

**REQUIRED FRANCHISE DISCLOSURE ELEMENTS  
UNDER ENFORCEMENT DECREE OF THE KOREAN FRANCHISE ACT  
(AUGUST 2007 AMENDMENT)**

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*In August 2007 the Korean Franchise Act was amended, introducing a franchise disclosure-statement registration obligation, and expanding the scope of information required to be disclosed. The amended Franchise Act became effective February 4, 2008.*

*Disclosure made on or after February 4, 2008 shall include the elements described in this memorandum.*

*From August 4, 2008 all franchisors shall be obliged to register their disclosure statements with the Korea Fair Trade Commission (KFTC).*

*Disclosure made on or before August 3, 2008 shall not be required to be registered with KFTC, even if the franchise agreement shall not have been executed by that date.*

## **1. Required Statements and Warnings**

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The following matters shall be required on the cover of a Disclosure Statement:

- A. Korean-language label: Disclosure Statement (“정보공개서”)
- B. The sentences below:

*This Disclosure Statement contains comprehensive information regarding the Franchise Agreement into which you desire to enter, and about the relevant franchise business. You are respectfully requested to thoroughly understand the contents of such information and decide whether or not to enter into the Agreement.*

*According to the Fair Franchise Transactions Act, prospective Franchisees shall have a certain period of time for full review and*

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*consideration of contents of Disclosure Statement. Thus, the Franchisor can neither accept franchise fees from you nor enter into the Franchise Agreement with you until fourteen (14) days (if you are receiving advice from a lawyer or franchise transaction consultant, seven (7) days) from the receipt of this Disclosure Statement.*

*This Disclosure Statement only addresses matters prescribed by law. The Government has not ascertained the truth of all matters contained herein. Since the operation of your franchise business will be governed by the terms of the relevant franchise agreement, you should not solely rely on information contained in this Disclosure Statement.*

C. Franchisor's name (including trade names and corporate name), and location of principal office.

D. Disclosure Statement registration number and date of registration.

E. Date of last revision.

## 2. Information About the Franchisor

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A. Date of Franchisor's establishment (in case of a corporation, including the date of registration).

B. Contact details for Franchisor's "specially-related parties" and affiliates (specially-related parties refer to those as provided for in Article 11 of the Enforcement Decree of the Monopoly Regulation and Fair Trade Act (MRFTA) and affiliated companies refers to those enumerated in MRFTA Article 2, item 3).

C. Address of Franchisor's principal office in the Republic of Korea, if any, in cases where Franchisor is a foreign company.

D. If Franchisor has merged with or been acquired by other company in the three (3) years preceding disclosure, the name and trade name of such company and location of its principal office.

E. Name, trade name, service marks, and other Business Marks of the Franchise.

F. Balance sheet and income statement of Franchisor for the three (3) fiscal years preceding disclosure (if Franchisor did not prepare financial statements, documentary evidence to prove sales amount, such as written declaration of value-added tax, etc. under the Value-Added Tax Act, may be provided as substitutes).

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G. Biographical information (including various job positions and periods) of the Franchisor's current key officers (including officers as provided in MRFTA Article 2, item 5) for the past three (3) years, as of the date of disclosure.

H. Present status of officers and employees of Franchisor and its specially-related persons (including the number of officers and employees and the list of officers).

I. Track record of the Franchisor managing the same or similar business as the Franchise for the past three (3) years as of the date of information disclosure.

J. The following information on intellectual property rights authorized for Franchisee's use:

- (1) Whether a registration or an application for registration has been made;
- (2) Name of the holder of intellectual property rights and the applicant for registration; and
- (3) Expiration date(s) for intellectual property rights whose use is permitted.

### 3. Facts About the Franchisor's Business

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A. Commencement date of the Franchised business.

B. Total number of franchised units and directly-operated units of the relevant Franchise operating over the three (3) fiscal years immediately preceding disclosure.

C. The number of franchise businesses which opened, terminated or cancelled the agreement or changed its name in connection with the relevant Franchise for the three (3) calendar years preceding disclosure.

D. Type of business, business marks and a date of commencement of the franchise operated by Franchisor and its specially-related persons, etc., other than the Relevant Franchise, and the total number of franchise businesses and directly-managed shops of the franchise which are in operation as of the end of the three (3) business years preceding disclosure of information.

E. Average turnover per Franchisee during the preceding fiscal year (if the sales are not accurately calculated, the recorded amount should be clarified as the estimate of sales and marked with its upper and lower limit) and the total sales of all Franchisees.

F. Representative, trade name, address, telephone number, and district managed by regional headquarters in the business of the Franchise (including a case where Franchisor directly operates units), and the number of franchise businesses managed by such regional headquarters.

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G. Description of the activities of the franchisee association established by the Franchisor, if any (this element is required only where such association requests this description).

H. Details of franchisee damage compensation insurance policy or self-insurance scheme (if any).

- (1) Policy limits;
- (2) Premium-payment terms;
- (3) Claim procedures; and
- (4) Other necessary matters.

#### 4. Violations of Laws by Franchisor and its Officers

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A. Facts related to the issuance of any corrective order by the Fair Trade Commission due to a violation of the Fair Franchise Transactions Act and/or MRFTA in connection with Franchise transactions during the past three (3) years, as of the date of disclosure.

B. Violation of the Fair Franchise Transactions Act and/or MRFTA in connection with Franchise transactions, and a final and conclusive judgment on any loss of a civil lawsuit or civil settlement in respect of taking possession or fraudulently obtaining the property of others including, but not limited to, fraud, embezzlement or breach of trust during the three (3) years preceding the date of disclosure.

C. Convictions of officers in respect of any crime of taking possession of or fraudulently obtaining others' property including, but not limited to, fraud, embezzlement and breach of trust during the three (3) years preceding the date of disclosure.

#### 5. Franchisee's Obligations

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##### A. Pre-Opening Obligations

(1) Initial franchise fees: Any consideration that Franchisee is required to pay to Franchisor or a related party in order to commence or continue the Franchise (including renewals) including, but not limited to, initial payment, any deposit, first installment payment, prepaid rentals and payment for purchase of equipment regardless of how such consideration is described; conditions for refund of franchise fees and the reasons for non-refundability, if any;

(2) Consideration returned to Franchisee upon termination of the Agreement, such as a security or guarantee deposit (if not refundable, the reasons for non-refundability should be stated);

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- (3) Details of any franchise guarantee deposit required, if any;
- (4) Estimates of Franchisee's required start-up expenses other than initial franchise fees (such estimates should be listed by location and size of units):
  - (a) Rent;
  - (b) Cost of required equipment, fixtures, remodeling and interior decoration;
  - (c) Initial inventory costs;
  - (d) Additional financial costs (basis for estimates thereof and business practices of the same industry, etc. should be stated); and
  - (e) Other necessary expenses.
- (5) Name of officer responsible to approve locations, and standards for approval of locations (if Franchisor exercises control over locations);
- (6) Standards for training of Franchisee and its employees; and
- (7) Details of items, such as facilities, equipment, fixture and initial inventory, which are necessary for operation of Franchise businesses and the written explanation concerning supply methods, suppliers and terms and conditions of sale

B. Obligations During the Term

- (1) Details of all consideration that Franchisee is required to pay to Franchisor or its related party on a regular or irregular basis in order to engage in the Relevant Franchise including, but not limited to, trademark use fees, lease fees, advertisement fees, guidance and training fees, sign rentals, renewal fees, remodeling costs, transfer and acquisition costs, inventory and accounting operation costs; refund conditions and the reasons for non-refundability, if applicable (per item); and
- (2) Details of Franchisor's supervision of Franchisee, if any, in connection with accounting operation and inventory management.

C. Post-Termination Obligations

- (1) Fees and costs to transfer the franchise business to a third-party
- (2) Non-competition covenants

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D. Operation system, such as Point-of Sale (POS) system (if the system was not built, such fact should be stated).

- (1) Franchisee's cost contribution to establishment of the system;
- (2) Costs for repair, maintenance and improvement of the system which are required on a regular basis;
- (3) Costs for repair, maintenance and improvement of the system of Franchisor and Franchisee; and
- (4) Description of information which Franchisor obtains through the system, plans on how to use such information and procedures for obtaining consent of Franchisee.

## 6. Conditions of and Restrictions on Operating Activities

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A. In cases where Franchisor requests or recommends Franchisee to make transactions with a certain transaction counter-party (including the Franchisor) with regard to the purchase or rent of any and all real estate, services, equipment, goods, raw materials or auxiliary materials required for the Franchisee to commence or engage in a Relevant Franchise, the items subject to transactions with such counter-party (to divide the items into those directly supplied by the Franchisor and the specific transaction counter-party with the exception of any Franchisor engaging in the retail business) shall be explained.

B. In the event that Franchisor orders or helps Franchisee to transact with certain transaction counter-party and then receives consideration from such transaction counter-party or Franchisee in return, calculation standards and amount of such consideration shall be explained (if the amount cannot be accurately calculated, the reported figure should be stated as an estimate with an upper and lower limit).

C. In cases where Franchisor directly provides credit to any Prospective Franchisee or Franchisee, or makes arrangements for provision of credit by various financial institutions, the specific conditions and amount of such credit shall be explained.

D. In cases where goods or services, transaction counter-parties and Franchisee's pricing are restricted, the details thereof shall be explained:

- (1) Details of restrictions if it is necessary to impose such restrictions on Franchisee for sale of only designated goods or services;
- (2) Details of restrictions on the sale of goods or services to certain transaction counter-parties of Franchisee, if necessary; and

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(3) Details of restrictions if Franchisee is recommended prices of goods or services to be sold or if Franchisee needs to negotiate with Franchisor before deciding or changing sales prices.

E. Details on protected territory:

- (1) Whether or not a protected territory is offered;
- (2) Standards for establishing the territory, any possibility of change of the business area and reasons for such change;
- (3) If Franchisor may change the territory, the procedures for notifying Franchisee in advance of such rearrangement and the details on how to obtain Franchisee consent;
- (4) Restrictions on Franchisee's sale of goods and services to customers in the area other than the territory granted by Franchisor; and
- (5) Other matters concerning territory.

F. Details of the term, renewal, extension, termination, cancellation and modification of the Franchise Agreement.

- (1) The term of the Franchise Agreement (it includes renewed period. If there are several periods, such periods should be all listed);
- (2) Reasons for renewal of or refusal to renew the Agreement;
- (3) Reasons for termination or cancellation of the Agreement and the procedures therefor (rights of Franchisor and Franchisee should be listed); and
- (4) Reasons for modification of the Agreement, whether or not to give a prior notice thereof and procedures for obtaining Franchisee's consent.

G. Details of the repurchase, transfer, accession and representation of Franchise Management Rights, non-competition, limitation on business hours and management and supervision of Franchisor, etc.

- (1) Procedures necessary for repurchase and transfer of the Franchise Management Rights;
- (2) Whether or not the Franchise will be managed by a designated agent, and if so, the requirements for such vicarious management;
- (3) Scope of non-competition covenants required from Franchisee;

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- (4) Matters regarding limitation on business hours and the number of business days, etc.;
- (5) The number of employees which Franchisee should hire and whether Franchisee shall personally be required to work as management of the unit; and
- (6) Whether Franchisor manages or supervises the business place of Franchisee, and the items managed or supervised by Franchisor.
- (7) Sales promotion and advertisement activity:
  - (a) Performance results (including measures and zone for sales promotion and advertisement) of annual sales promotion and advertisement of Franchisor for the fiscal year immediately preceding date of disclosure;
  - (b) Standards for cost-sharing between Franchisor and Franchisee; and
  - (c) Required terms and conditions for Franchisee's own sales promotion and advertisement, if any.

## 7. Start-Up Procedures and Timeline

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- A. All necessary procedures (including escrow institution, methods and procedures of escrowing franchise fees) for consultation & negotiation on the conclusion of the Franchise Agreement and for the commencement of franchise business;
- B. Time required for each procedure (the possibility of extension of the period and the reasons therefor should be stated. If such period cannot be accurately calculated, the reported figure should be stated as an estimate accompanied by an upper and lower limit).
- C. Expenses required for each procedure (details of expenses should be stated according to each procedure. If the amount cannot be accurately calculated, the reported figure should be stated as an estimate accompanied by an upper and lower limit).
- D. Procedures for settlement of disputes which may arise after the conclusion of the Franchise Agreement.

## 8. Education/Training Programs (if there is no education and training, the fact of such lack of education or training should be stated).

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- A. Major details of education/training (group lectures and actual training should be divided) and whether or not such education/training are compulsory.

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B. Minimum time of education/training provided to Franchisee.

C. Costs of education/training borne by Franchisee.

D. Parties to which education/training should be given (if delegees or employees are permitted or required to attend training, such fact should be stated).

E. In case of education/training to be given on a regular and compulsory basis, if Franchisee does not attend such education/training, any disadvantageous measure to be taken from Franchisor against such Franchisee.