional, multi-regional and local marketing, advertising, promotional, social responsibility and customer relationship management programs, including purchasing trade journal, direct mail, coupon, Internet and other media advertising and using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public and customer relations, market research, and other advertising, promotion, marketing and brand-related activities. We will not use Marketing Fund contributions for advertising that is principally a solicitation for the sale of franchises.

The Marketing Fund will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for the reasonable salaries, administrative costs and overhead we may incur in connection with activities reasonably related to the administration of the Marketing Fund and its marketing programs including preparing advertising and marketing materials and collecting and accounting for contributions to the Marketing Fund. The Marketing Fund is not a trust, and we do not owe you fiduciary obligations because of our maintaining, directing or administering the Marketing Fund or any other reason. We may spend in any fiscal year an amount greater or less than the aggregate contribution of all Palgong Tea Shops to the Marketing Fund in that year and the Marketing Fund may borrow from us or other lenders to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus for future use by the Marketing Fund. Unspent monies in the Marketing Fund at the end of the year will be rolled over for potential use in the following year. We will prepare an annual, unaudited statement of monies collected and costs incurred by the Marketing Fund, and will provide it to you upon written request.

We will have the right to cause the Marketing Fund to be incorporated or operated through an entity separate from us at any time we deem appropriate, and this entity will have the same rights and duties as we do under the Franchise Agreement. The Marketing Fund is intended to enhance recognition of the Marks and patronage of Palgong Tea Shops. Although we will endeavor to utilize the Marketing Fund to develop advertising and marketing materials and programs, and to place advertising that will benefit all Palgong Tea Shops, we undertake no

obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Marketing Fund by Palgong Tea Shops operating in that geographic area or that any Shop will benefit directly or in proportion to its contribution to the Marketing Fund from the development of advertising and marketing materials or the placement of advertising. We assume no direct or indirect liability or obligation to you or any other Shop in connection with the establishment of the Marketing Fund or the collection, administration or disbursement of monies paid into the Marketing Fund.

We have the right at any time to defer or reduce a franchisee's contributions to the Marketing Fund, or to terminate the Marketing Fund by giving you 30 days' prior written notice. All unspent monies on the date of termination will be distributed to us, our affiliates and our franchisees in proportion to our respective contributions to the Marketing Fund during the preceding 12-month period. We will have the right to reinstate the Marketing Fund upon the same terms and conditions set forth in the Franchise Agreement upon 30 days' advance written notice to you. Because the Marketing Fund does not yet exist, it has no operating history.

We reserve the right to designate one or more geographic areas for a local and/or regional advertising cooperative. The cooperative's members in any area are the owners of all Palgong Tea Shops located and operating in that area (including us and our affiliates, if applicable). Each cooperative will be organized and governed in a form and manner, and begin operating on a date, that we determine. You must sign the documents that we require to become a member of the cooperative and participate in the cooperative as those documents require. We may change, dissolve and merge cooperatives. Each cooperative's purpose is, with our approval, to develop, administer or implement advertising, marketing and promotional materials and programs for the area that the cooperative covers. You automatically will become a member of any existing or new cooperative formed in your geographic area and must participate in the cooperative as its governing documents require. You must pay any contributions that we require you to make for expenditure by these local or regional advertising cooperatives or that may be otherwise approved by these cooperatives, except that you will not be obligated to pay more than 1.5% of the Gross Sales of the Shop to any cooperative. Any contribution you are required to make to any local or regional advertising cooperatives will count toward your local advertising expenditure obligations. Palgong Tea Shops that we and our affiliates own in the cooperative's area will contribute at the same rate. The cooperative will prepare annual, unaudited financial statements you may review.

There are presently no regional or local advertising cooperatives. There are presently no advertising councils.

You must spend annually (or during any other period we designate) at least 1.5% of your Gross Sales on advertising, marketing, promotional, customer relationship management, social responsibility, public relations and other brand-related programs in your local market area, which includes coupons, but does not include employee meal discounts. Before your use of them, samples of all local and regional advertising and promotional materials not prepared or previously approved by us must be submitted to us for approval, which will not be unreasonably withheld. You may not use any advertising or promotional materials that we have not previously approved in writing.

We and/or our affiliates, in our sole discretion, may establish and operate websites, social media accounts, applications, keyword or adword purchasing programs, accounts with websites featuring gift certificates or discounted coupons, mobile applications, online videos, display banner campaigns, e-mail marketing campaigns, or other means of digital advertising on the Internet or any other means of digital or electronic communications (collectively, “Digital Marketing”) that are intended to promote the Marks, the Shop, and the entire Palgong Tea brand network. We will have the sole right to control all aspects of any Digital Marketing, including those related to your Shop. Unless we consent otherwise in writing, you may not, directly or indirectly, conduct or be involved in any Digital Marketing that use the Marks or that relate to the Shop. You must give us the information and materials that we periodically request concerning the Shop and its customers, in the manner that we periodically specify, to support any Digital Marketing. If we do permit you to conduct any Digital Marketing, you must (i) comply with any standards or content requirements that we establish periodically and must immediately modify or delete any Digital Marketing that we determine, in our sole discretion, is not compliant with such standards or content requirements, (ii) only use materials that we have approved and must submit any proposed modifications to us for our approval, (iii) not use any Mark on any aspect of the Digital Marketing (including in any domain name, address, or account) except as we expressly permit, (iv) include any information that we require, and (v) include only the links that we approve or require. We retain the right to pre-approve your use of linking and framing between any Digital Marketing that you conduct and all other websites. If we consent to your use of the Marks (or words or designations similar to the Marks) in any domain name, electronic address, website, or other source identifier, we may register such names, addresses, websites, or identifiers and then license use of the registered item back to you under a separate agreement. You must pay all costs due for registration, maintenance, and renewal of any such names, addresses, websites, or identifiers that we approve and maintain on your behalf. We retain the ownership of copyright to any of the materials that you may develop for use on the Internet. We may withdraw our approval for any Digital Marketing at any time.

Computer/Cash Register

You must use in the development and operation of the Shop the Computer System we may specify periodically. Currently, any cash register system that meets our requirements (i.e., order taking, sales information, billing) is approved for use in a Shop. We estimate that the cost to purchase and maintain the Computer System will not exceed \$5,000 for your Shop. As part of the Computer System, we may require you to obtain specified computer hardware and/or software, including a license to use proprietary software developed by us or others. Our modification of these specifications for the components of the Computer System may require you to incur costs to purchase, lease and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System during the term of the Franchise Agreement. There are no limitations on the frequency and cost of these obligations of yours. We cannot estimate the future costs of the Computer System (or additions or modification to the Computer System), and the cost to you of obtaining the Computer System (including software licenses) (or any additions or modification) may not be fully amortizable over the remaining term of the Franchise Agreement. Nonetheless, you will incur these costs in obtaining the computer hardware and software comprising the Computer System (or additions or

modification). We have the right to charge up-front and ongoing fees for software or systems modifications and enhancements specifically made for us that is licensed to you and other maintenance and support services that we provide to you related to the Computer System. Neither we nor any affiliate or third party has an obligation to provide ongoing maintenance, repairs, upgrades or updates to the Computer System unless you enter into a contract for these services. You have sole and complete responsibility for: (a) the acquisition, operation, maintenance, and upgrading of the Computer System; (b) the manner in which your Computer System interfaces with our and any third party's computer system; (c) complying with all applicable laws, regulations, industry standards (including Payment Card Industry Data Security Standards) and other procedures to safeguard the confidentiality and security of information concerning the Shop's customers and employees; and (d) any and all consequences if the Computer System is not properly operated, maintained, and upgraded. The Computer System must permit 24 hours per day, 7 days per week electronic communications between you and us. We will have independent access to the information and data from the Computer System. There is no contractual limitation on our right to access this information and data.

Training

Before your Shop opens for business, you or your designated owner and your management team must attend and complete to our satisfaction a training program in the operation of a Shop. The training program will be a total of approximately 1 week and will consist of the following:

TRAINING PROGRAM

Column 1 Subject	Column 2 Hours of Classroom Training	Column 3 Hours of On-The- Job Training	Column 4 Location⁽¹⁾
Store Setup	3	2	Corporate Palgong Tea Shop in Glenview, Illinois or other location we designate
Schedule	2	1	Corporate Palgong Tea Shop in Glenview, Illinois or other location we designate
Menu Recipe	2	15	Corporate Palgong Tea Shop in Glenview, Illinois or other location we designate
Cleaning/ Sanitizing	2	2	Corporate Palgong Tea Shop in Glenview, Illinois or other location we designate

Column 1 Subject	Column 2 Hours of Classroom Training	Column 3 Hours of On-The-Job Training	Column 4 Location⁽¹⁾
Service/ POS Training	3	4	Corporate Palgong Tea Shop in Glenview, Illinois or other location we designate
Totals	12	24	

As a new franchisor, we plan to be flexible in scheduling training to accommodate our personnel, you or your designated owner and your management team. There currently are no fixed (i.e., monthly or bi-monthly) training schedules. Training will be scheduled as needed. The instructional materials will include the Operations Manual and various handouts. John Park, our President, and Mike Choi, our Director of Franchising, along with their team, will conduct the training program. Mr. Park has been involved in the Palgong Tea Shop business since October 2020 and, since May 1994, has experience as a franchisee or distributor of several premiere retail and quick service restaurant brands, including The Athlete's Foot in the United States and South Korea (Sports Land Inc., May 1994 to October 2013), Nike Tae Kwon Do – North America (Sports Land Inc., July 2000 to May 2012), Red Mango in the United States and South Korea (Red Mango Midwest, Inc., July 2007 to December 2014), and Taco Bell in the United States and South Korea (TB Midwest, LLC, July 2011 to January 2015). Mr. Choi has been involved in the Palgong Tea Shop business since October 2020 and has worked alongside John Park in Glenview Illinois, since July 2007 where he experienced and learned different franchise operations and expertise, including for brands such as The Athlete's Foot (Sports Land Inc., May 1994 to October 2013), Red Mango (Red Mango Midwest, Inc., July 2007 to December 2014), and Taco Bell (TB Midwest, LLC, July 2011 to January 2015) working as a director/manager.

We may require at your expense that you (or your designated principal owner) attend additional training programs (up to 5 days per year) and conventions or national franchise meetings (up to 5 days per year).

For a minimum of 10 days before, during and after the opening of the Shop, we will provide to you, at the premises and at our expense, at least one of our representatives for the purpose of facilitating the opening of the Shop. If you request, and we agree to provide, additional assistance, you must reimburse us for our expense of providing this additional assistance, including salary, travel and lodging and expenses of our employees.

Site Selection

If you want to pursue a franchise and you have not located a site for your Shop, we may enter into a Site Selection Agreement with you. Under this Site Selection Agreement, you must select, and we must approve, an acceptable site within 90 days after the agreement date, otherwise we may terminate the agreement. You will submit to us a written description of the

proposed site before signing any lease, sublease or other related documents and we will not unreasonably withhold approval of a site that meets our standards for location, neighborhood, traffic patterns, parking availability, layout and other physical characteristics. If you have not located an acceptable site, or if you have not signed the lease, sublease or other related documents for an acceptable site within 90 days from the date of the Franchise Agreement, we can terminate the Franchise Agreement.

Shop Opening

We estimate that it will be up to 6 months after you sign the Franchise Agreement before you open your Shop, but the interval may vary based on the following factors: the location and condition of the site, the Shop's construction schedule, the extent to which you must upgrade or remodel an existing location, the delivery schedule for equipment and supplies, permits and licensing requirements, delays in securing financing arrangements and completing training, and your compliance with local laws and regulations. We can terminate the Franchise Agreement in the event you fail to open the Shop within 180 days after the signing of the Franchise Agreement (Franchise Agreement – Section 3.6).

Item 12

TERRITORY

Site Selection Agreement

If you sign a Site Selection Agreement with us, we and you will designate a “Designated Area” within which you will focus your site selection activities. The Designated Area will vary widely depending on the market where you are looking for a site. We will identify the Designated Area by streets or other natural boundaries. There is no minimum size for Designated Areas.

Under the Site Selection Agreement, you will not receive an exclusive territory. You may face competition for locations from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Franchise Agreement

You may operate the Shop only at the approved site. You will be granted a protected area around your Shop (the “Protected Area”). The Protected Area will be a radius of 5 miles in most areas. The radius may be larger if the area does not include a population of at least 125,000 people. In large metropolitan areas, like Chicago, the radius will be 1/2 to 1 mile. We also reserve the right to define the Protected Area by street boundaries, municipal boundaries, expressways, railroad tracks or other similar bounding descriptions. The Protected Area will be described in an Exhibit to the Franchise Agreement and may be depicted on a map attached to the Exhibit. Provided you are in compliance with the Franchise Agreement, neither we nor our affiliates will operate or grant a franchise for the operation of another Shop located within the Protected Area.

We reserve all other rights with respect to Palgong Tea Shops, the Marks and the System, including: (a) the right to establish and operate, and grant others the right to establish and operate, Palgong Tea Shops at any location outside of the Protected Area on terms and conditions we deem appropriate; (b) the right to establish and operate, and grant others the right to establish and operate, tea or coffee shops or any similar or dissimilar businesses that either are not primarily identified by the Marks or do not use the System, at any location, whether within or outside the Protected Area, on terms and conditions we deem appropriate; (c) all rights relating directly or indirectly to the Marks, and all products and services associated with any of the Marks, in connection with any methods of distribution, except as provided above, including providing, and granting rights to others to provide, products and services to customers and other third parties that are similar or dissimilar to, or competitive with, any products and services provided at Palgong Tea Shops, whether identified by the Marks or other trademarks or service marks, regardless of the method of distribution, and at any location; and (d) acquiring the assets or ownership interests of, or being acquired (regardless of the form of transaction) by, one or more businesses providing products and services similar or dissimilar to those provided at Palgong Tea Shops, and franchising, licensing or creating other arrangements (whether as Palgong Tea Shops or not) with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating, whether within or outside the Protected Area. Because of these reserved rights, 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. We do not need to pay you any compensation for soliciting or accepting orders within the Protected Area in one of the manners described in this paragraph.

We will determine, and may periodically modify, the geographic area in which you provide Catering Services and/or Delivery Services, but you will not receive any exclusive, protected or other territorial rights with respect to Catering Services and/or Delivery Services in that geographic area. We, our affiliates, and other franchisees may provide Catering Services and Delivery Services near your Shop. If you fail to comply with any provision of the Franchise Agreement, including any specification or standard, pertaining to Catering Services or Delivery Services, then in addition to any other rights and remedies that we might have (including the right to terminate the Franchise Agreement), we may temporarily or permanently restrict the geographic area within which you may provide Catering Services or Delivery Services.

You may not relocate the Shop to a new site without our prior consent, which we may grant or deny as we deem best. We may condition our approval of your relocation request on (1) the new site and its lease or sublease being acceptable to us; (2) your paying us our then current relocation fee; (3) your reimbursing any costs we incur during the relocation process; (4) your confirming that the Franchise Agreement remains in effect and governs your operation of the Shop at the new site with no change in the franchise term or, at our option, your signing our then current form of franchise agreement to govern your operation of the Shop at the new site for a new franchise term (in either case, we may change the definition of the Protected Area); (5) your signing a general release, in a form satisfactory to us, of any and all claims against us and our owners, affiliates, officers, directors, employees, and agents; (6) your continuing to operate the Shop at its original site until we authorize its closure; and (7) your taking, within the timeframe we specify and at your own expense, all action we require to de-brand and de-identify the Shop's

former premises so that it no longer is associated in any manner (in our opinion) with the System.

You may solicit and sell to customers regardless of their location, provided that you may not offer or sell any products or services at wholesale, by mail order or using any website, another electronic means or medium, or otherwise over the Internet without our prior written consent. Other Palgong Tea Shops, including those operated by us or our affiliates, also may solicit and sell to customers wherever located, even if they are located within your Protected Area.

You have no options or rights of first refusal to purchase additional Palgong Tea Shop franchises. Continuation of rights to your Protected Area is not dependent on achievement of any specific sales volume, market penetration or any other contingency. Except as described above on relocation, there are no other circumstances which allow us to modify your Protected Area or your territorial rights.

Neither we nor our affiliates operate, franchise, or have present plans to operate or franchise a business under a different trademark that sells or will sell goods or services similar to those you will sell. However, we reserve the right to do so in the future.

Development Agreement

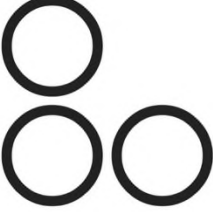
If you sign a Development Agreement with us, we will grant you rights in the Designated Territory to establish a certain number of Palgong Tea Shops. The Designated Territory will vary widely depending on the market where you are looking to develop Palgong Tea Shops. We will identify the Designated Territory by streets or other natural boundaries. There is no minimum size for the Designated Territory. If you are in full compliance with the Development Agreement and all franchise agreements, we will not establish and operate, or grant any other party the rights to establish and operate, Palgong Tea Shops in the Designated Territory prior to the expiration of the Development Agreement's term. Subject to this limitation, we reserve, on behalf of ourselves and our affiliates, all other rights.

Except with respect to your development obligations described in the Development Agreement, continuation of your Designated Territory exclusivity does not depend on your achieving a certain sales volume, market penetration or other contingency.

Item 13

TRADEMARKS

You may use certain Marks in operating the Shop. PalgongTea Korea owns and has obtained registration of the following principal Marks on the Principal Register of the United States Patent and Trademark Office (the “USPTO”):

Mark	Registration Number	Registration Date	Affidavits Filed?	Registration Renewed?
 PALGONG TEA	666712	March 8, 2022	N/A	N/A

PalgongTea Korea entered into a Trademark and Proprietary Information License Agreement (the “License Agreement”) with PalgongTea USA effective as of August 1, 2021 under which PalgongTea Korea granted PalgongTea USA the right to authorize its affiliates, including us, to franchise the development and operation of PalgongTea Shops, including the sublicensing of the Marks, System and other proprietary information to franchisees in connection with the operation of their PalgongTea Shops. The term of the License Agreement is 10 years, subject to renewal or extension if agreed to by the parties, and is terminable by either party upon default by the other party with a 90-day cure period. Termination of the License Agreement will not affect our then-existing franchise agreements with our franchisees and will not affect any renewal terms under those franchise agreements. Termination will only affect our license to use the Marks, System and other proprietary information with respect to new franchisees. PalgongTea Korea may, however, require that existing franchisees enter into a licensing agreement directly with PalgongTea Korea or a third party designated by PalgongTea Korea as a condition for their continuing use of the Marks, System and other proprietary information, or the parties may choose to conclude a separate agreement on the operation and management of the existing franchisees during the term of the respective franchise agreement. We entered into a Sublicense Agreement (the “Sublicense Agreement”) with PalgongTea USA effective as of August 1, 2021 under which PalgongTea USA, pursuant to the License Agreement, sublicensed the Marks, System and other proprietary information to us for the franchising of Palgong Tea Shops. The term of the Sublicense Agreement is equal to the term and renewal term of the License Agreement, unless earlier terminated by mutual agreement or pursuant to the terms of the Sublicense Agreement. PalgongTea USA has the right to terminate the Sublicense Agreement upon 90 days’ written notice and opportunity to cure in the event of our breach of any of the provisions of the Sublicense Agreement. After the Sublicense Agreement terminates, our franchisees will have the right to continue to use the Marks in accordance with the terms of the License Agreement. No other agreements limit our rights to use, or license the use of, the Marks.

There are no currently effective material determinations of the USPTO, trademark trial and appeal board, the trademark administrator or of any state, pending infringement, opposition or cancellation or pending material litigation involving our principal trademarks. Except as otherwise described, there are no other agreements in effect which materially affect our rights to use or license the use of the Marks in a manner material to the franchise. We do not actually know of either superior rights or infringing uses that could materially affect your use of the Marks in any state.

Your right to use the Marks is derived solely from the Franchise Agreement and is limited to your conduct of business in compliance with the Franchise Agreement and all applicable specifications, standards and operating procedures we prescribe during the term of the franchise. Any unauthorized use of the Marks by you will constitute an infringement of our and PalgongTea Korea's rights in and to the Marks. Your usage of the Marks and any goodwill established by your usage of the Marks will be for our and PalgongTea Korea's exclusive benefit and the Franchise Agreement does not confer any goodwill or other interests in the Marks upon you. All provisions of the Franchise Agreement applicable to the Marks will apply to any additional proprietary trade and service marks and commercial symbols authorized for use by and licensed to you under the Franchise Agreement. You may not at any time during or after the term of the Franchise Agreement contest, or assist any other person or entity in contesting, the validity or ownership of any of the Marks.

You must use the Marks as the sole identification of the Shop, provided that you must identify yourself as the independent owner of the Shop in the manner we prescribe. You may not use any Mark as part of any corporate or trade name, or with any prefix, suffix, or other modifying words, terms, designs or symbols, or in any modified form, nor may you use any Mark with the sale of any unauthorized service or in any other manner we have not expressly authorized in writing. You must prominently display the Marks on or with Shop posters and displays, service contracts, stationery, other forms we designate, and in the manner we prescribe, give the notices of trade and service mark registrations and copyrights we specify, and obtain the fictitious or assumed name registrations as may be required under applicable law.

You must immediately notify us of any actual or apparent infringement of or challenge to your use of any Mark, or claim by any person of any rights in any Mark, and you may not communicate with any person other than us, PalgongTea Korea and our and PalgongTea Korea's counsel about any infringement, challenge or claim. We and PalgongTea Korea will have sole discretion to take any action we or PalgongTea Korea deem appropriate (including no action) and the right exclusively to control any litigation or USPTO or other proceeding arising out of any infringement, challenge or claim or otherwise relating to any Mark. You must sign any and all instruments and documents, render assistance and do the acts and things as may, in the opinion of our or PalgongTea Korea's attorneys, be necessary or advisable to protect and maintain our and PalgongTea Korea's interests in any litigation or USPTO or other proceeding or to otherwise protect and maintain our and PalgongTea Korea's interests in the Marks.

If it becomes advisable at any time in our sole judgment for the Shop to modify or discontinue the use of any Mark or for the Shop to use one or more additional or substitute trade or service marks, you must at your expense to comply with our directions to modify or otherwise discontinue the use of the Mark, or use one or more additional or substitute trade or service

marks, within a reasonable time after our notice to you. We need not reimburse you for your expenses in complying with these directions (such as costs you incur in changing the Shop's signs or replacing supplies), for any loss of revenue due to any modified or discontinued Mark, or for your expenses of promoting a modified or substitute trademark or service mark.

We will indemnify you against, and reimburse you for, all damages for which you are held liable in any proceeding arising out of your use of any Mark, in compliance with the Franchise Agreement, and for all costs you reasonably incur in the defense of any claim brought against you or in any proceeding in which you are named as a party, provided that you have timely notified us of the claim or proceeding and have otherwise complied with the Franchise Agreement. We, in our discretion, will be entitled to defend any proceeding arising out of your use of any Mark under the Franchise Agreement, and, if we undertake the defense of the proceeding, we will have no obligation to indemnify or reimburse you for any fees or disbursements of counsel you retain.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents or pending patent applications are material to the franchise. You can use the proprietary information in our Operations Manual. Although we have not filed an application for a copyright registration for our Operations Manual, we claim copyright protection in it, and it is proprietary. We are not obligated to take any action for unauthorized uses of the information contained in our Operations Manual, but, in appropriate circumstances, we intend to do so. We have no obligation to indemnify you for losses brought by you concerning your use of this information, but, under appropriate circumstances, we intend to do so. We are not aware of any infringing uses of this information. There are no agreements in effect affecting our right to use this information.

We and our affiliates possess (and will continue to develop and acquire) certain unique and proprietary confidential information and trade secrets comprising methods, techniques, procedures, information, systems and knowledge of and experience in the design and operation of Palgong Tea Shops, including (1) recipes, proprietary products, and methods of efficiently and cost-effectively preparing and serving beverages and other products sold at Palgong Tea Shops; (2) knowledge of test programs, concepts or results relating to new menu items or categories; (3) sources of products sold from Palgong Tea Shops; (4) advertising and promotional programs; (5) Palgong Tea Shop image and décor; (6) methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the development, operation, and franchising of Palgong Tea Shops; and (7) the selection and methods of training managers, cooks and other employees. We will disclose the Confidential Information to you in the initial training program, the Operations Manual and in guidance provided to you during the term of the franchise. You will not acquire any interest in the Confidential Information other than the right to utilize it in the development and operation of your Shop during the term of the franchise.

The Confidential Information is proprietary and, except to the extent that it is or becomes generally known in the Shop industry or trade, the Confidential Information is our trade secret

and is disclosed to you solely for your use in the operation of the Shop during the term of the franchise. You (1) must not use the Confidential Information in any other business or capacity, whether during or after the franchise term; (2) must maintain the confidentiality of the Confidential Information during and after the term of the franchise; (3) must not make unauthorized copies of any portion of the Confidential Information disclosed in written or other tangible or intangible form; and (4) must adopt and implement all reasonable procedures prescribed periodically to prevent unauthorized use or disclosure of any of the Confidential Information, including restrictions on disclosure to employees of the Shop and the use of nondisclosure clauses in employment agreements with these employees.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

The Shop at all times must be under the direct, on-premises supervision of you (or your designated principal owner). If you are an entity, your designated principal owner engaging in the on-premises supervision of the Shop must own 51% or more of the ownership interests in you. You (or your designated principal owner) must complete our required training program and must devote full time and best efforts to the management of the Shop. You must hire a management team and employees and you will be exclusively responsible for the terms of their employment, their compensation, and for the proper training of the employees in the operation of the Shop. The management team must complete our required training programs (if we require such training). You must establish at the Shop a training program for all other employees using our Operations Manual. All employees must maintain a neat and clean appearance and to conform to the standards of dress and/or uniforms we specify from time to time for all Palgong Tea Shops. All employees must render prompt, efficient and courteous service to all customers of the Shop. Neither you nor your principal owner nor your management team can engage in any other business or activity that may conflict with your or their obligations under the Franchise Agreement. You, your principal owner and your management team must maintain our trade secrets and abide by our covenants not to compete.

If you are an entity, all of your owners must sign a Principal Owner's Guaranty (which is attached to the Franchise Agreement in Exhibit B) agreeing to be bound by and guaranteeing the obligations of the "Franchisee" under the Franchise Agreement. If the Franchise Agreement is subsequently assigned to a corporation, partnership or limited liability company, your owners must agree to be bound by the terms of the Franchise Agreement and guarantee the obligations of the Franchisee under the Franchise Agreement. (See the Assignment and Assumption of Franchise Agreement attached as Exhibit E.)

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We require that you offer and sell only those products and services we have approved for Palgong Tea Shops. You must offer all goods and services that we designate for Palgong Tea Shops. We have the right to add new or additional products and services which you must offer at

your Shop. There are no restrictions in the Franchise Agreement on our right to do this. You may operate a retail but not a wholesale business from the Shop. Subject to our approval, we may in certain instances allow you to offer additional menu items based upon local tastes and preferences.

You may offer Catering Services and Delivery Services from the Shop and you must do so in accordance with the terms of the Operations Manual, the terms of the Franchise Agreement or otherwise as provided by us in writing. We may require that you only provide Delivery Services through a TPS that we approve or designate. We reserve the right to revise and/or make exceptions to our Catering Services and Delivery Services policies as they apply to you and our other franchisees. If you fail to comply with any provision of the Franchise Agreement, including any specification or standard, pertaining to Catering Services or Delivery Services, then in addition to any other rights and remedies that we might have (including the right to terminate the Franchise Agreement), we may temporarily suspend or permanently terminate your right to provide Catering Services or Delivery Services.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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.

THE FRANCHISE RELATIONSHIP

Provision	Section in Franchise or Related Agreement	Summary
a. Length of the franchise term	Section 2.1 of the Franchise Agreement	5 years.
b. Renewal or extension of the term	Section 2.7 of the Franchise Agreement	2 additional terms of 5 years.
c. Requirements for franchisee to renew or extend	Section 2.7 of the Franchise Agreement	You must: maintain possession of premises and refurbish and redecorate in compliance with our then current requirements or obtain and develop suitable substitute premises; correct any deficiencies in the operation of the Shop identified in our written notice to you prior to expiration; sign our then current form or franchise agreement and any ancillary documents; and sign a general release of any and all claims against us, our officers, directors, employees and agents. The terms of our then current form of franchise

Provision	Section in Franchise or Related Agreement	Summary
		agreement that you sign for renewal of the franchise may differ materially from any and all of those contained in the Franchise Agreement attached to this Disclosure Document.
d. Termination by franchisee	Section 6 of the Site Selection Agreement	You may terminate the Site Selection Agreement at any time prior to our approval of a site only upon written notice to us.
e. Termination by franchisor without cause	Not applicable	Not applicable.
f. Termination by franchisor with cause	Section 2 of the Site Selection Agreement; Section 15 of the Franchise Agreement; Section 8 of the Development Agreement	We may terminate the Site Selection Agreement if you are unable to locate an acceptable site within 90 days. We may terminate the Franchise Agreement and the Development Agreement only upon written notice to you.
g. "Cause" defined – curable defaults	Section 15 of the Franchise Agreement	Under the Franchise Agreement, if you do not pay us, our affiliates or your suppliers within 10 days after written notice; you do not comply with any other provision of the franchise agreement or specification, standard or operating procedure and do not correct the failure within 30 days after written notice. Under the Site Selection Agreement and the Development Agreement, there are no curable defaults.
h. "Cause" defined – non-curable defaults	Section 15 of the Franchise Agreement; Section 8 of the Development Agreement	Under the Franchise Agreement, you fail to timely lease, purchase develop or open the Shop; you or your principal owner fails to complete the training program; you abandon, surrender, transfer control of or do not actively operate the Shop or lose the right to occupy the location of the Shop; you or your principal owner make an unauthorized transfer or assignment of the franchise or assets of the Shop; you are adjudged a bankrupt, become insolvent or make an assignment for the benefit of

Provision	Section in Franchise or Related Agreement	Summary
		creditors; you or your principal owners are convicted of a felony or are convicted or plead no contest to any crime or offense that adversely affects the reputation of the Shop and the goodwill of our Marks; you violate any health or safety law or ordinance or regulation or operate the Shop that creates a health or safety hazard; or you fail on 3 or more occasions within any consecutive 12-month period to comply with the franchise agreement whether or not your failures to comply are corrected after notice to you. Under the Development Agreement, you fail to satisfy your development obligations or any franchise agreement executed by you for the operation of a Shop is terminated for any reason.
i. Franchisee's obligations on termination/non-renewal	Section 16 of the Franchise Agreement	You must pay all amounts owed, refrain from using our Marks, return to us or destroy, as we specify, all customer lists, software, forms and materials bearing our Marks or relating to the Shop, de-identify the premises, return the Operations Manual and cease using all confidential information and abide by the post-term non-compete.
j. Assignment of contract by franchisor	Section 7 of the Site Selection Agreement; Section 14.2 of the Franchise Agreement; Section 9 of the Development Agreement	The Site Selection Agreement, Franchise Agreement and Development Agreement are fully transferable by us.
k. "Transfer" by franchisee-defined	Section 7 of the Site Selection Agreement; Section 14.3 of the Franchise Agreement	Transfer includes any voluntary, involuntary, direct or indirect assignment, sale, gift, exchange, grant of a security interest or change of ownership in the Franchise Agreement, the Shop or any interest in the franchise.

Provision	Section in Franchise or Related Agreement	Summary
l. Franchisor approval of transfer by franchisee	Section 7 of the Site Selection Agreement; Section 14.4 of the Franchise Agreement; Section 9 of the Development Agreement	We will not approve any transfer of the Site Selection Agreement. We will not unreasonably withhold approval of the transfer of the Franchise Agreement. We will not approve any assignment of the Development Agreement, except in connection with the assignment of all franchise agreements to which you are a party, provided that all franchise agreements are assigned to the same individual or entity.
m. Conditions for franchisor approval of transfer	Section 14.4 of the Franchise Agreement	Proposed new owner must have sufficient business experience, aptitude and financial resources to operate the Shop; you must pay all amounts due us and our affiliates; proposed new owner and its management team (if we require) must successfully complete our training program; your landlord must consent to transfer of the lease; you must pay us a transfer fee of 50% of our then current initial franchise fee if transfer is to an existing franchisee or 75% of our then current franchise fee if transfer is to a new franchisee; you and your principal owners must deliver a general release in favor of us and our affiliates, owners, officers, directors, employees and agents; new owner must agree to remodel to bring the Shop to current standards; new owner must assume all obligations under your franchise agreement or, at our option, sign a new franchise agreement on our then current form.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 14.8 of the Franchise Agreement	We have 30 days to match any offer.
o. Franchisor's option to purchase franchisee's business	Sections 16.6 and 16.7 of the Franchise Agreement	We have the option for 30 days to purchase the Shop upon termination or expiration of the franchise agreement at fair market value,

Provision	Section in Franchise or Related Agreement	Summary
		including obtaining a lease or sublease for real estate on existing terms. If you own the Shop property, we also have the right to purchase any property on which the Shop is located at fair market value. If we cannot agree on fair market value (or fair rental value), the value will be determined by an appraisal process.
p. Death or disability of franchisee	Section 14.6 of the Franchise Agreement	Executor, administrator or other personal representative must transfer interest of franchisee or principal owner within 12 months. All transfers are subject to provisions in Franchise Agreement regulating transfers.
q. Non-competition covenants during the term of the franchise	Section 8.3 of the Franchise Agreement	Neither you nor your principal owners nor any immediate family members of you or your principal owners may perform services for or have any interest in any similar carry-out or delivery service business which offers teas or coffee as its primary menu item.
r. Non-competition covenants after the franchise is terminated or expires	Section 16.5 of the Franchise Agreement	You and your principal owners are prohibited from performing services for or having an interest in any similar carry-out or delivery service business which offers teas or coffee as its primary menu item for 2 years within 10 miles of the Shop or any other Shop.
s. Modification of the agreement	Section 10 of the Site Selection Agreement; Section 17.12 of the Franchise Agreement; Section 19 of the Development Agreement	No modifications unless both parties consent.
t. Integration/merger clause	Section 10 of the Site Selection Agreement; Section 17.12 of the Franchise Agreement; Section 19 of the Development Agreement	Only the terms of the Franchise Agreement, Site Selection Agreement and Development Agreement are binding (subject to state law). However, nothing in the Franchise Agreement, Site Selection

Provision	Section in Franchise or Related Agreement	Summary
		Agreement or Development Agreement is intended to disclaim our representations made in this Disclosure Document.
u. Dispute resolution by arbitration or mediation	Section 8.A of the Site Selection Agreement; Section 17.7 of the Franchise Agreement; Section 14 of the Development Agreement	All controversies, disputes or claims subject to arbitration in the city in which our principal office is located at the time the arbitration action is filed (currently Glenview, Illinois).
v. Choice of forum	Section 8.C of the Site Selection Agreement; Section 17.8 of the Franchise Agreement; Section 15 of the Development Agreement	All actions which are not required to be arbitrated must be brought in a court of competent jurisdiction in Illinois (subject to state law).
w. Choice of law	Section 8.B of the Site Selection Agreement; Section 17.9 of the Franchise Agreement; Section 16 of the Development Agreement	Illinois law governs, except for matters regulated by the Federal Arbitration Act, the United States Trademark Act and other federal law (subject to state law).

Item 18

PUBLIC FIGURES

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

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 representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not

authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Mike Choi, Director of Franchising, 1625 North Milwaukee Avenue, Glenview, Illinois 60025, (773) 600-6950, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20

OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

Systemwide Outlet Summary For years 2019 to 2021

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Company-Owned*	2019	0	0	0
	2020	0	0	0
	2021	0	1	+1
Total Outlets	2019	0	0	0
	2020	0	0	0
	2021	0	1	+1

***Owned and operated by affiliate, PalgongTea Glenview.**

Table No. 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) For years 2019 to 2021

Column 1 State	Column 2 Year	Column 3 Number of Transfers
All States	2019	0
	2020	0
	2021	0
Totals	2019	0
	2020	0
	2021	0

Table No. 3

**Status of Franchised Outlets
For years 2019 to 2021**

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Terminations	Col. 6 Non- Renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations Other Reasons	Col. 9 Outlets at End of the Year
All States	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0
Totals	2019	0	0	0	0	0	0	0
	2020	0	0	0	0	0	0	0
	2021	0	0	0	0	0	0	0

Table No. 4

**Status of Company-Owned Outlets
For years 2019 to 2021**

Col. 1 State	Col. 2 Year	Col. 3 Outlets at Start of Year	Col. 4 Outlets Opened	Col. 5 Outlets Reacquired From Franchisee	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisee	Col. 8 Outlets at End of the Year
Illinois	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	1	0	0	0	1
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	1	0	0	0	1

Table No. 5

Projected Openings as of December 31, 2021

Column 1 State	Column 2 Franchise Agreements Signed But Outlet Not Opened	Column 3 Projected New Franchised Outlet In The Next Year	Column 4 Projected New Company- Owned Outlet In the Next Year
California	0	0	0
Florida	0	0	0
Georgia	0	0	0
Illinois	0	0	0
Michigan	0	0	0

Column 1	Column 2	Column 3	Column 4
State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet In The Next Year	Projected New Company-Owned Outlet In the Next Year
Virginia	0	0	0
Totals	0	0	0

We expect to begin soliciting franchisees following the date of this Disclosure Document. We do not expect to open any franchises this year, although we may sign Franchise Agreements in one or more of the states identified above by the end of the year.

PalgongTea Glenview opened its first Palgong Tea Shop on or about May 1, 2021. We had no franchisees as of this Disclosure Document's issuance date. There were no franchisees who had Palgong Tea Shops terminated, canceled, or not renewed, or who otherwise voluntarily or involuntarily ceased doing business under our Franchise Agreement or Development Agreement, during our last fiscal year or who have not communicated with us within 10 weeks of this Disclosure Document's issuance date. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last 3 fiscal years, no current or former franchisees have signed confidentiality clauses restricting them from discussing with you their experiences as a franchisee in our franchise system. There are no trademark-specific franchisee organizations associated with the Palgong Tea franchise system.

Item 21

FINANCIAL STATEMENTS

We are a start-up franchisor organized on November 18, 2020. Our fiscal year end is December 31st. Exhibit F contains our audited balance sheet as of December 31, 2021 and our audited balance sheet as of June 1, 2021, at or about the time we started franchising. We did not have any significant operations prior to that date. Because we have not been in existence for 3 years or more, we do not have available and cannot yet include the 3 full years of audited financial statements required by the franchise laws.

Item 22

CONTRACTS

The following agreements are attached as exhibits to this Disclosure Document:

Exhibit B	Franchise Agreement and Principal Owner's Guaranty
Exhibit C	Site Selection Agreement
Exhibit D	Development Agreement
Exhibit E	Assignment and Assumption of Franchise Agreement
Exhibit I	Agreement Riders

Item 23

RECEIPTS

Our and your copies of the Franchise Disclosure Document Receipt are located at the last 2 pages of this Disclosure Document.

EXHIBIT A

STATE ADMINISTRATORS/AGENTS FOR SERVICE OF PROCESS

**STATE AGENCIES/AGENTS
FOR SERVICE OF PROCESS**

Listed here are the names, addresses and telephone numbers of the state agencies having responsibility for the franchising disclosure/registration laws. We may not yet be registered to sell franchises in any or all of these states.

If a state is not listed, we have not appointed an agent for service of process in that state in connection with the requirements of the franchise laws. There may be states in addition to those listed below in which we have appointed an agent for service of process.

There also may be additional agents appointed in some of the states listed.

CALIFORNIA

Commissioner of Department of Financial
Protection & Innovation
Department of Financial Protection &
Innovation
Toll Free: 1 (866) 275-2677

Los Angeles

Suite 750
320 West 4th Street
Los Angeles, California 90013-2344
(213) 576-7500

Sacramento

2101 Arena Boulevard
Sacramento, California 95834
(866) 275-2677

San Diego

1455 Frazee Road, Suite 315
San Diego, California 92108
(619) 525-4233

San Francisco

One Sansome Street, Suite 600
San Francisco, California 94104-4428
(415) 972-8559

GEORGIA

Georgia Secretary of State
Corporations Division
2 Martin Luther King, Jr. Drive, SE
Suite 315, Wet Tower
Atlanta, Georgia 30334
(404) 656-2817

HAWAII

(for service of process)

Commissioner of Securities
Department of Commerce
and Consumer Affairs
Business Registration Division
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 586-2722

(for other matters)

Commissioner of Securities
Department of Commerce
and Consumer Affairs
Business Registration Division
335 Merchant Street, Room 205
Honolulu, Hawaii 96813
(808) 586-2722

ILLINOIS

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

INDIANA

(for service of process)

Indiana Secretary of State
201 State House
200 West Washington Street
Indianapolis, Indiana 46204
(317) 232-6531

(state agency)

Indiana Secretary of State
Securities Division
Room E-111
302 West Washington Street
Indianapolis, Indiana 46204
(317) 232-6681

MARYLAND

(for service of process)

Maryland Securities Commissioner
at the Office of Attorney General-
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202-2021
(410) 576-6360

(state agency)

Office of the Attorney General-
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202-2021
(410) 576-6360

MICHIGAN

Michigan Attorney General's Office
Consumer Protection Division
Attn: Franchise Section
G. Mennen Williams Building, 1st Floor
525 West Ottawa Street
Lansing, Michigan 48933
(517) 335-7567

MINNESOTA

Commissioner of Commerce
Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101
(651) 539-1600

NEW YORK

(for service of process)

Attention: New York Secretary of State
New York Department of State
One Commerce Plaza,
99 Washington Avenue, 6th Floor
Albany, New York 12231-0001
(518) 473-2492

(Administrator)

NYS Department of Law
Investor Protection Bureau
28 Liberty Street, 21st Floor
New York, New York 10005
(212) 416-8236

NORTH DAKOTA

(for service of process)

Securities Commissioner
North Dakota Securities Department
600 East Boulevard Avenue, Suite 414
Bismarck, North Dakota 58505
(701) 328-4712

NORTH DAKOTA (cont'd)

(state agency)

North Dakota Securities Department
600 East Boulevard Avenue, Suite 414
Bismarck, North Dakota 58505
(701) 328-2910

OREGON

Oregon Division of Financial Regulation
350 Winter Street NE, Suite 410
Salem, Oregon 97301
(503) 378-4140

RHODE ISLAND

Securities Division
Department of Business Regulations
1511 Pontiac Avenue
John O. Pastore Complex-Building 69-1
Cranston, Rhode Island 02920
(401) 462-9500

SOUTH DAKOTA

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501
(605) 773-3563

VIRGINIA

(for service of process)

Clerk, State Corporation Commission
1300 East Main Street
First Floor
Richmond, Virginia 23219
(804) 371-9733

VIRGINIA (cont'd)

(for other matters)

State Corporation Commission
Division of Securities and Retail Franchising
Tyler Building, 9th Floor
1300 East Main Street
Richmond, Virginia 23219
(804) 371-9051

WASHINGTON

(for service of process)

Director Department of Financial Institutions
Securities Division
150 Israel Road SW
Tumwater, Washington 98501
(360) 902-8760

(for other matters)

Department of Financial Institutions
Securities Division
P. O. Box 9033
Olympia, Washington 98501-9033
(360) 902-8760

WISCONSIN

(for service of process)

Administrator, Division of Securities
Department of Financial Institutions
4822 Madison Yards Way, North Tower
Madison, Wisconsin 53705
(608) 266-2139

(state administrator)

Division of Securities
Department of Financial Institutions
4822 Madison Yards Way, North Tower
Madison, Wisconsin 53705
(608) 266-9555

EXHIBIT B

FRANCHISE AGREEMENT AND PRINCIPAL OWNER'S GUARANTY

PALGONG TEA
FRANCHISE AGREEMENT

FRANCHISE OWNER

DATE OF AGREEMENT

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PALGONG TEA
FRANCHISE AGREEMENT

This Franchise Agreement (this “Agreement”) is being entered into as of _____, 20__ (the “Agreement Date”). The parties to this Agreement are _____ (“you,” “Franchise Owner” or “Franchisee”) and PalgongTea Franchising LLC (“we” or the “Company”), an Illinois limited liability company, and, if you are a corporation, limited liability company or partnership, your Principal Owners (defined below). This Agreement is for a Palgong Tea Shop (defined below) to be located at: _____ (the “Premises”).

1. INTRODUCTION.

This Agreement has been written in an informal style in order to make it more easily readable and to be sure that you become thoroughly familiar with all of the important rights and obligations this Agreement covers before you sign it. If you are a corporation, limited liability company or partnership, you will notice certain provisions that are applicable to those principal shareholders, owners or partners on whose business skill, financial capability and personal character we are relying in entering into this Agreement. Those individuals will be referred to in this Agreement as “Principal Owners” and are identified on Exhibit B.

Through the expenditure of considerable time, effort and money, we and our affiliates have devised a system (the “System”) for the establishment and operation of shops featuring a variety of teas (including bubble teas), coffee and other beverages and related products known as “Palgong Tea Shops.” Palgong Tea Shops offer dine-in, carry-out and delivery services. We and our affiliates identify Palgong Tea Shops with certain trademarks, service marks and other commercial symbols, including “Palgong Tea,” and certain associated designs and logos, which we may change or add to from time to time (the “Marks”).

We grant to persons who meet our qualifications franchises to own and operate Palgong Tea Shops in accordance with the System and under the Marks. This Agreement is being presented to you because of the desire you have expressed to obtain the right to develop, own and be franchised to operate a Palgong Tea Shop. In signing this Agreement, you acknowledge your understanding of the importance of our high standards of quality and service and the necessity of operating your Shop (defined below) in conformity with standards and specifications we prescribe from time to time. You also acknowledge that you have conducted an independent investigation of the Palgong Tea Shop business and recognize that, like any other business, the nature of it may evolve and change over time, that an investment in a Palgong Tea Shop involves business risks, and that the success of this business venture is primarily dependent on your business abilities and efforts. If this Agreement is being signed in connection with a renewal of a franchise, certain provisions of this Agreement related to development and opening of a Palgong Tea Shop will not apply to you.

2. **GRANT OF FRANCHISE.**

2.1 **Term.** You have applied for a franchise to own and operate a Palgong Tea Shop at the Premises, and we have approved your application in reliance on all of the representations you made in that application. As a result, and subject to the provisions of this Agreement, we grant to you a franchise (the “Franchise”) to operate a Palgong Tea Shop at and from the Premises (the “Shop”), and to use the System and the Marks in the operation of the Shop, for a period of 5 years from the Agreement Date (the “Term”), unless the Franchise is terminated earlier pursuant to the provisions of this Agreement. Termination or expiration of this Agreement will constitute a termination or expiration of your Franchise.

2.2 **Full Term Performance.** You specifically agree to be obligated to perform the obligations of this Agreement, and continuously exert your best efforts to promote and enhance the business of the Shop, for the full Term.

2.3 **Protected Area.** Upon your signing of this Agreement, your Protected Area will be described in Exhibit A. Except as otherwise provided in this Agreement and subject to your full compliance with this Agreement, and any other agreement between you and us or our affiliates, we will not establish or authorize any person or entity other than you to establish a Palgong Tea Shop in the Protected Area during the Term.

2.4 **Reservation of Rights.** Except as provided in Section 2.3, the rights granted to you under this Agreement are non-exclusive, and we retain all rights within and outside the Protected Area. More specifically, we and our affiliates retain all rights with respect to Palgong Tea Shops, the Marks and the System, including, without limitation: (a) the right to establish and operate, and grant others the right to establish and operate, Palgong Tea Shops at any location outside of the Protected Area on terms and conditions we deem appropriate; (b) the right to establish and operate, and grant others the right to establish and operate, tea or coffee shops or any similar or dissimilar businesses that either are not primarily identified by the Marks or do not use the System, at any location, whether within or outside the Protected Area, on terms and conditions we deem appropriate; (c) all rights relating directly or indirectly to the Marks, and all products and services associated with any of the Marks, in connection with any methods of distribution, except as provided in Section 2.3, including providing, and granting rights to others to provide products and services to customers and other third parties that are similar or dissimilar to, or competitive with, any products and services provided at Palgong Tea Shops, whether identified by the Marks or other trademarks or service marks, regardless of the method of distribution, and at any location; and (d) acquiring the assets or ownership interests of, or being acquired (regardless of the form of transaction) by, one or more businesses providing products and services similar or dissimilar to those provided at Palgong Tea Shops, and franchising, licensing or creating other arrangements (whether as Palgong Tea Shops or not) with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating, whether within or outside the Protected Area.

2.5 **Sales by Franchisee.** You may from the location of the Shop solicit and sell to customers regardless of their location, provided that you may not offer or sell any products or services at wholesale, by mail order or using any website, another electronic means or medium,

or otherwise over the Internet without our prior written consent. You acknowledge that the Company, its affiliates and other franchisees of the Company also may solicit and sell to customers wherever located.

2.6 **Catering Services and Delivery Services.** You may offer catering services (“Catering Services”) and delivery services (“Delivery Services”) from the Shop, and you must do so in accordance with the terms of the Operations Manual, this Agreement or otherwise as provided by us in writing. We may require that you only provide Delivery Services through a third-party service (“TPS”) that we approve or designate. We will determine, and thereafter may periodically modify, the geographic area in which you provide Catering Services and/or Delivery Services, but you will not receive any exclusive, protected or other territorial rights with respect to Catering Services and/or Delivery Services in that geographic area. You acknowledge that we, our affiliates, and other franchisees may provide Catering Services and Delivery Services near your Shop. We reserve the right to revise and/or make exceptions to our Catering Services and Delivery Services policies as they apply to you and our other franchisees. If you fail to comply with any provision of this Agreement, including any specification or standard, pertaining to Catering Services or Delivery Services, then in addition to any other rights and remedies that we might have (including the right to terminate this Agreement pursuant to Section 15, if applicable), we may temporarily suspend or permanently terminate your right to provide Catering Services or Delivery Services or temporarily or permanently restrict the geographic area within which you may provide Catering Services or Delivery Services.

2.7 **Renewal of Franchise.**

(a) **Franchise Owner’s Right to Renew.** Subject to the provisions of Section 2.7(b), and if you have substantially complied with all provisions of this Agreement and any other agreement between you (or your affiliates) and us (or our affiliates), then on expiration of the Franchise, if (1) you maintain possession of and agree to refurbish and decorate the Premises, replace fixtures, furnishings, wall décor, furniture, equipment and signs and otherwise modify the Shop in compliance with specifications and standards then applicable under new or renewal franchises for Palgong Tea Shops; or (2) you are unable to maintain possession of the Premises, and you secure an approved substitute premises and agree to expeditiously develop the substitute premises in compliance with specifications and standards then applicable under new or renewal franchises for Palgong Tea Shops; then you will have the right to renew the Franchise for 2 additional terms of 5 years each. No initial franchise fee or renewal fee will be payable upon any renewal of the Franchise and all royalty fees, marketing fund contributions or other amounts payable to us will be based upon the requirements in the renewal Franchise Agreement (see below). Your election to renew any lease for the Premises will be deemed your election to renew the Franchise and to complete any refurbishing or decorating of the Premises and replacement of fixtures, furnishings, furniture, equipment and signs we require in connection with renewal of the Franchise.

(b) **Notice of Deficiencies and Other Requirements.** At least 180 days prior to the expiration of the Franchise, we agree to give you written notice of any deficiencies in the operation or historical performance of the Shop which could cause us not to renew

the Franchise. Our notice will state what actions, if any, you must take to correct the deficiencies in your operation of the Shop or in the Premises and will specify the time period in which those deficiencies must be corrected or other requirements satisfied. Renewal of the Franchise will be conditioned on your correction of all deficiencies identified in our notice and your continued compliance with all the terms and conditions of this Agreement and any other agreement between you (or your affiliates) and us (or our affiliates) up to the date of expiration. If we send a notice of non-renewal, it will state the reasons for our refusal to renew the Franchise.

(c) **Renewal Agreement; Releases.** To renew the Franchise, the Company, you and your Principal Owners must execute the form of standard Franchise Agreement and any ancillary agreements we are then customarily using in the grant or renewal of franchises for the operation of Palgong Tea Shops which may provide for higher royalty fees and advertising contributions and contain adjustments to your Protected Area as we deem in our sole discretion to be appropriate, and may contain other terms materially different from the terms of this Agreement. You and your Principal Owners must execute general releases, in a form satisfactory to us, of any and all claims against us and our officers, directors, employees, and agents.

3. **DEVELOPMENT AND OPENING OF THE SHOP.**

3.1 **Premises.** You must obtain lawful possession of the Premises through lease or purchase contract within 90 days after the Agreement Date. You must obtain our approval of any lease or sublease for the Premises before you sign it, and must deliver a copy of the signed, approved lease or sublease to us within 15 days after its execution. The lease or sublease must (either in an addendum to the lease or sublease in a form that we provide or approve, signed by you and the landlord of the Premises, or in the body of the lease or sublease itself):

(a) provide for notice to us of any default by you under the lease or sublease and provide us with a right (but no obligation) to cure the default. If we cure any default, the total amount of all costs and payments incurred by us in curing the default will be immediately due and owing to us by you;

(b) provide that you have the right to assign your interest under the lease or sublease to us or our assignee, and we or our assignee has the right to assume the lease without the lessor's or sublessor's consent; and

(c) authorize and require the lessor or sublessor to disclose to us, upon our request, sales and other information that you furnished to the lessor or sublessor.

3.2 **Construction Plans and Specifications.** We will provide you with assistance in the design, decoration, furnishings, furniture, layout, equipment, fixtures and signs for the Shop. It will then be your responsibility to have plans and specifications prepared by an architect we approve to comply with the Americans with Disabilities Act (the "ADA") and similar rules governing public accommodations for persons with disabilities, other applicable ordinances, building codes, permit requirements, and lease requirements and restrictions applicable to the

Premises. You must submit final construction plans and specifications to us for review and approval before construction begins at the Premises, and the Shop must be constructed in accordance with those approved plans. Our review is limited to ensuring your compliance with our design requirements. Our review is not designed to assess compliance with federal, state, or local laws and regulations, including the ADA, as compliance with those laws and regulations is your responsibility. You must remedy, at your expense, any noncompliance or alleged noncompliance with those laws and regulations. We may periodically inspect the Premises while you are developing the Shop or require you to send us pictures and images (including video recordings) of the interior and/or exterior of the Shop to review your development of the Shop in accordance with our specifications and standards and the Operations Manual.

3.3 Development of the Shop. You agree at your own expense to do the following within a reasonable time after you have obtained possession of the Premises, but in any event by such period as may be provided in any lease or sublease we have approved: (1) secure all financing required to fully develop the Shop; (2) obtain all required building, utility, sign, health, sanitation, and business permits and any other required permits and licenses, including all liquor licenses; (3) construct the Shop according to the construction plans and specifications we have approved; (4) decorate the Shop in compliance with plans and specifications we have approved; (5) purchase and install all required equipment, furniture, furnishings and signs; (6) cause the training requirements of Section 4 to be completed; (7) purchase an opening inventory of the products, beverages and other supplies and materials, including all menus and marketing materials; (8) do any other acts necessary to open the Shop for business; (9) obtain our approval to open the Shop for business; and (10) open the Shop for business.

3.4 Computer System. You agree to use in the development and operation of the Shop the cash registers, management system, computer terminals, hardware components, operating software, printers, dedicated communication and power lines, and other computer-related accessories and peripheral equipment (collectively, the “Computer System”) that we specify from time to time. You acknowledge that we may modify such specifications and the components of the Computer System from time to time. As part of the Computer System, we may require you to obtain specified computer hardware and/or software, including, without limitation, a license to use proprietary software developed by us or others. Our modification of such specifications for the components of the Computer System may require you to incur costs to purchase, lease and/or license new or modified computer hardware and/or software and to obtain service and support for the Computer System during the Term. You acknowledge that we cannot estimate the future costs of the Computer System (or additions or modifications thereto) and that the cost to you of obtaining the Computer System (including software licenses) (or additions or modifications thereto) may not be fully amortizable over the remaining Term. You further acknowledge and agree that we have the right to charge up-front and ongoing fees for software or systems, modifications and enhancements, specifically made for us that are licensed to you and other maintenance and support services that we or our affiliates provide to you related to the Computer System and that we may require you to maintain a high-speed internet connection between the Company and the Shop. Notwithstanding your obligation to buy, use, and maintain the Computer System according to our standards and specifications, you have sole and complete responsibility for: (a) the acquisition, operation, maintenance, and upgrading of the Computer System; (b) the manner in which your Computer System interfaces with our and any third party’s

computer system; (c) complying with all applicable laws, regulations, industry standards (including Payment Card Industry Data Security Standards) and other procedures to safeguard the confidentiality and security of information concerning the Shop's customers and employees; and (d) any and all consequences if the Computer System is not properly operated, maintained, and upgraded. The Computer System must permit 24 hours per day, 7 days per week electronic communications between you and us.

3.5 **Equipment, Furniture, Fixtures, Furnishings and Signs.** You agree to use in the development and operation of the Shop only those brands, types, and/or models of equipment, furniture, fixtures, furnishings and signs we have approved, and also agree, if we require, to purchase them from suppliers we designate or have approved. If you desire to use a supplier that we have not approved, you must first send us sufficient information, specifications and/or samples for us to determine whether the supplier meets our approved supplier criteria. We may charge the supplier a reasonable testing fee and will decide within a reasonable time after receiving the required information whether you may purchase from such supplier. You acknowledge and agree that we may revoke approval of a supplier at any time in our sole discretion by notifying you and/or the supplier.

3.6 **Shop Opening.** You agree not to open the Shop for business until: (1) all of your obligations under Sections 3.1 through 3.5 have been fulfilled; (2) we determine that the Shop has been constructed, decorated, furnished, equipped, and stocked with materials and supplies in accordance with plans and specifications we have approved; (3) you (or your designated Principal Owner as provided below) and your Shop employees have completed pre-opening training to our satisfaction; (4) you have given us copies of all insurance policies required by Section 10.9 of this Agreement; and (5) you have met all other opening requirements as we have established in the Operations Manual. You agree to use your best efforts to open the Shop and commence business within 180 days of the Agreement Date. For a minimum of 10 days before, during and after the opening of the Shop, we will provide to you, at the Premises and at our expense, at least one of our representatives for the purpose of facilitating the opening of the Shop.

3.7 **Relocation.** You may not relocate the Shop to a new site without our prior consent, which we may grant or deny as we deem best. We may condition our approval of your relocation request on (1) the new site and its lease or sublease being acceptable to us; (2) your paying us our then current relocation fee; (3) your reimbursing any costs we incur during the relocation process; (4) your confirming that this Agreement remains in effect and governs your operation of the Shop at the new site with no change in the Term or, at our option, your signing our then current form of Franchise Agreement to govern your operation of the Shop at the new site for a new franchise term (in either case, we may change the definition of the Protected Area); (5) your signing a general release, in a form satisfactory to us, of any and all claims against us and our owners, affiliates, officers, directors, employees, and agents; (6) your continuing to operate the Shop at its original site until we authorize its closure; and (7) your taking, within the timeframe we specify and at your own expense, all action we require to de-brand and de-identify the Shop's former premises so that it no longer is associated in any manner (in our opinion) with the System.

4. **TRAINING.**

You acknowledge that it is very important to the operation of the Shop that you (or one of your Principal Owners designated by you and approved by us) and your managers receive appropriate training. To that end, you agree as follows:

(a) Before the Shop opens for business, you (or your designated Principal Owner) and your management team (as defined below) if we require must attend training in the operation of a Palgong Tea Shop at the time and place we designate. The training programs will include Shop operation training and will be provided at a training facility or other location we designate. There will be no separate charge for these training programs. You and your management team (if we require) must complete all training to our satisfaction. For purposes of this Agreement, the term “management team” shall include on-site managers and any other key employees of the Shop we designate from time to time.

(b) You agree to have you (or your designated Principal Owner) and your management team (if we require) and/or other employees complete additional training programs of up to 5 days per year at places and times as we may reasonably request from time to time during the Term.

(c) Your employees will be permitted to attend any other training programs, workshops, or seminars which we may offer from time to time. We may charge a fee for this additional training.

(d) You (or your designated Principal Owner) must attend any franchise meeting or convention sponsored by us for up to a total of 5 days per year.

(e) You agree to pay all of your own (or your designated Principal Owner’s) expenses and the expenses incurred by your management team and any other employees in connection with all training programs, meetings and conventions, including travel, room, board, local transportation expenses, and wages.

5. **GUIDANCE; OPERATIONS MANUAL.**

5.1 **Guidance and Assistance.** During the Term, we will from time to time provide you guidance and assistance, including with respect to: (a) food preparation and presentation, packaging, sale and delivery of the products authorized for sale by the Shop and specifications, standards, and operating procedures used by Palgong Tea Shops; (b) purchasing approved equipment, furniture, furnishings, signs, food and beverage products, operating materials and supplies; (c) development and implementation of local advertising and promotional programs; (d) administrative, bookkeeping, accounting, inventory control and general operating and management procedures; (e) supervisory employee training methods and procedures (although you are solely responsible for the terms and conditions of employment of all Shop employees); and (f) changes in any of the above that occur from time to time. This guidance and assistance will, in our discretion, be provided in the form of an operating manual and/or other manuals (the

“Operations Manual”), bulletins, written reports and recommendations, other written materials, telephone consultations, and/or personal consultations at our offices or at the Shop. If you request and we agree to provide additional or special guidance, assistance or training, you must pay our then applicable charges, including our personnel’s per diem charges and any travel and living expenses.

5.2 **Operations Manual.** We will provide to you during the Term of the Franchise access to our Operations Manual, which may be made available to you by various means. The Operations Manual will contain mandatory and suggested specifications, standards, and operating procedures that we prescribe from time to time for Palgong Tea Shops, as well as information relative to other obligations you have in the operation of the Shop. We may modify the Operations Manual periodically to reflect changes in the specifications, standards, operating procedures and other obligations in operating a Palgong Tea Shop. Revisions to the Operations Manual will be deemed effective 7 days after you receive them, unless we specify a later effective date for a particular revision. You agree to keep your copy of the Operations Manual current and communicate all updates to your employees in a timely manner. If there is a dispute over its contents, our master copy of the Operations Manual controls. You agree that you will not at any time copy any part of the Operations Manual, permit any part of it to be copied or disclose it to anyone not having a need to know its contents for purposes of operating your Shop.

5.3 **Modification of Franchise System.** We have the right to operate, develop, and change the System in any manner that is not specifically prohibited by this Agreement. Whenever we have reserved in this Agreement a right to take or to withhold an action, or to grant or decline to grant you a right to take or omit an action, we may, except as otherwise specifically provided in this Agreement, make our decision or exercise our rights based on information readily available to us and our judgment of what is in our and/or the System’s best interests at the time our decision is made, without regard to either whether we could have made other reasonable or even arguably preferable alternative decisions or whether our decision promotes our financial or other individual interest. Because complete and detailed uniformity under many varying conditions might not be possible or practical, you acknowledge that we specifically reserve the right and privilege, to vary the System for any franchise owner based upon the peculiarities of any condition that we consider important to that franchise owner’s successful operation. You have no right to require us to grant you a similar variation or accommodation.

6. **MARKS.**

6.1 **Ownership and Goodwill of Marks.** You acknowledge that your right to use the Marks is derived solely from this Agreement and is limited to your operation of the Shop pursuant to and in compliance with this Agreement and all applicable standards, specifications, and operating procedures we prescribe from time to time during the Term of the Franchise. If you make any unauthorized use of the Marks it will constitute a breach of this Agreement and an infringement of our and our licensor’s rights in and to the Marks. You acknowledge and agree that all your usage of the Marks and any goodwill established by your use will inure to our and our licensor’s benefit exclusively, and that this Agreement does not confer any goodwill or other interests in the Marks on you (other than the right to operate a Palgong Tea Shop in compliance with this Agreement). All provisions of this Agreement applicable to the Marks will apply to

any additional and substitute trademarks, service marks, commercial symbols, designs, artwork and logos we may authorize and license you to use during the Term. You may not at any time during or after the Term contest or assist any other person or entity in contesting the validity, or our and our licensor's ownership, of the Marks.

6.2 **Limitations on Franchise Owner's Use of Marks.** You agree to use the Marks as the sole trade identification of the Shop, except that you will display at the Shop a notice, in the form we prescribe, which states that you are the independent owner of the Shop pursuant to a Franchise Agreement with us. You agree not to use any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms, designs, or symbols (other than logos and additional trade and service marks licensed to you under this Agreement), or in any modified form, nor may you use any Mark or any commercial symbol similar to the Marks, in connection with the performance or sale of any unauthorized services or products or in any other manner we have not expressly authorized in writing. You agree to display the Marks in the manner we prescribe at the Shop, and in connection with advertising and marketing materials, and to use, along with the Marks, notices of trade and service mark registrations as we specify. You further agree to obtain any fictitious or assumed name registrations as may be required under applicable law.

6.3 **Notification of Infringements and Claims.** You agree to immediately notify us in writing of any actual or apparent infringement of or challenge to your use of any Mark, or claim by any person of any rights in any Mark or similar trade name, trademark or service mark of which you became aware. You agree not to communicate with anyone except us, our licensor, and our and our licensor's counsel in connection with any such infringement, challenge or claim. We or our licensor may take the action that we or it deems appropriate (including no action) and exclusively control any litigation or other proceeding arising out of any infringement, challenge or claim relating to any Mark. You agree to sign any documents, render any assistance, and do any acts that our or our licensor's attorneys say is necessary or advisable in order to protect and maintain our and our licensor's interests in any litigation or proceeding related to the Marks or to otherwise protect and maintain our and our licensor's interests in the Marks.

6.4 **Discontinuance of Use of Marks.** If it becomes advisable at any time in our sole judgment for the Shop to modify or discontinue the use of any Mark or for the Shop to use one or more additional or substitute trade or service marks, you agree at your expense to comply with our directions to modify or otherwise discontinue the use of the Mark, or use one or more additional or substitute trade or service marks, within a reasonable time after our notice to you. We need not reimburse you for your expenses in complying with these directions (such as costs you incur in changing the Shop's signs or replacing supplies), for any loss of revenue due to any modified or discontinued Mark, or for your expenses of promoting a modified or substitute trademark or service mark. Our rights in this Section apply to any and all of the Marks (and any portion of any Mark) that this Agreement authorizes you to use.

6.5 **Indemnification of Franchise Owner.** We agree to indemnify you against and to reimburse you for all damages for which you are held liable in any proceeding arising out of your use of any Mark, pursuant to and in compliance with this Agreement, and for all costs you

reasonably incur in the defense of any such claim in which you are named as a party, so long as you have timely notified us of the claim and have otherwise complied with this Agreement.

7. RELATIONSHIP OF THE PARTIES; INDEMNIFICATION.

7.1 **Independent Contractor; No Fiduciary Relationship.** Both of us understand and agree that this Agreement does not create a fiduciary relationship between you and us, that you and we are independent contractors, and that nothing in this Agreement is intended to make either party a general or special agent, joint venturer, partner, or employee of the other for any purpose whatsoever. You agree to conspicuously identify yourself in all your dealings with customers, suppliers, public officials, Shop personnel, and others as the owner of the Shop pursuant to a Franchise Agreement with us, and agree to place any other notices of independent ownership on your forms, business cards, stationery, advertising, and other materials as we may require from time to time.

7.2 **No Liability, No Warranties.** We have not authorized or empowered you to use the Marks except as provided by this Agreement and you agree not to employ any of the Marks in signing any contract, check, purchase agreement, negotiable instrument or legal obligation, application for any license or permit, or in a manner that may result in liability to us for any indebtedness or obligation of yours. Except as expressly authorized by this Agreement, neither we nor you will make any express or implied agreements, warranties, guarantees or representations, or incur any debt, in the name of or on behalf of the other or represent that our respective relationship is other than that of franchisor and franchisee.

7.3 **Indemnification.** We will not assume any liability or be deemed liable for any agreements, representations, or warranties you make that are not expressly authorized under this Agreement, nor will we be obligated for any damages to any person or property directly or indirectly arising out of the operation of the business you conduct pursuant to this Agreement, whether or not caused by your negligent or willful action or failure to act. We will have no liability for any sales, use, excise, income, gross receipts, property, or other taxes levied against you or your assets or on us in connection with the business you conduct, or any payments you make to us pursuant to this Agreement or any Franchise Agreement (except for our own income taxes). You agree to indemnify, defend and hold us, our owners, directors, officers, affiliates, employees, agents and assignees, harmless against and to reimburse us and our owners, directors, officers, affiliates, employees, agents and assignees for all such obligations, damages, and taxes for which we or any of our owners, directors, officers, affiliates, employees, agents or assignees are held liable and for all costs reasonably incurred in the defense of any such claim brought against us or any of our owners, directors, officers, affiliates, employees, agents or assignees or in any such action in which we or any of our owners, directors, officers, affiliates, employees, agents or assignees are named as a party. We or any of our owners, directors, officers, affiliates, employees, agents or assignees have the right to defend against any such claim. You further agree to hold us harmless and indemnify and defend us for all cost, expense or loss we incur in enforcing the provisions of this Agreement, in defending our actions taken relating to this Agreement, or resulting from your breach of this Agreement, including, without limitation, reasonable legal and attorneys' fees (including those for appeal), unless, after legal proceedings are completed, you are found to have fulfilled and complied with all of the terms of this

Agreement. Your indemnification obligations described above will continue in full force and effect after, and notwithstanding, the expiration or termination of this Agreement.

8. CONFIDENTIAL INFORMATION; EXCLUSIVE RELATIONSHIP.

8.1 **Types of Confidential Information.** We and our affiliates possess (and will continue to develop and acquire) certain unique confidential and proprietary information and trade secrets consisting of the following categories of information, methods, techniques, products, and knowledge we and they develop: (1) recipes, proprietary products, and methods for efficiently and cost-effectively preparing and serving beverages and other products sold at Palgong Tea Shops; (2) knowledge of sales and profit performance of any one or more Palgong Tea Shops; (4) knowledge of test programs, concepts or results relating to menu items; sources of products; advertising and promotional programs; Palgong Tea Shop image and décor; and the selection of Palgong Tea Shop personnel; (5) methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the development, operation, and franchising of Palgong Tea Shops; and (6) methods of training Palgong Tea Shop employees. We will disclose much of the above-described information to you, and will do so in advising about site selection, in training, in the Operations Manual and in providing guidance and assistance to you under this Agreement. In addition, in the course of the operation of your Shop, you or your employees may develop ideas, concepts, methods, and techniques of improvement relating to the Shop which will belong to us and which you agree to disclose to us and which we may then authorize you and other Palgong Tea Shops to use. (Any such information disclosed to or developed by you will be referred to in this Agreement as “Confidential Information.”)

8.2 **Non-disclosure Agreement.** You agree that your relationship with us does not vest in you any interest in the Confidential Information other than the right to use it in the development and operation of the Shop during the Term, and that the use or duplication of the Confidential Information in any other business would constitute an unfair method of competition. You acknowledge and agree that the Confidential Information belongs to us, may contain trade secrets belonging to us and is disclosed to you or authorized for your use solely on the condition that you agree, and you therefore do agree, that you (1) will not use the Confidential Information in any other business or capacity, whether during or after the Term; (2) will maintain the absolute confidentiality of the Confidential Information during and after the Term; (3) will not make unauthorized copies of any portion of the Confidential Information disclosed in written or other tangible or intangible form; and (4) will adopt and implement all reasonable procedures we may prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information.

8.3 **Exclusive Relationship.** You agree that we would be unable to protect the Confidential Information against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among Palgong Tea Shops if franchise owners of Palgong Tea Shops were permitted to hold interests in any competitive businesses, as described below. Therefore, during the Term, neither you, nor any Principal Owner, nor any member of your immediate family or of the immediate family of any Principal Owner shall perform services for or have any direct or indirect interest as a disclosed or beneficial owner,

investor, partner, director, officer, employee, manager, consultant, representative or agent in any Competitive Business. For purposes of this Agreement, “Competitive Business” means any business or carry-out or delivery service business which offers teas or coffee as its primary menu items. (The ownership of 1% or less of a publicly traded company will not be deemed to be prohibited by this Section.)

9. **FEES.**

9.1 **Initial Franchise Fee.** You agree to pay us an initial franchise fee in the amount of \$20,000 (the “Initial Franchise Fee”). The Initial Franchise Fee will be paid by you to us upon the execution of this Agreement. No Initial Franchise Fee or renewal fee is payable if this Agreement is being signed in connection with the renewal of the Franchise.

9.2 **Royalty Fee.** You agree to pay us a royalty fee (the “Royalty Fee”) in the amount of 5% of the Gross Sales of the Shop. The Royalty Fee will be paid by you to us by the 15th day of each month (or such other date as we may otherwise prescribe in the Operations Manual or in writing to you), on Gross Sales of the Shop for the preceding month.

9.3 **Gross Sales.** The term “Gross Sales” will for purposes of this Agreement mean all revenue that you receive or otherwise derive from operating the Shop, whether on premises or off premises (such as through Catering Services or Delivery Services) or whether from cash, check, credit and debit card, barter, exchange, trade credit, or other credit transactions, exclusive of sales taxes or other taxes collected from customers of the Shop. Gross Sales will include the purchase price of the menu items charged to the customer by a TPS (which will not include any separate fee charged by the TPS to the customer that appears as a separate line item charge on the customer’s bill and will not be adjusted to reflect any discounts, credits, or coupons deducted from the customer’s total order by the TPS, but will include any fee that is incorporated into or deducted from the menu price of menu items), regardless of the amount of revenue you actually receive from the TPS as a result of the customer’s purchase (recognizing that though the TPS may pay you an amount equal to the purchase price charged to the customer less a commission, other fees, and any discounts, credits, or coupons applied to the order, such commission, fees, discounts, credits, and coupons will not be deducted from your Gross Sales).

9.4 **Marketing Fund.** At our request, you agree to pay us, for marketing programs (described in Section 11), a Marketing Fund contribution in an amount up to 3% of the Gross Sales of the Shop, payable with, and in the same manner as, your Royalty Fee described above. The percentage contribution specified above may be increased or decreased if we in our sole discretion believe an increase or decrease is necessary and in the best interests of Palgong Tea Shop marketing programs, provided that you will not be required at any time to contribute more than 3% of the Gross Sales of the Shop. Any increase or decrease in the percentage Marketing Fund contribution will become effective upon notice to you of any such increase or decrease.

9.5 **Electronic Funds Transfer.** We have the right to require you to participate in an electronic funds transfer program under which Royalty Fees and Marketing Fund contributions are deducted or paid electronically from your bank account (the “Account”). In the event you are required to authorize us to initiate debit entries, you agree to make the funds available in the

Account for withdrawal by electronic transfer no later than the due date for payment. The amount actually transferred from the Account to pay Royalty Fees and Marketing Fund contributions will be based on the Shop's Gross Sales reported to us. If you have not reported the Gross Sales of the Shop to us for any reporting period, we will be authorized to debit the Account in an amount equal to the Royalty Fee and Marketing Fund contributions transferred from the Account for the last reporting period for which a report of the Gross Sales of the Shop was provided to us. If at any time we determine that you have under-reported the Gross Sales of the Shop or underpaid Royalty Fees or Marketing Fund contributions due us under this Agreement, we will be authorized to initiate immediately a debit to the Account in the appropriate amount in accordance with the foregoing procedure, including interest as provided for in this Agreement. An overpayment will be credited to the Account through a credit effective as of the first reporting date after we and you determine that such credit is due. Our use of electronic funds transfers as a method of collecting Royalty Fees and Marketing Fund contributions due us does not constitute a waiver of any of our obligations to provide us with weekly sales reports as provided in Section 12, nor shall it be deemed a waiver of any of the rights and remedies available to us under this Agreement.

9.6 **Interest on Late Payments.** All Royalty Fees, Marketing Fund contributions, or other amounts due us or our affiliates (unless otherwise provided for in a separate agreement between us or our affiliates) will begin to accrue interest after their respective due dates at the highest applicable legal rate for open account business credit or, if there is no maximum, at the rate of 1.5% per month. (You acknowledge that the inclusion of this Section in this Agreement does not mean we agree to accept or condone late payments, nor does it indicate that we have any intention to extend credit to, or otherwise finance your operation of, the Shop.) We will have the right to require that any payments due us or our affiliates be made by certified or cashier's check in the event that any payment by check is not honored by the bank upon which the check is drawn. We also reserve the right to charge you a fee of \$100 for any payment by check which is not honored by the bank upon which it is drawn. Payments due us or our affiliates shall not be deemed received until such time as funds from the deposit of any check by us or our affiliates is collected from your account.

9.7 **Application of Payments.** When we receive a payment from you, we have the right in our sole discretion to apply it as we see fit to any past due indebtedness of yours due to us or our affiliates, whether for Royalty Fees, Marketing Fund contributions, purchases, interest, or for any other reason, regardless of how you may designate a particular payment to be applied.

10. **SHOP OPERATING STANDARDS.**

10.1 **Importance of Uniformity.** By signing this Agreement, you indicate that you understand and acknowledge that every detail of the Shop is important – not only to you, but to us and to other Palgong Tea Shop franchisees – in order to develop and maintain high and uniform operating standards, to increase the demand for the products and services sold by all franchisees, to establish and maintain a reputation for operating uniform, efficient, high quality Palgong Tea Shops, and to protect the goodwill of all Palgong Tea Shops. You also acknowledge that a fundamental requirement of the System, this Agreement, and other Palgong Tea Shop franchises is adherence by all franchisees to the Company's uniform standards and

policies, except for certain regional or individual differences we may from time to time approve or require.

10.2 **Condition and Appearance of the Shop.** You agree that:

(a) neither the Shop nor the Premises will be used for any purpose other than the operation of a Palgong Tea Shop in compliance with this Agreement;

(b) you will maintain the condition and appearance of the Shop, its equipment, furniture, furnishings, signs, and the Premises in accordance with our standards and consistent with the image of a Palgong Tea Shop as an efficiently operated business offering high quality products and services, and observing the highest standards of cleanliness, sanitation, efficient, courteous service and fun ambiance, and in that connection will take, without limitation, the following actions during the Term: (1) thorough cleaning, repainting and redecorating of the interior and exterior of the Premises at reasonable intervals; (2) interior and exterior repair of the Premises; and (3) repair or replacement of damaged, worn out or obsolete equipment, furniture, furnishings and signs;

(c) you will not make any material alterations to the Premises, or to the appearance of the Shop, as originally developed, without our advance approval;

(d) you will replace or add new equipment when we reasonably specify in order to meet changing standards;

(e) on notice from us, you will engage in remodeling, expansion, redecorating and/or refurnishing of the Premises and the Shop to reflect changes in the operations of Palgong Tea Shops which we prescribe and require of new franchisees, provided that no material changes will be required more than every 5 years (all actual changes will be subject to our approval);

(f) you will place or display at the Premises (interior and exterior) only those signs, emblems, designs, artwork, lettering, logos, and display and advertising materials that we from time to time approve; and

(g) if, at any time in our reasonable judgment, the general state of repair, appearance or cleanliness of the premises of the Shop or its fixtures, equipment, furniture or signs do not meet our standards, we have the right to notify you, specifying the action you must take to correct the deficiency.

10.3 **Menu Items and Service Methods.** You agree that (a) the Shop will offer for sale all menu items prescribed by us from time to time, and other products and services that we from time to time authorize; (b) the Shop will offer and sell approved products and services only in the manner we have prescribed; (c) you will not offer for sale or sell at the Shop, the Premises or any other location any menu items or other products or services we have not approved; (d) you will not use the Premises for any purpose other than the operation of the Shop; and

(e) you will discontinue selling and offering for sale any products or services that we at any time decide (in our sole discretion) to disapprove in writing.

You agree to maintain an inventory of approved products, beverages, ingredients and other supplies and materials sufficient in quantity and variety to realize the full potential of the Shop.

We may, from time to time, conduct market research and testing to determine consumer trends and the saleability of new products and services. You agree to cooperate by participating in our market research programs, and by providing us with timely reports and other relevant information regarding that market research. In connection with any such test marketing, you agree to purchase a reasonable quantity of the tested products and effectively promote and make a reasonable effort to sell them.

10.4 Approved Suppliers. The reputation and goodwill of Palgong Tea Shops is based on, and can be maintained only by, the sale of distinctive, high quality food and beverage products and the preparation and presentation of those products in an efficient and appealing manner. We have developed or may develop various unique or specialty products which may be prepared by or for us according to our recipes and formulas. We have also developed standards and specifications for menu items, ingredients, beverages, materials and supplies incorporated in or used in the preparation, presentation and delivery of prepared food and beverage products authorized for sale at Palgong Tea Shops. We have and will continue to periodically approve suppliers and distributors of the above products that meet our standards and requirements, including, without limitation, standards and requirements relating to product quality, prices, consistency, reliability, financial capability, labor relations and customer relations.

We may approve a single distributor or other supplier (collectively, “supplier”) for any product (which may be us or our affiliates) and may approve a supplier only as to certain products. You agree that the Shop will: (1) purchase products for sale from the Shop in such quantities as we designate; (2) utilize such formats, formulas and containers for products as we prescribe; and (3) purchase all products and beverages, menus, serving baskets, plates, napkins, glassware, flatware, paper and plastic products, packaging or other materials, and utensils only from distributors and other suppliers we have approved. We may concentrate purchases with one or more suppliers to obtain lower prices or the best advertising support or services for any group of Palgong Tea Shops franchised or operated by us or our affiliates. Approval of a supplier may be conditioned on requirements relating to the frequency of delivery, concentration of purchases, standards of service, including prompt attention to complaints, or other criteria and may be temporary, pending our continued evaluation of the supplier from time to time.

If you would like to purchase any items from any unapproved supplier, you must submit to us a written request for approval of the proposed supplier. (Or the proposed supplier may submit its own request.) We have the right to inspect the proposed supplier’s facilities, and to require product samples from the proposed supplier to be delivered at our option either directly to us or to any independent, certified laboratory which we designate for testing. Either you or the proposed supplier must pay us a fee (not to exceed the reasonable cost of the inspection and the actual cost of the test) to make the evaluation. We reserve the right to periodically re-inspect

the facilities and products of any approved supplier and to revoke our approval if the supplier does not continue to meet any of our criteria. (Please note: Do not construe the new-supplier approval process just explained as requiring us to approve any proposed supplier.)

At our request, you must (i) become a member of any purchasing and/or distribution cooperative(s)/association(s)/program(s), if any, that we designate and/or establish for the System, (ii) remain a member in good standing thereof throughout the Term and (iii) pay all reasonable membership fees assessed by any purchasing and/or distribution cooperative(s)/association(s)/program(s).

We reserve the right to retain any rebates, commissions or similar payments paid by third-party suppliers on products sold to Palgong Tea Shops.

10.5 **Hours of Operation.** You agree to keep the Shop open for business at such times and during such hours as we may prescribe from time to time.

10.6 **Specifications, Standards and Procedures.** You agree to comply with all specifications, standards, and operating procedures relating to the appearance, function, cleanliness, sanitation and operation of a Palgong Tea Shop as we may reasonably prescribe. Mandatory specifications, standards, and operating procedures we prescribe from time to time in the Operations Manual, or otherwise communicated to you in writing, will constitute provisions of this Agreement as if fully set forth in this Agreement. All references to “this Agreement” include all such mandatory specifications, standards, and operating procedures.

10.7 **Compliance with Laws and Good Business Practices.** You agree to secure and maintain in force in your name all required licenses, permits, and certificates relating to the operation of the Shop. You also agree to operate the Shop in full compliance with all applicable laws, ordinances, and regulations, including, without limitation, all government regulations relating to worker’s compensation insurance, unemployment insurance, and withholding and payment of federal and state income taxes, social security taxes and sales taxes.

All advertising you employ must be completely factual, in good taste (in our judgment), and must conform to the highest standards of ethical advertising. You agree that in all dealings with us, your customers, your suppliers, and with public officials, you will adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You further agree to refrain from any business or advertising practice which may be harmful to the business of the Company and the goodwill associated with the Marks and other Palgong Tea Shops.

You must notify us in writing within 5 days of the commencement of any action, suit, or proceeding, and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental unit, which may adversely affect your operation or financial condition or that of the Shop, or of any notice of violation of any law, ordinance, or regulation relating to health or safety.

10.8 **Management and Personnel of the Shop.** The Shop at all times must be under the direct, on-premises supervision of you (or your designated Principal Owner). You (or your

designated Principal Owner) must complete our required training program and must devote full time and best efforts to the management of the Shop. You agree to hire a management team and employees of the Shop, and you agree to be exclusively responsible for the terms of their employment, their compensation, and for the proper training of the employees in the operation of the Shop. You agree to have the management team complete any training programs we require. You agree to establish at the Shop a training program for all other employees using our Operations Manual. You agree to require all employees to maintain a neat and clean appearance and to conform to the standards of dress and/or uniforms we specify from time to time for all Palgong Tea Shops. All employees shall render prompt, efficient and courteous service to all customers of the Shop.

10.9 **Insurance.** Prior to the opening of the Shop to the public, you must obtain the following insurance coverage under policies of insurance issued by carriers of your choice whom we approve: (1) property for special risk or perils for the replacement value of the Shop and its contents; (2) worker's compensation insurance for all employees, including employer liability containing minimum liability coverage of \$2,000,000; and (3) general liability coverage of \$2,000,000 per occurrence and excess or umbrella coverage of \$1,000,000, including coverage for automobile, hired and non-owned automobile, personal injury and advertising liability. We will not unreasonably withhold our approval of an insurance carrier that is licensed to do business in the state in which the Shop is located and rated A- or higher by A.M. Best and Company, Inc. (or such similar criteria we periodically specify). You must maintain these policies in force during the entire Term. We may periodically increase or decrease the amounts of coverage required under these insurance policies and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. Each insurance policy must name us (and, if we request it, our directors, employees, owners and affiliates) as an additional insured and must provide us with 30 days' advance written notice of any material modification, cancellation, or expiration of the policy.

Before the expiration of the term of each insurance policy, you must provide us with a copy of each policy you are to maintain for the upcoming term, along with evidence of the payment of the premium for each.

Your obligation to maintain insurance coverage as described in this Agreement will not be reduced in any manner by reason of any separate insurance we maintain on our own behalf, nor will our maintenance of that insurance relieve you of any obligations under Section 7.3 of this Agreement.

10.10 **Customer Promotional Programs.** You agree to participate in any customer promotional programs which we may establish from time to time to increase the patronage of Palgong Tea Shops which may include, without limitation, frequent diner programs, and to the greatest extent permitted by applicable law, price promotions. In connection with such customer promotional programs, you agree to honor and discount coupons or vouchers received by customers from us or any other Palgong Tea Shop, provided a reasonable reimbursement policy is established for redemption of the coupons or vouchers.

10.11 **Credit Cards and Other Methods of Payment.** You must at all times have arrangements in existence with credit and debit card issuers or sponsors, check verification services, and electronic fund transfer systems that we designate from time to time in the Operations Manual or otherwise in writing in order that the Shop may accept customers' credit and debit cards, checks and other methods of payment.

11. **ADVERTISING.**

11.1 **By Company.** As stated earlier, due to the value of advertising and the importance of promoting the public image of Palgong Tea Shops, we may establish and administer a Marketing Fund. Earlier in this Agreement, you agreed to contribute to that Marketing Fund upon our request. We agree that the Palgong Tea Shops owned by us and our affiliates will contribute to the Marketing Fund on the same percentage as you do.

If established, we will be entitled to direct all advertising and promotion financed by the Marketing Fund, with sole discretion over the creative concepts, materials, and endorsements used in them. You agree that the Marketing Fund may be used to pay for any advertising, promotion, marketing and brand-related activities, including preparing, producing and placing video, audio and written materials (such as newspaper or television ads), electronic media and social media; developing, maintaining and administering online sales capabilities, mobile applications, lead management and customer retention programs; administering national, regional, multi-regional and local marketing, advertising, promotional, social responsibility and customer relationship management programs, including purchasing trade journal, direct mail, coupon, Internet and other media advertising and using advertising, promotion, and marketing agencies and other advisors to provide assistance; and supporting public and customer relations, market research, and other advertising, promotion, marketing and brand-related activities. At your option, you can use these advertisements in your operations. Any modifications or customizations to these advertisements made by you shall require our prior written approval.

The Marketing Fund will be accounted for separately from other funds of the Company and will not be used to defray any of our general operating expenses, except for any reasonable salaries, administrative costs and overhead we may incur in activities reasonably related to the administration of the Marketing Fund and its advertising and promotional programs (including, without limitation, conducting market research, preparing advertising and marketing materials, and collecting and accounting for contributions to the Marketing Fund). The Marketing Fund is not a trust, and we do not owe you fiduciary obligations because of our maintaining, directing or administering the Marketing Fund or any other reason. We may spend in any fiscal year an amount greater or less than the total contribution of Palgong Tea Shops to the Marketing Fund in that year. We may cause the Marketing Fund to borrow from us or other lenders to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus for future use by the Marketing Fund. All interest earned on monies contributed to the Marketing Fund will be used to pay advertising costs of the Marketing Fund before other assets of the Marketing Fund are expended. We will prepare an annual, unaudited statement of monies collected and costs incurred by the Marketing Fund and will make it available to you on written request. We may incorporate the Marketing Fund or operate it through a separate entity whenever we deem

appropriate. The successor entity will have all of the rights and duties specified in this Section 11.1.

You understand and acknowledge that the Marketing Fund is intended to maximize recognition of the Marks and patronage of Palgong Tea Shops. Although we will endeavor to use the Marketing Fund to develop advertising and marketing materials for the System, we undertake no obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to contributions to the Marketing Fund by Palgong Tea Shops operating in that geographic area or that any Palgong Tea Shop will benefit directly or in proportion to its contribution to the Marketing Fund from the development of advertising and marketing materials. Except as expressly provided in this Section 11.1, we assume no direct or indirect liability or obligation to you with respect to the maintenance, direction, or administration of the Marketing Fund.

We shall have the right at any time to defer or reduce a franchisee's contributions to the Marketing Fund, or to terminate the Marketing Fund by giving you 30 days' prior written notice. All unspent monies on date of termination shall be divided between the Company (its affiliates) and franchisees in proportion to our respective contributions during the last 12 months. At any time thereafter, we shall have the right to reinstate the Marketing Fund under the same terms and conditions as described in this Section 11.1 (including the rights to terminate and reinstate), by giving you 30 days' prior written notice of reinstatement.

11.2 By Franchise Owner. During the Term, you shall spend annually (or during such other period we designate) at least 1.5% of your Gross Sales on advertising, marketing, promotional, customer relationship management, social responsibility, public relations and other brand-related programs in your local market area, which includes coupons, but does not include employee meal discounts.

On each occasion before you use them, samples of all local advertising and promotional materials not prepared or previously approved by us must be submitted to us for approval. If you do not receive our written disapproval within 15 days from the date we receive the materials, the materials will be deemed to have been approved. You agree not to use any advertising or promotional materials that we have disapproved. Within 15 days following the end of each calendar quarter, you shall submit a quarterly advertising expenditure report to us, accurately reflecting your local advertising expenditures for the preceding quarter.

11.3 Local and Regional Advertising Cooperatives. We reserve the right to designate one (1) or more geographic areas for a local and/or regional advertising cooperative. The cooperative's members in any area are the owners of all Palgong Tea Shops located and operating in that area (including us and our affiliates, if applicable). Each cooperative will be organized and governed in a form and manner, and begin operating on a date, that we determine. You agree to sign the documents that we require to become a member of the cooperative and to participate in the cooperative as those documents require. We may change, dissolve and merge cooperatives. Each cooperative's purpose is, with our approval, to develop, administer or implement advertising, marketing and promotional materials and programs for the area that the cooperative covers. If, as of the Agreement Date, we have established a cooperative for the

geographic area in which the Shop is located, or if we establish a cooperative in that area during the Term, you automatically will become a member of the cooperative and then must participate as its governing documents require. You agree to pay any contributions that we require you to make for expenditure by these local or regional advertising cooperatives or that may be otherwise approved by these cooperatives, provided you will not be obligated to pay more than 1.5% of the Gross Sales of the Shop to such cooperatives. Any contribution you are required to make to any local or regional advertising cooperatives will count toward your expenditure obligations under Section 11.2.

11.4 Digital Marketing. We and/or our affiliates, in our sole discretion, may establish and operate websites, social media accounts, applications, keyword or adword purchasing programs, accounts with websites featuring gift certificates or discounted coupons, mobile applications, online videos, display banner campaigns, e-mail marketing campaigns, or other means of digital advertising on the Internet or any other means of digital or electronic communications (collectively, “Digital Marketing”) that are intended to promote the Marks, the Shop, and the entire brand network. We will have the sole right to control all aspects of any Digital Marketing, including those related to your Shop. Unless we consent otherwise in writing, you may not, directly or indirectly, conduct or be involved in any Digital Marketing that use the Marks or that relate to the Shop. You agree to give us the information and materials that we periodically request concerning the Shop and its customers, in the manner that we periodically specify, to support any Digital Marketing. If we do permit you to conduct any Digital Marketing, you must (i) comply with any standards or content requirements that we establish periodically and must immediately modify or delete any Digital Marketing that we determine, in our sole discretion, is not compliant with such standards or content requirements, (ii) only use materials that we have approved and must submit any proposed modifications to us for our approval, (iii) not use any Mark on any aspect of the Digital Marketing (including in any domain name, address, or account) except as we expressly permit, (iv) include any information that we require, and (v) include only the links that we approve or require. We retain the right to pre-approve your use of linking and framing between any Digital Marketing that you conduct and all other websites. If we consent to your use of the Marks (or words or designations similar to the Marks) in any domain name, electronic address, website, or other source identifier, we may register such names, addresses, websites, or identifiers and then license use of the registered item back to you under a separate agreement. You must pay all costs due for registration, maintenance, and renewal of any such names, addresses, websites, or identifiers that we approve and maintain on your behalf. We retain the ownership of copyright to any of the materials that you may develop for use on the Internet. We may withdraw our approval for any Digital Marketing at any time.

12. ACCOUNTING, REPORTS AND FINANCIAL STATEMENTS.

You agree to keep full and accurate books of account and other records reflecting the results of operation of the Shop on an accrual basis, or approved by us. You agree to establish and maintain at your own expense a bookkeeping, accounting, and recordkeeping system conforming to the requirements, data processing and cash register systems and formats we prescribe from time to time. These systems may include capability of being polled by our central computer system. With respect to the operation and financial condition of the Shop, at our

request, you agree to provide us in the form we prescribe from time to time: (1) if we request it daily, an e-mail report of Gross Sales for the preceding day; (2) by the 15th day of each month, an e-mail report of the Gross Sales of the Shop for the preceding month and any other data, information, and supporting records that we reasonably require; (3) by the 20th day of each month period (or other period we designate), a profit and loss statement for the preceding month period (or other period we designate) and a year-to-date profit and loss statement and balance sheet; (4) within 120 days after the end of your fiscal year, a fiscal year-end balance sheet and an annual profit and loss statement for that fiscal year, reflecting all year-end adjustments and (5) such other reports as we shall reasonably prescribe from time to time. You must specify and sign each report and financial statement required by this Section in the manner we prescribe. You agree to maintain and provide, if we request it, complete copies of federal and state income tax returns you file with the Internal Revenue Service and state tax departments reflecting sales and income of the Shop or the corporation, limited liability company or partnership that holds the Franchise. We reserve the right to require you to have audited or reviewed financial statements prepared by a certified public accountant on an annual basis.

13. **INSPECTIONS AND AUDITS.**

13.1 **Company's Right to Inspect the Shop.** To determine whether you and the Shop are complying with this Agreement, and with specifications, standards, and operating procedures we prescribe for the operation of Palgong Tea Shops, we or our agents have the right, at any reasonable time and without advance notice to you, to: (1) inspect the Premises; (2) observe, photograph, videotape or otherwise monitor, whether on-Premises or remotely, including both disclosed and undisclosed or so-called "mystery shopping" evaluations, the operations of the Shop for such consecutive or intermittent periods as we deem necessary; (3) interview personnel of the Shop; (4) interview customers of the Shop; and (5) inspect and copy any books, records and documents relating to the operation of the Shop. You agree to fully cooperate with us and our agents in connection with any of those inspections, observations and interviews. Without limiting our other rights and remedies under this Agreement, you agree promptly to correct at your own expense all failures to comply with this Agreement (including any specifications, standards, and operating procedures) that we or our agents note within the time period we specify following your receipt of our notice, which might include your personnel's completing additional training at your expense. You also agree to present to your customers any evaluation forms we periodically prescribe and agree to participate and/or request your customers to participate in any surveys performed by or on our behalf.

13.2 **Company's Right to Audit.** We have the right at any time during business hours, and upon 24 hours' notice to you, to inspect and audit, or cause to be inspected and audited, the business records, bookkeeping and accounting records, sales and income tax records and returns and other records of the Shop and the books and records of any corporation, limited liability company or partnership which holds the Franchise. You agree to fully cooperate with our representatives and independent accountants we may hire to conduct any inspection or audit. If any inspection or audit discloses an understatement of the Shop's Gross Sales, you must pay us, within 15 days after receiving the inspection or audit report, the Royalty Fee, Marketing Fund contributions and any other amounts due on the amount of the understatement, plus interest from the date originally due until the date of payment. If the inspection or audit is made necessary by

your failure to furnish the reports, supporting records, other information or financial statements, required by this Agreement, or to furnish those reports, records, information or financial statements on a timely basis, or if an understatement of Gross Sales for any period is determined by an audit or inspection to be greater than 2%, you agree to reimburse us for the cost of such inspection or audit, including, without limitation, the charges of attorneys and any independent accountants, and the travel expenses, room and board and applicable per diem charges for our employees. The above remedies are in addition to all our other remedies and rights under this Agreement or under applicable law.

14. **TRANSFER REQUIREMENTS.**

14.1 **Interests in Franchise Owner.** You and each Principal Owner represent, warrant and agree that all Interests in Franchise Owner are owned in the amount and manner disclosed to us in Exhibit B and that no change will be made in the ownership of an Interest other than as expressly permitted by this Agreement or as we may otherwise approve in writing. You and each Principal Owner agree to provide us with evidence as we may request from time to time to assure ourselves that the Interests in Franchise Owner remain as permitted by this Agreement, including a list of all persons owning any Interest. No Interest in Franchise Owner will, during the Term, be “public securities” (i.e., securities which require, for their issuance, registration with any state or federal authority). An “Interest” means any shares, partnership or other ownership interests in or of Franchise Owner and any other equitable or legal right in any of Franchise Owner’s stock, revenues, profits, rights or assets.

You and each Principal Owner represent, warrant and agree, except as otherwise permitted in Section 14.3, that neither the Shop, its assets or this Agreement nor any Interest of a Principal Owner has or will be given as security or pledged for any obligation.

14.2 **Transfer by Company.** This Agreement is fully transferable by us and will inure to the benefit of any person or entity to whom it is transferred, or to any other legal successor to our interests in this Agreement.

14.3 **No Transfer Without Approval.** You understand and acknowledge that the rights and duties created by this Agreement are personal to you and your Principal Owners and that we have entered into this Agreement in reliance on the individual or collective character, skill, aptitude, attitude, business ability, and financial capacity of you and your Principal Owners. Accordingly, neither this Agreement, the Shop, nor any Interest of a Principal Owner, may be Transferred (see definition below) without our advance written approval. Any Transfer that is made without our approval will constitute a breach of this Agreement and convey no rights to or interests in this Agreement, in you, or in the Shop.

As used in this Agreement, the term “Transfer” means any voluntary, involuntary, direct or indirect assignment, sale, gift, exchange, grant of a security interest in this Agreement, the Shop or its assets, or the occurrence of any event which would or might change the ownership of any Interest, and includes, without limitation: (1) the Transfer of ownership of capital stock, partnership interest or other ownership interests; (2) merger or consolidation, or issuance of additional securities representing an ownership interest in Franchise Owner; (3) sale of common

stock of Franchise Owner sold pursuant to a private placement or registered public offering;
(4) Transfer of an Interest in a divorce proceeding or otherwise by operation of law; or
(5) Transfer of an Interest by will, declaration of or transfer in trust, or under the laws of intestate succession.

We will not unreasonably withhold consent to a Transfer of an Interest by a Principal Owner to a member of his immediate family or to your key employees, so long as all Principal Owners retain a “controlling” Interest in you, although we reserve the right to impose reasonable conditions on the Transfer as a requirement for our consent.

Interests owned by persons other than the Principal Owners (“minority owners”) may be Transferred without our advance consent unless the Transfer would give that transferee and any person or group of persons affiliated or having a common interest with the transferee more than a collective 25% Interest in Franchise Owner, in which case advance written approval for the Transfer is required. Your formal partnership, corporation or other formation documents and all stock certificates, partnership units or other evidence of ownership must recite or bear a legend reflecting the transfer restrictions of this Section 14.3.

We will not unreasonably withhold consent to the granting of a lien on the assets of the Shop or a Principal Owner’s Interest to a bank or other lending institution which is providing financing to you.

14.4 Conditions for Approval of Transfer. If you and your Principal Owners are in full compliance with this Agreement, we will not unreasonably withhold our approval of a Transfer that meets all the applicable requirements of this Section. The person or entity to whom you wish to make the Transfer and principal owners (“Proposed New Owner”) must be individuals of good moral character and otherwise meet our then applicable standards for Palgong Tea Shop franchisees and owners. If you propose to Transfer this Agreement, the Shop or a controlling Interest in you, or make a Transfer that is one of a series of Transfers which taken together would constitute the Transfer of this Agreement, the Shop or a controlling Interest in you, all of the following conditions must be met before or at the time of the Transfer:

- (a) the Proposed New Owner must have sufficient business experience, aptitude, and financial resources to operate the Shop;
- (b) you must pay any amounts owed for purchases from us and our affiliates, and any other amounts owed to us or our affiliates which are unpaid;
- (c) the Proposed New Owner and its management team must have successfully completed our training program;
- (d) if your lease for the Premises requires it, the lessor must have consented to the assignment or sublease of the Premises to the Proposed New Owner;
- (e) you shall have paid to us our transfer fee equal to 50% of our then current initial franchise fee for a Palgong Tea Shop franchise (if the transfer is to an existing

franchisee) or 75% of our then current initial franchise fee for a Palgong Tea Shop franchise (if the transfer is to a new franchisee);

(f) you and your Principal Owners must execute a general release (in a form satisfactory to us) of any and all claims against us and our affiliates, owners, officers, directors, employees, and agents;

(g) we must approve the material terms and conditions of the proposed Transfer, including, without limitation, that the price and terms of payment are not so burdensome as to adversely affect the operation of the Shop;

(h) the Shop shall have been left in an attractive, neat and sanitary condition;

(i) the Shop shall have been determined by us to contain all equipment and fixtures in good working condition, as were required at the initial opening of the Shop. At our request, the Proposed New Owner shall have agreed, in writing, to make such reasonable capital expenditures to remodel, equip, modernize and redecorate the interior and exterior of the Premises in accordance with our then existing plans and specifications for Palgong Tea Shops;

(j) upon receiving our consent for the Transfer, the Proposed New Owner shall agree to assume all of your obligations under this Agreement in a form acceptable to us, or at our option, shall agree to execute a new Franchise Agreement and related agreements with us in the form then being used by us;

(k) the Proposed New Owner shall be responsible for the travel and living expenses (including all transportation costs, room, board and meals) incurred during the training program. You shall reimburse us for any reasonable expenses incurred by us in investigation and processing any Proposed New Owner where the Transfer is not consummated for any reason. We may, at our option, require that you guarantee the performance, and obligations of the Proposed New Owner for a period of 12 months after the Transfer; and

(l) you or Principal Owner(s) must have properly offered us the opportunity to exercise our right of first refusal as described in Section 14.7, and we must have then declined to exercise it.

You further agree and understand that the Shop or its assets may not be transferred, sold or assigned except in connection with a Transfer of this Agreement.

14.5 Transfer to a Wholly-Owned Corporation/Partnership Limited Liability Company. If you are in full compliance with this Agreement, you may transfer this Agreement to a corporation, partnership or limited liability company which conducts no business other than the Shop and, if applicable, other Palgong Tea Shops, in which you maintain management control and of which you own and control 100% of the equity and voting power of all issued and outstanding capital stock of such corporation, 100% of the general partnership interests of such partnership or 100% of the ownership interests in such limited liability company, and further

provided that all assets of the Shop are owned, and the entire business of the Shop is conducted, by the corporation, partnership or limited liability company. Transfers of shares or ownership interests in such entity will be subject to the provisions of Section 14.4. Notwithstanding anything to the contrary in this Agreement, you agree to remain personally liable under this Agreement as if the transfer to such corporation, partnership or limited liability company had not occurred.

14.6 Death and Disability. Upon your death or permanent disability (or the death or permanent disability of a Principal Owner), the executor, administrator, conservator or other personal representative of such person shall transfer his/her interest within a reasonable time, not to exceed 12 months from the date of death or permanent disability, to a person approved by us. Such transfers, including, without limitation, transfers by devise or inheritance, shall be subject to all the terms and conditions for assignments and transfers contained in this Agreement. Failure to so dispose of such interest within said period of time shall constitute grounds for termination under this Agreement. If the Shop is not being managed properly, in our reasonable judgment, after the death or permanent disability of you or a Principal Owner, we shall have the right, but not the obligation, to manage the Shop until an approved assignee shall be able to assume the management and operation of the Shop. We shall have the right to charge a reasonable fee for such management services.

14.7 Effect of Consent to Transfer. Our consent to a proposed Transfer pursuant to this Section will not constitute a waiver of any claims we may have against you, nor will it be deemed a waiver of our right to demand exact compliance with any of the terms or conditions of this Agreement by the Proposed New Owner.

14.8 Company's Right of First Refusal. If you wish to sell the Shop or if any Principal Owner wishes to sell an Interest, we will have a right of first refusal to purchase the Shop or that Interest. The party proposing the Transfer (the "transferor") must obtain a bona fide, executed written offer (accompanied by a "good faith" earnest money deposit of at least 5% of the purchase price) from a responsible and fully disclosed purchaser and must submit an exact copy of the offer to us. You also agree to provide us with any other information we need to evaluate the offer, if we request it within 15 days of receipt of the offer. We have the right, exercisable by delivering written notice to the transferor within 30 days from the date of last delivery to us of the offer and any other documents we have requested, to purchase the Shop or the Interest for the price and on the terms and conditions contained in the offer, except that we may substitute cash for any form of payment proposed in the offer and we will not be obligated to pay any "finder's" or broker's fees that are a part of the proposed Transfer. Our credit will be deemed equal to the credit of any other proposed purchaser, and we will have at least 60 days to prepare for closing. We will be entitled to all customary representations and warranties. If the proposed Transfer includes assets not related to the operation of the Shop, we may purchase only the assets related to the operation of the Shop or may also purchase the other assets. (An equitable purchase price will be allocated to each asset included in the Transfer.)

If we do not exercise our right of first refusal, the transferor may complete the sale to the Proposed New Owner pursuant to and on the terms of the offer, as long as we have approved the Transfer as provided in Sections 14.3 and 14.4. You must immediately notify us of any changes

in the terms of an offer. Any material change in the terms of an offer before closing will make it a new offer, revoking any previous approval or previously made election to purchase and giving us a new right of first refusal effective as of the day we receive formal notice of a material change in the terms. If the sale to the Proposed New Owner is not completed within 120 days after we have approved the sale, our approval of the proposed sale will expire. Any later proposal to complete that proposed sale will be deemed a new offer, giving us a new right of approval and right of first refusal effective as of the day we receive formal notice of the new (or continuing) proposal. We will not exercise a right of first refusal with respect to a proposed sale of less than a controlling interest to a member of a Principal Owner's immediate family or to your key employees.

We may assign our right of first refusal under this Section 14.8 to any entity (who may be our affiliate), and that entity will have all of the rights and obligations under this Section 14.8.

15. **TERMINATION OF THE FRANCHISE.**

We may, at our option, terminate this Agreement, effective upon delivery of notice of termination to you, if:

- (a) you fail to purchase or lease the Premises for the Shop or develop or open the Shop as provided in this Agreement;
- (b) you or the Principal Owner designed by you and approved by us fails to satisfactorily complete our training program;
- (c) you abandon, surrender, transfer control of, loses the right to occupy the Premises or fail to actively operate the Shop, or the lease or sublease for the location of the Shop is terminated because of your default thereunder;
- (d) you or any of your Principal Owners assign or transfer this Agreement, the Shop or its assets or any Interest without compliance with the provisions of Section 14;
- (e) you are adjudged a bankrupt, become insolvent or make a general assignment for the benefit of creditors;
- (f) you or any of your Principal Owners are convicted of or plead no contest to a felony or are convicted or plead no contest to any crime or offense that is likely to adversely affect the reputation of the Shop and the goodwill associated with the Marks;
- (g) you violate any health or safety law, ordinance or regulation or operate the Shop in a manner that presents a health or safety hazard to its customers or the public;
- (h) you fail to pay when due any monies owed to us, our affiliates or your suppliers and do not correct such failure within 10 days after written notice thereof is given to you;

(i) you or your Principal Owners fail to comply with any other provision of this Agreement or any mandatory specification, standard or operating procedure within 30 days after written notice of such failure to comply is given to you or your Principal Owners; or

(j) you fail on 3 or more separate occasions within any 12 consecutive month period to submit when due financial statements, reports or other data, information or supporting records, to pay when due the Royalty Fees, Marketing Fund contributions, amounts due for purchases from us our affiliates, or other payments due to us, or otherwise fail to comply with this Agreement, whether or not such failures to comply are corrected after notice is given to you.

You acknowledge and agree that, if at any time you are in default of any of your obligations under this Agreement, we will have the right, but not the obligation, upon the written notice to you, to assume management of the Shop until the default is fully cured and to charge you a reasonable management fee for such services.

16. **RIGHTS AND OBLIGATIONS OF COMPANY AND FRANCHISE OWNER UPON TERMINATION OR EXPIRATION OF THE FRANCHISE.**

16.1 **Payment of Amounts Owed to Company.** You agree to pay us within 5 days after the effective date of termination or expiration of the Franchise, or any later date that the amounts due to us are determined, all amounts owed to us or our affiliates which are then unpaid.

16.2 **Marks.** You and your Principal Owners agree that after the termination or expiration of the Franchise you will:

(a) not directly or indirectly at any time identify any business with which you are associated as a current or former Palgong Tea Shop franchisee;

(b) not use any Mark or any colorable imitation of any Mark in any manner or for any purpose, or use for any purpose any trademark or other commercial symbol that suggests or indicates an association with us;

(c) return to us any proprietary software and return to us or destroy (whichever we specify) all forms and materials containing any Mark or otherwise relating to a Palgong Tea Shop;

(d) remove all Marks affixed to uniforms or, at our direction, cease to use those uniforms;

(e) take any action that may be required to cancel all fictitious or assumed name or equivalent registrations relating to your use of any Mark; and

(f) at our option, to assign to us (or our designee) or cancel any electronic address, domain name or website, or rights maintained in connection with any search

engine, that directly or indirectly associates you or the Shop with us, the Marks, the System or the network of Palgong Tea Shops.

16.3 **De-Identification.** If you retain possession of the Premises, you agree to completely remove or modify, at your sole expense, any part of the interior and exterior décor that we deem necessary to disassociate the Premises with the image of a Palgong Tea Shop, including any signage bearing the Marks. If you do not take the actions we request within 30 days after notice from us, we have the right to enter the Premises and make the required changes at your expense, and you agree to reimburse us for those expenses on demand.

16.4 **Confidential Information.** You agree that on termination or expiration of the Franchise you will immediately cease to use any of the Confidential Information and agree not to use it in any business or for any other purpose. You further agree to immediately return to us all copies of the Operations Manual and any other confidential materials which we have loaned to you.

16.5 **Covenant Not to Compete.** On termination or expiration of this Agreement in accordance with its terms, you and your Principal Owners agree that for a period of 2 years after the effective date of termination or expiration, or the date on which you stop operating the Shop, whichever is later, neither you nor your Principal Owners will provide services for or have any direct or indirect interest (through a member of your immediate family or that of a Principal Owner, or otherwise) as a disclosed or beneficial owner, investor, manager, or consultant, in any Competitive Business (as defined in Section 8.3) located or operating at or within a radius of 10 miles of the Premises or within 10 miles of any other Palgong Tea Shop owned by you, us or any other party which is then in existence or under construction.

16.6 **Company's Option to Purchase Shop Assets.** Upon the termination or expiration of the Franchise, we shall have the option, but not the obligation, exercisable for 30 days upon written notice to you, to purchase at fair market value all of the assets of the Shop, including all approved equipment, fixtures, furniture and signs and all glassware, utensils, supplies, materials and other items imprinted with any Mark. If we cannot agree on the fair market value of the assets of the Shop within a reasonable period of time, such value shall be determined by the following process: (a) each of us shall select an independent appraiser which shall appraise the assets of the Shop; and (b) the values established by each of the appraisers shall be combined and averaged to determine the fair market value of the Shop. We shall not assume any liabilities, debts or obligations of the Shop in connection with any such transfer, and you shall indemnify us from any and all claims made against us arising out of any such transfer of the assets of the Shop. The parties shall comply with all applicable laws in connection with any such transfer, and you shall cooperate with the Company in complying with all such requirements. At the closing of the purchase, as above provided, both of us shall execute and deliver all documents necessary to vest title in the Company or its nominee free and clear of all liens and encumbrances. We shall have the right to set off against the purchase price of the assets of the Shop all amounts due to the Company under this Agreement or any other agreement between the parties.

16.7 **Real Property.** In the event you own the real property on which the Shop is located, we will also have the option to purchase this property for a period of 30 days following expiration or termination of this Agreement. If we cannot agree on the fair market value of the property within a reasonable period of time, such value shall be determined by the following process: (a) each of us shall select an independent appraiser which shall appraise the real property; and (b) the values established by each of the appraisers shall be combined and averaged to determine the fair market value of the property. The purchase price will be payable in full at the closing, minus customary prorations, including the pay-off of existing mortgage. If you lease the real property on which the Shop is located, we also have the option to assume the lease from you, or to enter into a sublease for the remainder of the lease term, on a prospective basis under the original terms and conditions negotiated by you and the landlord.

16.8 **Continuing Obligations.** All obligations of this Agreement (whether yours or ours) which expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect after and notwithstanding its expiration or termination until they are satisfied in full or by their nature expire.

17. **ENFORCEMENT.**

17.1 **Invalid Provisions; Substitution of Valid Provisions.** To the extent that either Section 8.3 or 16.5 is deemed unenforceable because of its scope in terms of area, business activity prohibited, or length of time, you agree that the invalid provision will be deemed modified or limited to the extent or manner necessary to make that particular provision valid and enforceable to the greatest extent possible in light of the intent of the parties expressed in that provision under the laws applied in the forum in which we are seeking to enforce it.

If any lawful requirement or court order of any jurisdiction (1) requires a greater advance notice of the termination or non-renewal of this Agreement than is required under this Agreement, or the taking of some other action which is not required by this Agreement, or (2) makes any provision of this Agreement or any specification, standard or operating procedure we prescribed invalid or unenforceable, the advance notice and/or other action required or revision of the specification, standard or operating procedure will be substituted for the comparable provisions of this Agreement in order to make the modified provision enforceable to the greatest extent possible. You agree to be bound by the modification to the greatest extent lawfully permitted.

17.2 **Written Consents from Company.** Whenever this Agreement requires our advance approval or consent, you agree to make a timely written request for it. Our approval or consent will not be valid unless it is in writing.

17.3 **No Guarantees.** If in connection with this Agreement we provide to you any waiver, approval, consent, or suggestion, or if we neglect or delay our response or deny any request for any of those, we will not be deemed to have made any warranties or guarantees which you may rely on, and will not assume any liability or obligation to you.

17.4 **No Waiver.** If at any time we do not exercise a right or power available to us under this Agreement or do not insist on your strict compliance with the terms of this Agreement, or if there develops a custom or practice which is at variance with the terms of this Agreement, we will not be deemed to have waived our right to demand exact compliance with any of the terms of this Agreement at a later time. Similarly, our waiver of any particular breach or series of breaches under this Agreement or of any similar term in any other agreement between the Company and any franchisee will not affect our rights with respect to any later breach. It will also not be deemed to be a waiver of any breach of this Agreement for us to accept payments which are due to us under this Agreement.

17.5 **Cumulative Remedies.** The rights and remedies specifically granted to either you or us by this Agreement will not be deemed to prohibit either of us from exercising any other right or remedy provided under this Agreement or permitted by law or equity.

17.6 **Specific Performance; Injunctive Relief.** Provided we give you the appropriate notice, we will be entitled, without being required to post a bond, to the entry of temporary and permanent injunctions and orders of specific performance (1) to enforce the provisions of this Agreement relating to your use of the Marks and your non-disclosure and non-competition obligations under this Agreement, (2) to prohibit any act or omission by you or your employees that constitutes a violation of any applicable law, ordinance or regulation, constitutes a danger to the public, or may impair the goodwill associated with the Marks or the Shop, or (3) to prevent any other irreparable harm to our interests. If we obtain an injunction or order of specific performance, you agree to pay us an amount equal to the total of our costs of obtaining it, including, without limitation, reasonable attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses and travel and living expenses, and any damages we incur as a result of the breach of any such provision. You further agree to waive any claims for damage in the event there is a later determination that an injunction or specific performance order was issued improperly.

17.7 **Arbitration.** Except insofar as we elect to enforce this Agreement or any other related agreement, all controversies, disputes or claims arising between the Company, its affiliates, officers, directors, agents and employees (in their representative capacity) and Franchise Owner (and its owners, including the Principal Owners) arising out of or related to: (1) this Agreement or any provisions thereof or any related agreement (except for any sublease with us or any of our affiliates); (2) the relationship of the parties hereto; (3) the validity of this Agreement or any related agreement, or any provision thereof; or (4) any specification, standard or operating procedure relating to the establishment or operation of the franchise, shall be submitted for arbitration to be administered by the American Arbitration Association on demand of either party. Such arbitration proceedings shall be conducted at a suitable location to be chosen by the arbitrator within the city in which our principal office is located at the time that the arbitration demand is filed and, except as otherwise provided in this Agreement, shall be conducted in accordance with then current commercial arbitration rules of the American Arbitration Association. The arbitrator has no authority to establish a different hearing locale. All matters within the scope of the Federal Arbitration Act (9 U.S.C. Sections 1 *et seq.*) will be governed by it and not by any state arbitration law. The arbitrator shall have the right to award or include in his award any relief which he deems proper in the circumstances, including,

without limitation, money damages (with interest on unpaid amounts from date due), specific performance, injunctive relief, attorneys' fees and costs. The award and decision of the arbitrator shall be conclusive and binding all parties to this Agreement and judgment on the award may be entered in any court of competent jurisdiction, and each waives any right to contest the validity or enforceability of such award. The parties further agree to be bound by the provisions of any applicable limitation on the period of time in which claims must be brought. The parties further agree that in connection with any such arbitration proceeding each will file any compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within 30 days of the date of the filing of the claim to which it relates. This provision will continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement. The parties agree that arbitration shall be conducted on an individual, not a class-wide basis and that arbitration proceedings under this Agreement shall not be consolidated with any other arbitration proceeding.

17.8 **Jurisdiction and Venue.** Any action arising out of or relating to this Agreement (which is not required to be arbitrated hereunder or to which arbitration is waived) shall be commenced, litigated and concluded only in a state or federal court of general jurisdiction in the State of Illinois. You irrevocably submit to the jurisdiction of such courts and waive any objection you may have to either the jurisdiction or venue of such courts. You further irrevocably agree not to argue that Illinois is an inconvenient forum or to request transfer of any such action to any court.

17.9 **Governing Law.** Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement shall be governed by and interpreted and construed under Illinois law (except for Illinois conflict of law rules); provided however, that any law governing the relationship between you and us shall not apply unless its jurisdictional requirements are met independently without reference to this Section.

17.10 **Waiver of Punitive Damages and Jury Trial.** The parties to this Agreement hereby waive to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other and agree that in the event of a dispute between them each shall be limited to the recovery, upon proof, of actual damages. The parties irrevocably waive trial by jury on any action, proceeding or counterclaim, whether at law or equity, brought by either of them.

17.11 **Binding Effect.** This Agreement is binding on and will inure to the benefit of our successors and assigns and will be binding on and inure to the benefit of your successors and assigns, and if you are an individual, on and to your heirs, executors and administrators.

17.12 **Entire Agreement.** This Agreement, together with the introduction and exhibits to it, constitutes the entire agreement between us concerning the subject matter of this Agreement, and there are no other oral or written understandings or agreements between us concerning the subject matter of this Agreement. This Agreement may be modified only by written agreement signed by both you and us. Nothing in this Agreement or in any related

agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

17.13 **No Liability to Others; No Other Beneficiaries.** We will not, because of this Agreement or by virtue of any approvals, advice or services provided to you, be liable to any person or legal entity who is not a party to this Agreement, and no other party shall have any rights because of this Agreement.

17.14 **Construction.** All headings of the various Sections and paragraphs of this Agreement are for convenience only and do not affect the meaning or construction of any provision. All references in this Agreement to masculine, neuter or singular usage will be construed to include the masculine, feminine, neuter or plural, wherever applicable. Except where this Agreement expressly obligates us to reasonably approve or not unreasonably withhold our approval of any of your actions or requests, we have the absolute right to refuse any request by you or to withhold our approval of any action or omission by you. The term “affiliate” as used in this Agreement is applicable to any company directly or indirectly owned or controlled by us that sells products or otherwise transacts business with you.

17.15 **Joint and Several Liability.** If two or more persons are the Franchisee under this Agreement, their obligation and liability to us shall be joint and several.

17.16 **Multiple Originals.** This Agreement will be executed using multiple copies, each of which will be deemed an original.

17.17 **Timing Is Important.** Time is of the essence of this Agreement. (“Time is of the essence” is a legal term that emphasizes the strictness of time limits. In this case, it means it will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement.)

17.18 **Independent Provisions.** The provisions of this Agreement are deemed to be severable. In other words, the parties agree that each provision of this Agreement will be construed as independent of any other provision of this Agreement.

18. **NOTICES AND PAYMENTS.**

All written notices, reports and payments permitted or required under this Agreement will be deemed delivered at the time of delivery by express courier or messenger service, one business day after sending by facsimile transmission or comparable electronic system and 3 business days after placed in the U.S. mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the party to be notified or paid at its most current principal business address of which the notifying party has been advised, or to any other place designated by either party. Any required notice, payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least 2 days before it is due) will be deemed delinquent.

The parties to this Agreement now execute and deliver this Agreement in multiple counterparts as of the Agreement Date.

THE COMPANY:

FRANCHISE OWNER:

PALGONGTEA FRANCHISING LLC

By: _____

Title: _____

PRINCIPAL OWNER'S GUARANTY

In consideration of, and as an inducement to, the execution of the foregoing Franchise Agreement (the "Agreement") by the Company ("us"), each of the Principal Owners ("you," for purposes of this Guaranty only) signing this document hereby personally and unconditionally (1) guarantees to us and our successors and assigns that the Franchise Owner will punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement and (2) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, including, without limitation, the non-competition provisions of Sections 8.3 and 16.5 of the Agreement and the jurisdiction and venue provisions of Section 17.8 of the Agreement and the provisions for arbitration contained in Section 17.7.

Each of you waives (1) protest and notice of default, demand for payment or nonperformance of any obligations guaranteed by this Guaranty; (2) any right you may have to require that an action be brought against Franchisee or any other person as a condition of your liability; and (3) any and all other notices and legal or equitable defenses to which you may be entitled in your capacity as guarantor.

Each of you consents and agrees that (1) your direct and immediate liability under this Guaranty shall be joint and several; (2) you will make any payment or render any performance required under the Agreement on demand if Franchise Owner fails or refuses to do so when required; (3) your liability will not be contingent or conditioned on our pursuit of any remedies against Franchise Owner or any other person; (4) your liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which we may from time to time grant to Franchise Owner or to any other person, including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims; and (5) this Guaranty will continue and be irrevocable during the term of the Agreement and if required by the Agreement, after its termination or expiration.

This Guaranty is now executed as of the Agreement Date.

PRINCIPAL OWNERS:

EXHIBIT A
PROTECTED AREA

The Protected Area shall be:

EXHIBIT B

OWNERSHIP INTERESTS IN FRANCHISE OWNER

<u>Name</u>	<u>Ownership Percentage</u>

EXHIBIT C
SITE SELECTION AGREEMENT

PALGONG TEA
SITE SELECTION AGREEMENT

APPLICANT

DATE OF AGREEMENT

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PALGONG TEA

SITE SELECTION AGREEMENT

This Site Selection Agreement (this “Agreement”) is being entered into as of _____, 20__ (the “Agreement Date”). The parties to this Agreement are _____ (“you” or “Applicant”) and PalgongTea Franchising LLC (“we” or the “Company”), an Illinois limited liability company.

1. PREAMBLES AND ACKNOWLEDGMENTS.

We and our affiliates have devised a system (the “System”) for the establishment and operation of shops featuring a variety of teas (including bubble teas), coffee and other beverages and related products known as “Palgong Tea Shops.” Palgong Tea Shops offer dine-in, carry-out and delivery services. We and our affiliates identify Palgong Tea Shops with certain trademarks, service marks and other commercial symbols, including “Palgong Tea,” and certain associated designs and logos, which we may change or add to from time to time (the “Marks”).

You have applied for a franchise to operate a Palgong Tea Shop (the “Shop”) within the following designated area: _____ (the “Designated Area”) and your application has been approved by us.

2. SELECTION OF SITE.

You will use your best efforts to seek and select a proposed site within the Designated Area acceptable to us as suitable for the operation of the Shop within 90 days of the Agreement Date. You must submit to us, in the form we specify, a description of the site and such other information or materials as we may reasonably require. We will not unreasonably withhold approval of a site that meets our standards for general location and neighborhood, traffic patterns, parking size, access, visibility, layout and other physical characteristics, for Palgong Tea Shops. Our approval of a site shall not constitute, nor be deemed, a judgment as to the likelihood of success of a Palgong Tea Shop at such location or a judgment as to the relative desirability of such location in comparison to other locations within the Designated Area. If you are unable to locate an acceptable site within the time specified above, we may, at any time thereafter, terminate this Agreement, provided that we will refund the deposit as provided in Section 6 below.

3. ASSISTANCE BY THE COMPANY.

We agree to expend such time and effort, and to incur such expense, as may reasonably be required to inspect sites you propose for the Shop to be operated by you and in negotiating a lease, sublease or purchase contract for a site approved by us. You must submit the lease, sublease or purchase contract to us for approval prior to execution, which approval shall not be unreasonably withheld.

4. **FRANCHISE AGREEMENT.**

Unless you withdraw your application for a franchise to operate a Palgong Tea Shop as provided below or unless this Agreement has been otherwise terminated by us, you agree that, concurrently with the execution of a lease, sublease or purchase contract for the Shop, you will execute our standard Franchise Agreement, in the form delivered to you.

5. **DEPOSIT.**

You have contemporaneously with the execution of this Agreement, deposited with us the sum of \$10,000 to be applied against the initial franchise fee payable by you under our standard Franchise Agreement.

6. **TERMINATION OF THIS AGREEMENT.**

You may withdraw your application for a franchise to operate a Palgong Tea Shop and terminate this Agreement, at any time prior to our approval of a site, by a written notice of termination delivered to us. Upon such termination (or a termination by us as provided in Section 2), we shall refund your deposit less the sum of \$5,000, or, if greater, the expenses incurred by us in connection with your acquisition of the Shop, including, without limitation, those expenses related to site selection, inspecting and reviewing the lease, sublease or purchase contract for proposed sites for the Shop, assistance in supplying you with information concerning the operation of a Shop, travel and living expenses and compensation of our employees and agents and legal fees and expenses, and lost opportunity costs.

Our sole liability to you under this Agreement shall be to refund the initial deposit, in whole or in part, as provided above, and we shall have no other liability to you.

7. **ASSIGNABILITY.**

The Company shall have the right to transfer or assign all or any part of its rights, interests or obligations herein to any person or legal entity.

This Agreement is personal to Applicant and may not be assigned, sold or otherwise transferred to any other person or entity.

8. **ENFORCEMENT.**

A. **ARBITRATION.**

Except insofar as we elect to enforce this Agreement or any other related agreement, all controversies, disputes or claims arising between the Company, its affiliates, officers, directors, agents and employees (in their representative capacity) and Applicant (and its owners) arising out of or related to: (1) this Agreement or any provisions thereof or any related agreement (except for any sublease with us or any of our affiliates); (2) the relationship of the parties hereto; (3) the validity of this Agreement or any related agreement, or any provision thereof; or (4) any specification, standard or operating procedure relating to the establishment or operation of the franchise, shall be submitted for arbitration to be administered by the American

Arbitration Association on demand of either party. Such arbitration proceedings shall be conducted at a suitable location to be chosen by the arbitrator within the city in which our principal office is located at the time that the arbitration demand is filed and, except as otherwise provided in this Agreement, shall be conducted in accordance with then current commercial arbitration rules of the American Arbitration Association. The arbitrator has no authority to establish a different hearing locale. All matters within the scope of the Federal Arbitration Act (9 U.S.C. Sections 1 et seq.) will be governed by it and not by any state arbitration law. The arbitrator shall have the right to award or include in his award any relief which he deems proper in the circumstances, including, without limitation, money damages (with interest on unpaid amounts from date due), specific performance, injunctive relief, attorneys' fees and costs. The award and decision of the arbitrator shall be conclusive and binding all parties to this Agreement and judgment on the award may be entered in any court of competent jurisdiction, and each waives any right to contest the validity or enforceability of such award. The parties further agree to be bound by the provisions of any applicable limitation on the period of time in which claims must be brought. The parties further agree that in connection with any such arbitration proceeding each will file any compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within 30 days of the date of the filing of the claim to which it relates. This provision will continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement. The parties agree that arbitration shall be conducted on an individual, not a class-wide basis and that arbitration proceedings under this Agreement shall not be consolidated with any other arbitration proceeding.

B. GOVERNING LAW.

Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement shall be governed by and interpreted and construed under Illinois law (except for Illinois conflict of law rules); provided however, that any law governing the relationship between you and us shall not apply unless its jurisdictional requirements are met independently without reference to this Section.

C. JURISDICTION AND VENUE.

Any action arising out of or relating to this Agreement (which is not required to be arbitrated hereunder or to which arbitration is waived) shall be commenced, litigated and concluded only in a state or federal court of general jurisdiction in the State of Illinois. You irrevocably submit to the jurisdiction of such courts and waive any objection you may have to either the jurisdiction or venue of such courts. You further irrevocably agree not to argue that Illinois is an inconvenient forum or to request transfer of any such action to any court.

D. WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL.

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

9. **NOTICES.**

All written notices, reports and payments permitted or required under this Agreement will be deemed delivered at the time of delivery by express courier or messenger service, one business day after sending by facsimile transmission or comparable electronic system and 3 business days after placed in the U.S. mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the party to be notified or paid at its most current principal business address of which the notifying party has been advised, or to any other place designated by either party. Any required notice, payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least 2 days before it is due) will be deemed delinquent.

10. **ENTIRE AGREEMENT.**

This Agreement, together with the introduction, constitutes the entire agreement between us concerning the subject matter of this Agreement, and there are no other oral or written understandings or agreements between us concerning the subject matter of this Agreement. This Agreement may be modified only by written agreement signed by both you and us. Nothing in this Agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

Time is of the essence of this Agreement.

You acknowledge that you have read this Agreement (and our standard Franchise Agreement and Franchise Disclosure Document) and that you have been given the opportunity to clarify any provisions that you did not understand and to consult with any attorney or other professional advisor. You represent that you understand the terms, conditions and obligations of this Agreement and agree to be bound thereby.

The parties to this Agreement now execute and deliver this Agreement in multiple counterparts as of the Agreement Date.

THE COMPANY:

APPLICANT:

PALGONGTEA FRANCHISING LLC

By:_____

Title:_____

EXHIBIT D
DEVELOPMENT AGREEMENT

PALGONG TEA
DEVELOPMENT AGREEMENT

This Development Agreement (this “Agreement”) is being entered into as of _____, 20__ (the “Agreement Date”). The parties to this Agreement are _____ (“you” or “Developer”) and PalgongTea Franchising LLC (“we” or the “Company”), an Illinois limited liability company.

1. **INTRODUCTION.**

Through the expenditure of considerable time, effort and money, we and our affiliates have devised a system (the “System”) for the establishment and operation of shops featuring a variety of teas (including bubble teas), coffee and other beverages and related products known as “Palgong Tea Shops.” Palgong Tea Shops offer dine-in, carry-out and delivery services. We and our affiliates identify Palgong Tea Shops with certain trademarks, service marks and other commercial symbols, including “Palgong Tea,” and certain associated designs and logos, which we may change or add to from time to time (the “Marks”).

From time to time, we grant to persons who meet our qualifications the rights to develop and operate multiple Palgong Tea Shops in accordance with the System and under the Marks. This Agreement is being presented to you because of the desire you have expressed to obtain the right to develop and operate multiple Palgong Tea Shops within a certain geographic area over a certain period of time.

2. **GRANT OF DEVELOPMENT RIGHTS.**

Subject to the provisions of this Agreement, we hereby grant to you the right to develop _____ Palgong Tea Shops within the designated area identified on Schedule 1 (the “Designated Territory”). You shall have no right under this Agreement to authorize or license others to operate a Palgong Tea Shops or use the System or the Marks within the Designated Territory.

3. **DEVELOPMENT SCHEDULE.**

At the dates set forth below, you agree to have open and in operation the number of Palgong Tea Shops indicated below (the “Development Schedule”):

<u>Number of Palgong Tea Shops</u>	<u>Palgong Tea Shops Opened By Date</u>
_____	_____
_____	_____
_____	_____
_____	_____

Time is of the essence of this Agreement.

4. **TERRITORIAL PROTECTION.**

Except as otherwise provided in this Agreement, we shall not establish and operate, or grant any other party the right to establish and operate, any Palgong Tea Shops in the Designated Territory prior to the expiration of the term of the development rights granted to Developer by Company pursuant to this Agreement. Subject to this limitation, we reserve, on behalf of ourselves and our affiliates, all other rights.

5. **DEVELOPMENT RIGHTS FEE.**

Simultaneously with the execution of this Agreement, you shall pay us an amount equal to 50% of the initial franchise fee due for each Palgong Tea Shop for which you are granted the right to develop and open under this Agreement (the "Development Rights Fee"). The Development Rights Fee is to be paid at the time of execution of this Agreement. The balance of the initial franchise fees shall be due as specified in Section 6. The Development Rights Fee is fully earned upon execution of this Agreement and is non-refundable.

6. **APPLICATION TO OPEN A PALGONG TEA SHOP.**

You shall submit a separate application for each Palgong Tea Shop to be established by you within the Designated Territory. Upon approval of the site of the Palgong Tea Shop by the Company, a separate franchise agreement shall be executed for each such Palgong Tea Shop, at which time payment representing the balance of the initial franchise fee will be due and owing in accordance with the terms of the franchise agreement. The franchise agreement shall be the Company's then current form of franchise agreement, which may be substantially different from the form of franchise agreement currently used by the Company. Upon execution of each franchise agreement, the terms and conditions of such franchise agreement shall control the establishment and operation of such Palgong Tea Shop.

7. **SITE FOR EACH PALGONG TEA SHOP.**

Prior to the acquisition by lease, sublease or purchase of any site for a Palgong Tea Shop in the Designated Territory, you shall submit to us on a completed site development form specified by us a description of the site, and such other information or materials as we may reasonably require for site approval. If we approve the proposed site, we will grant a franchise to you to own and operate a Palgong Tea Shop as herein provided. Our approval of the lease or sublease for any proposed site may be conditioned upon inclusion in the lease or sublease of terms acceptable to us and, at our option, shall contain such provisions as we may reasonably require.

8. **TERMINATION.**

Developer's rights under this Agreement shall terminate and be of no further force or effect upon written notice in the event (i) Developer fails to satisfy its development obligations contained herein by the dates specified in Section 3; or (ii) any franchise agreement executed by Developer for the operation of a Palgong Tea Shop franchise is terminated for any reason. In addition, Developer's rights under this Agreement shall expire on the date of opening of the last Palgong Tea Shop required hereunder.

9. **ASSIGNMENT.**

This Agreement is fully assignable by the Company and will inure to the benefit of any person or entity to whom it is transferred, or to any other legal successor to the Company's interests in this Agreement.

This Agreement and the rights granted herein are not assignable by Developer except in connection with the assignment of all franchise agreements to which Developer is then a party, provided that all such franchise agreements are assigned to the same individual or entity and subject to the assignment provisions of the applicable franchise agreements.

10. **WRITTEN CONSENTS FROM COMPANY.**

Whenever this Agreement requires our advance approval or consent, you agree to make a timely written request for it. Our approval or consent will not be valid unless it is in writing.

11. **NO GUARANTEES.**

If in connection with this Agreement we provide to you any waiver, approval, consent, or suggestion, or if we neglect or delay our response or deny any request for any of those, we will not be deemed to have made any warranties or guarantees which you may rely on, and will not assume any liability or obligation to you.

12. **NO WAIVER.**

If at any time we do not exercise a right or power available to us under this Agreement or do not insist on your strict compliance with the terms of the Agreement, or if there develops a custom or practice which is at variance with the terms of this Agreement, we will not be deemed to have waived our right to demand exact compliance with any of the terms of this Agreement at a later time. Similarly, our waiver of any particular breach or series of breaches under this Agreement or of any similar term in any other agreement between the Company and any franchisee will not affect our rights with respect to any later breach. It will also not be deemed to be a waiver of any breach of this Agreement for us to accept payments which are due to us under this Agreement.

13. **CUMULATIVE REMEDIES.**

The rights and remedies specifically granted to either you or us by this Agreement will not be deemed to prohibit either of us from exercising any other right or remedy provided under this Agreement or permitted by law or equity.

14. **ARBITRATION.**

Except insofar as we elect to enforce this Agreement or any other related agreement, all controversies, disputes or claims arising between the Company, its affiliates, officers, directors, agents and employees (in their representative capacity) and Developer (and its owners) arising out of or related to: (1) this Agreement or any provisions thereof or any related agreement (except for any sublease with us or any of our affiliates); (2) the relationship of the parties

hereto; (3) the validity of this Agreement or any related agreement, or any provision thereof; or (4) any specification, standard or operating procedure relating to the establishment or operation of the franchise, shall be submitted for arbitration to be administered by the American Arbitration Association on demand of either party. Such arbitration proceedings shall be conducted at a suitable location to be chosen by the arbitrator within the city in which our principal office is located at the time that the arbitration demand is filed and, except as otherwise provided in this Agreement, shall be conducted in accordance with then current commercial arbitration rules of the American Arbitration Association. The arbitrator has no authority to establish a different hearing locale. All matters within the scope of the Federal Arbitration Act (9 U.S.C. Sections 1 et seq.) will be governed by it and not by any state arbitration law. The arbitrator shall have the right to award or include in his award any relief which he deems proper in the circumstances, including, without limitation, money damages (with interest on unpaid amounts from date due), specific performance, injunctive relief, attorneys' fees and costs. The award and decision of the arbitrator shall be conclusive and binding all parties to this Agreement and judgment on the award may be entered in any court of competent jurisdiction, and each waives any right to contest the validity or enforceability of such award. The parties further agree to be bound by the provisions of any applicable limitation on the period of time in which claims must be brought. The parties further agree that in connection with any such arbitration proceeding each will file any compulsory counterclaim (as defined by Rule 13 of the Federal Rules of Civil Procedure) within 30 days of the date of the filing of the claim to which it relates. This provision will continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement. The parties agree that arbitration shall be conducted on an individual, not a class-wide basis and that arbitration proceedings under this Agreement shall not be consolidated with any other arbitration proceeding.

15. **JURISDICTION AND VENUE.**

Any action arising out of or relating to this Agreement (which is not required to be arbitrated hereunder or to which arbitration is waived) shall be commenced, litigated and concluded only in a state or federal court of general jurisdiction in the State of Illinois. You irrevocably submit to the jurisdiction of such courts and waive any objection you may have to either the jurisdiction or venue of such courts. You further irrevocably agree not to argue that Illinois is an inconvenient forum or to request transfer of any such action to any court.

16. **GOVERNING LAW.**

Except to the extent governed by the Federal Arbitration Act, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement shall be governed by and interpreted and construed under Illinois law (except for Illinois conflict of law rules); provided however, that any law governing the relationship between you and us shall not apply unless its jurisdictional requirements are met independently without reference to this Section.

17. **WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL.**

The parties to this Agreement hereby waive to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other and agree that in the

event of a dispute between them each shall be limited to the recovery, upon proof, of actual damages. The parties irrevocably waive trial by jury on any action, proceeding or counterclaim, whether at law or equity, brought by either of them.

18. **BINDING EFFECT.**

This Agreement is binding on and will inure to the benefit of our successors and assigns and will be binding on and inure to the benefit of your successors and assigns, and if you are an individual, on and to your heirs, executors and administrators.

19. **ENTIRE AGREEMENT.**

This Agreement, together with the introduction and schedules to it, constitutes the entire agreement between us concerning the subject matter of this Agreement, and there are no other oral or written understandings or agreements between us concerning the subject matter of this Agreement. This Agreement may be modified only by written agreement signed by both you and us. Nothing in this Agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

20. **NO LIABILITY TO OTHERS; NO OTHER BENEFICIARIES.**

We will not, because of this Agreement or by virtue of any approvals, advice or services provided to you, be liable to any person or legal entity who is not a party to this Agreement, and no other party shall have any rights because of this Agreement.

21. **CONSTRUCTION.**

All headings of the various Sections and paragraphs of this Agreement are for convenience only and do not affect the meaning or construction of any provision. All references in this Agreement to masculine, neuter or singular usage will be construed to include the masculine, feminine, neuter or plural, wherever applicable. Except where this Agreement expressly obligates us to reasonably approve or not unreasonably withhold our approval of any of your actions or requests, we have the absolute right to refuse any request by you or to withhold our approval of any action or omission by you. The term “affiliate” as used in this Agreement is applicable to any company directly or indirectly owned or controlled by us that sells products or otherwise transacts business with you. If two or more persons are the Developer under this Agreement, their obligation and liability to us shall be joint and several. This Agreement will be executed using multiple copies, each of which will be deemed an original. The provisions of this Agreement are deemed to be severable. In other words, the parties agree that each provision of this Agreement will be construed as independent of any other provision of this Agreement.

22. **NOTICES AND PAYMENTS.**

All written notices, reports and payments permitted or required under this Agreement will be deemed delivered at the time of delivery by express courier or messenger service, one business day after sending by facsimile transmission or comparable electronic system and 3 business days after placed in the U.S. mail by Registered or Certified Mail, Return Receipt

Requested, postage prepaid and addressed to the party to be notified or paid at its most current principal business address of which the notifying party has been advised, or to any other place designated by either party. Any required notice, payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least 2 days before it is due) will be deemed delinquent.

The parties to this Agreement now execute and deliver this Agreement in multiple counterparts as of the Agreement Date.

THE COMPANY:

DEVELOPER:

PALGONGTEA FRANCHISING LLC

By:_____

Title:_____

SCHEDULE 1
DESIGNATED TERRITORY

EXHIBIT E

ASSIGNMENT AND ASSUMPTION OF FRANCHISE AGREEMENT

PALGONG TEA

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this “Agreement”) is made and entered into this _____ day of _____, 20__ (the “Effective Date”), by and among PalgongTea Franchising LLC, an Illinois limited liability company with its principal business address at 1625 North Milwaukee Avenue, Glenview, Illinois 60025 (the “Company”), _____, a _____ resident (“Assignor”), and _____, a _____ (“Assignee”).

RECITALS

WHEREAS, the Company and Assignor entered into a franchise agreement dated _____, 20__ (the “Franchise Agreement”) whereby Assignor was given the right and assumed the obligation to operate a “Palgong Tea Shop” at _____ (the “Shop”);

WHEREAS, Assignor has organized and incorporated Assignee for the convenience and purpose of ownership and operation of the Shop;

WHEREAS, Assignor desires to assign his/her rights and obligations under the Franchise Agreement to Assignee pursuant to and in accordance with the provisions of the Franchise Agreement; and

WHEREAS, the Company is willing to consent to the assignment of the Franchise Agreement to Assignee, subject to the terms and conditions of this Agreement, including, without limitation, Assignor’s agreement to guarantee the performance by Assignee of its obligations under the Franchise Agreement and to continue to be bound by all of the provisions of the Franchise Agreement.

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. **Assignment.** Assignor hereby assigns and transfers over to Assignee all of his/her right, title and interest in and to the Franchise Agreement, effective as of the Effective Date.
2. **Assumption.** Assignee hereby assumes all of Assignor’s obligations, agreements, commitments, duties and liabilities under the Franchise Agreement, and agrees to be bound by and observe and faithfully perform all of the obligations, agreements, commitments and duties of “Franchisee” thereunder with the same force and effect as if the Franchise Agreement were originally written with Assignee as Franchisee.
3. **Obligations of Assignor.** Assignor agrees that he/she shall continue to be bound by the terms and conditions of the Franchise Agreement, including, without limitation, the

provisions contained in Section 8 (Confidential Information; Exclusive Relationship), Section 10.8 (Management and Personnel of the Shop), Section 14 (Transfer Requirements) and Section 16.5 (Covenant Not to Compete) thereof, and that nothing contained herein shall be deemed to relieve him/her of any of his/her obligations under the Franchise Agreement. Assignor further agrees to, and by this instrument does hereby, guarantee the performance by Assignee of all of its obligations, commitments, duties and liabilities under the Franchise Agreement. Without limiting the foregoing, Assignor irrevocably and unconditionally guarantees to the Company (i) that Assignee will pay all amounts to be paid and otherwise comply with all provisions of the Franchise Agreement or any other agreement with the Company or its affiliates concerning the operation of the Shop, and (ii) that if Assignee defaults in making any such payments or complying with any such provisions, Assignor shall pay forthwith upon demand all amounts due and owing the Company and all damages that may arise as a result of any such non-compliance. If Assignor shall be more than one person, the obligations of Assignor hereunder shall be joint and several.

4. **Enforcement of Assignor's Obligations.** In the enforcement of any of its rights against Assignor, the Company may proceed as if the Assignee were the primary obligor under the Franchise Agreement. Assignor waives any right to require the Company to first proceed against Assignee or to proceed against or exhaust any security (if any) held by the Company or to pursue any other remedy available to it before proceeding against Assignor. No dealings between the Company and Assignee shall exonerate, release, discharge or in any way reduce the obligations of the Assignor hereunder, in whole or in part and, in particular and without limiting the generality of the foregoing, the Company may modify or amend the Franchise Agreement, grant any indulgence, release, postponement or extension of time, waive any term or condition of the Franchise Agreement, or any obligation of Assignee, take or release any securities or other guarantees for the performance by Assignee of any of its obligations, and otherwise deal with Assignee as the Company may see fit without affecting, lessening or limiting in any way the liability of the Assignor. Notwithstanding any assignment for the general benefit of creditors or any bankruptcy or other act of insolvency by Assignee and notwithstanding any rejection, disaffirmance or disclaimer of this agreement or the Franchise Agreement, Assignor shall continue to be fully liable.

5. **Governing Law.** This Agreement shall be governed by the laws of the State of Illinois.

6. **Binding Effect.** This Agreement shall inure to the benefit of and be binding upon the parties hereto and their heirs, executors, administrators, successors and assigns.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have affixed their signatures hereto as of the Effective Date.

PALGONGTEA FRANCHISING LLC:

By: _____

Title: _____

Date: _____

ASSIGNOR:

Print Name: _____

Date: _____

ASSIGNEE:

By: _____

Title: _____

Date: _____

EXHIBIT F
AUDITED FINANCIAL STATEMENTS

PALGONGTEA FRANCHISING LLC

**Financial Statements
with
Independent Auditor's Report**

December 31, 2021

PALGONGTEA FRANCHISING LLC
Financial Statements as of December 31, 2021

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B. H. WHANG AND ASSOCIATES, LTD.

ATTORNEYS AT LAW
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Member
PALGONGTEA FRANCHISING LLC

We have audited the accompanying balance sheet Palgong Tea Franchising LLC as of December 31, 2021 and the related statements of income for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Palgong Tea Franchising LLC as of December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.



B H Whang & Associates, Ltd.
Attorney at Law/Certified Public Accountants
May 24, 2022

PALGONGTEA FRANCHISING LLC

BALANCE SHEET

AS OF DECEMBER 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 89,591
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Total Assets	\$ 89,591
---------------------	------------------

MEMBERS' EQUITY

MEMBERS' EQUITY

Member's Capital	\$ 150,000
------------------	------------

Net income - Current year	(60,409)
---------------------------	----------

Total Members' Equity	89,591
-----------------------	--------

Total Members' Equity	\$ 89,591
------------------------------	------------------

PALGONGTEA FRANCHISING LLC
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>12/31/2021</u>
REVENUE:	
Royalty Income	<u>\$ 22,416</u>
Total Income	<u>22,416</u>
Gross Income	<u>22,416</u>
EXPENSES:	
Bank Service Charge	66
Franchise Expense	24,671
Freight Expense	43,088
Professional Fees	<u>15,000</u>
Total Expense	<u>82,825</u>
NET INCOME	<u>\$ (60,409)</u>

PALGONGTEA FRANCHISING LLC
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

Note 1 - Organization and description of business

Business

Palgong Tea Franchising LLC (the "Company") was formed on October 29, 2020 in the State of Illinois and is governed by its Operating Agreement. The Company was funded with \$150,000 capital contribution on April 16, 2021 by its parent, Palgong Tea USA, Inc., for purposes of filing its initial franchise disclosure document and selling Palgong Tea Franchising LLC franchises.

The Company is a limited liability company ("LLC") which will continue in existence subject to the terms and conditions of its Operating Agreement. The obligations of the member are limited to its capital contributions.

Note 2 - Summary of significant accounting policies

Basis of preparation

The financial statement is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash

The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000, per institution. As of December 31, 2021, the Company did not have any uninsured cash.

Income taxes

The Company elected income tax status as a limited liability company. Under this election, the Company is not subject to federal income taxes and all taxes and all taxable income is passed through to the member.

Use of estimates

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates and the differences could be material.

Subsequent events

The Company has evaluated subsequent events through December 31, 2021, which is the date the financial statement was available to be issued.

Note 3 - Contingent liabilities and commitments

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. As of December 31, 2021, the Company does not have any outstanding legal proceedings or claims. As of December 31, 2021, the Company has no lease obligations.

PALGONGTEA FRANCHISING LLC

**Balance Sheet
and Independent Auditor's Report
June 1, 2021**

PALGONGTEA FRANCHISING LLC
Financial Statements as of June 1, 2021

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B. H. WHANG AND ASSOCIATES, LTD.

ATTORNEYS AT LAW
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Member
PALGONGTEA FRANCHISING LLC

We have audited the accompanying balance Palgong Tea Franchising LLC as of June 1, 2021 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Palgong Tea Franchising LLC as of June 1, 2021 in accordance with accounting principles generally accepted in the United States of America.



B H Whang & Associates, Ltd.
Attorney at Law/Certified Public Accountants
June 2, 2021

BALANCE SHEET

AS OF JUNE 1, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 150,000
---------------------------	------------

Total Assets	\$ 150,000
---------------------	-------------------

MEMBERS' EQUITY

MEMBERS' EQUITY

Member's Capital	\$ 150,000
------------------	------------

Total Members' Equity	\$ 150,000
------------------------------	-------------------

Note 1 - Organization and description of business

Business

Palgong Tea Franchising LLC (the "Company") was formed on October 29, 2020 in the State of Illinois and is governed by its Operating Agreement. The Company was funded with \$150,000 capital contribution on April 16, 2021 by its parent, Palgong Tea USA, Inc., for purposes of filing its initial franchise disclosure document and selling Palgong Tea Franchising LLC franchises.

The Company is a limited liability company ("LLC") which will continue in existence subject to the terms and conditions of its Operating Agreement. The obligations of the member are limited to its capital contributions.

Note 2 - Summary of significant accounting policies

Basis of preparation

The financial statement is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash

The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000, per institution. As of June 1, 2021, the Company did not have any uninsured cash.

Income taxes

The Company elected income tax status as a limited liability company. Under this election, the Company is not subject to federal income taxes and all taxes and all taxable income is passed through to the member.

Use of estimates

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates and the differences could be material.

Subsequent events

The Company has evaluated subsequent events through June 1, 2021, which is the date the financial statement was available to be issued.

Note 3 - Contingent liabilities and commitments

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. As of June 1, 2021, the Company does not have any outstanding legal proceedings or claims. As of June 1, 2021, the Company has no lease obligations.

EXHIBIT G

FRANCHISEE DISCLOSURE QUESTIONNAIRE

FRANCHISEE DISCLOSURE QUESTIONNAIRE

As you know, PalgongTea Franchising LLC (the “Company”) and you are preparing to enter into a Franchise Agreement (and, if applicable, Development Agreement) for the operation of one or more “Palgong Tea Shops.” The purpose of this Questionnaire is to determine whether any statements or promises were made to you that the Company has not authorized and that may be untrue, inaccurate or misleading. Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have you received and personally reviewed the Palgong Tea Shop Franchise Agreement (and, if applicable, Development Agreement) and each exhibit attached to it?

Yes ____ No ____

2. Do you understand all of the information contained in the Franchise Agreement (and, if applicable, Development Agreement) and each exhibit attached to it?

Yes ____ No ____

If “No,” what parts of the Franchise Agreement (and/or, if applicable, Development Agreement) do you not understand? (Attach additional pages, if necessary.)

3. Do you understand that the success or failure of your business will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes ____ No ____

4. Has any employee or other person speaking on behalf of the Company made any statement or promise concerning the revenues or profits of a Palgong Tea Shop operated by the Company or its franchisees?

Yes ____ No ____

5. Has any employee or other person speaking on behalf of the Company made any statement or promise concerning a Palgong Tea Shop that is contrary to, or different from, the information contained in the Franchise Disclosure Document?

Yes ____ No ____

6. Has any employee or other person speaking on behalf of the Company made any statement or promise regarding the amount of money you may earn in operating a Palgong Tea Shop?
Yes ____ No ____
7. Has any employee or other person speaking on behalf of the Company made any statement or promise concerning the total amount of revenue a Palgong Tea Shop will generate?
Yes ____ No ____
8. Has any employee or other person speaking on behalf of the Company made any statement or promise regarding the costs you may incur in operating a Palgong Tea Shop that is contrary to, or different from, the information contained in the Franchise Disclosure Document?
Yes ____ No ____
9. Has any employee or other person speaking on behalf of the Company made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Palgong Tea Shop?
Yes ____ No ____
10. If you have answered “Yes” to any of questions five (5) through nine (9), please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.) If you have answered “No” to each of such questions, please leave the following lines blank.

You understand that your answers are important to us and that we will rely on them.

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

APPLICANT

Date: _____

EXHIBIT H

TABLE OF CONTENTS – OPERATIONS MANUAL

Palgong Tea Manual

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Total Number of Pages: 29

EXHIBIT I

ADDITIONAL DISCLOSURES/AGREEMENT RIDERS

**ADDITIONAL DISCLOSURES FOR THE
FRANCHISE DISCLOSURE DOCUMENT OF
PALGONGTEA FRANCHISING LLC**

The following are additional disclosures for the Franchise Disclosure Document of PalgongTea Franchising LLC required by various state franchise laws. Each provision of these additional disclosures will not apply unless, with respect to that provision, the jurisdictional requirements of the applicable state franchise registration and disclosure law are met independently without reference to these additional disclosures.

VIRGINIA

1. The following language is added to the end of the “Summary” section of Item 17(h), entitled “Cause” defined – non-curable defaults:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement do not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision might not be enforceable.

PALGONGTEA FRANCHISING LLC

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
Virginia	December 20, 2021, as amended _____

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.

Item 23

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 PalgongTea Franchising LLC offers you a franchise, it must provide this Disclosure Document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

If PalgongTea Franchising LLC 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 appropriate state agency identified on Exhibit A.

The franchisor is PalgongTea Franchising LLC located at 1625 North Milwaukee Avenue, Glenview, Illinois 60025. Its telephone number is (773) 600-6950.

Issuance Date: September 27, 2021, as amended July 29, 2022.

The franchise sellers for this offering are: John Park, Mike Choi and Jeremiah Park at 1625 North Milwaukee Avenue, Glenview, Illinois 60025, (773) 600-6950, and _____{complete only if applicable}.

We authorize the respective state agents identified on Exhibit A to receive service of process for us in the particular states.

I received a Disclosure Document from PalgongTea Franchising LLC dated as of September 27, 2021, as amended July 29, 2022, that included the following Exhibits:

Exhibit A	State Administrators/Agents for Service of Process	Exhibit F	Financial Statements
Exhibit B	Franchise Agreement and Principal Owner's Guaranty	Exhibit G	Franchisee Disclosure Questionnaire
Exhibit C	Site Selection Agreement	Exhibit H	Table of Contents – Operations Manual
Exhibit D	Development Agreement	Exhibit I	Additional Disclosures/ Agreement Riders
Exhibit E	Assignment and Assumption of Franchise Agreement		

Date

Prospective Franchisee [Print Name]

(Date, Sign, and Return)

Prospective Franchisee [Signature]

Item 23

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 PalgongTea Franchising LLC 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.

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Issuance Date: September 27, 2021, as amended July 29, 2022

The franchise sellers for this offering are: John Park, Mike Choi and Jeremiah Park at 1625 North Milwaukee Avenue, Glenview, Illinois 60025, (773) 600-6950, and _____ *{complete only if applicable}*.

We authorize the respective state agents identified on Exhibit A to receive service of process for us in the particular states.

I received a Disclosure Document from PalgongTea Franchising LLC dated as of September 27, 2021, as amended July 29, 2022, that included the following Exhibits:

Exhibit A	State Administrators/Agents for Service of Process	Exhibit F	Financial Statements
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Exhibit D	Development Agreement	Exhibit I	Additional Disclosures/Agreement Riders
Exhibit E	Assignment and Assumption of Franchise Agreement		

Date

Prospective Franchisee [Print Name]

(Date, Sign, and Keep for your Records)

Prospective Franchisee [Signature]