Administration Rules on Commercial Franchise Information Disclosure

Decree of the Ministry of Commerce 2007 No. 16

Article 1 Pursuant to the relevant provisions of the Administration Regulations on Commercial Franchises (hereinafter, the "Franchise Regulations"), for the purpose of safeguarding the legal benefits of franchisors and franchisees, these Rules are formulated.

Article 2 These Rules are applicable to commercial franchise activities carried out in the People's Republic of China.

Article 3 Reference to an affiliate means the franchisor's parent company, the franchisor's subsidiaries in which the franchisor owns, directly or indirectly, the whole or the majority of the equity interests, and companies in which the whole or the majority of the equity interests are owned, directly or indirectly, by a shareholder who also owns, directly or indirectly, the whole or the majority of the equity interests in the franchisor.

Article 4 The franchisor shall, pursuant to the requirements set forth in the Franchise Regulations, at least 30 days prior to the conclusion of the franchise contract, disclose to the franchisee in written form the information specified in Article 5 hereof, and provide the franchise contract.

Article 5 Information to be disclosed by the franchisor shall include the following twelve items:

(1) Basic information of the franchisor and the franchise activities.

1. The franchisor's name, mail address, means of contact, legal representative, general manager, amount of registered capital, business scope, and the quantity, addresses, and telephone numbers of existing directly operated outlets.
2. Overview of the commercial franchise activities of the franchisor;
3. Basic information in the franchisor's filings;
4. Where an affiliate of the franchisor supplies products or services to the franchisee, the basic information of such affiliate;
5. Any information regarding the bankruptcy or application for bankruptcy of the franchisor or its affiliates over the last five years.

(II) Basic information of the franchisor's possession of operational resources.

1. The franchisor shall elucidate to the franchisee in writing the available information on the registered trademark(s), enterprise logo, patent(s), know-how, operation mode, and other operation resources;

2. Where the owner of the operational resources listed above is an affiliate of the franchisor, the basic information of such affiliate should be disclosed. The franchisor shall simultaneously specify how it will handle the franchise system in the case that the authorization contract with such affiliate is terminated.

3. Information regarding any litigation or arbitration which has occurred in relation to the franchisor's (or its affiliates') registered trademark(s), enterprise logo, patent(s), know-how and other operation resources.

(III) Basic information regarding franchise fees.

1. The categories, amounts, standards, and payment methods of the fees collected by the franchisor for itself or on behalf of third parties. Where the information cannot be disclosed, the franchisor must give an explanation. Where different amounts of franchise fees apply among franchisees, the franchisor shall disclose the maximum and minimum amounts of such fees;

2. The conditions for the collection and return of guarantee funds, and the time and method of return of guarantee funds.

3. Where the franchisee is required to pay any fees before the conclusion of the franchise contract, the franchisor shall specify in writing to the franchisee the purpose of use of such fees, as well as the conditions and method for the return of the same.

(IV) Prices and conditions of products, services and equipment to be supplied to the franchisee.
1. Whether the franchisee must purchase products, services or equipment from the franchisor (or its affiliates), and the relevant prices, terms, etc.

2. Whether the franchisee must purchase products, services or equipment from suppliers designated (or approved) by the franchisor.

3. Whether the franchisee may choose other suppliers, and the qualification requirements on the suppliers.

(V) Continuous services to be provided to the franchisee.

1. The specific contents, method of provision and implementation plan, including locations, methods and duration of the training.

2. The specific contents of technical support, and description of the table of contents and relevant page numbers of the franchise operation manual.

(VI) Specific method and contents of guidance and supervision on franchisee's operation.

1. The method and contents of the franchisor's guidance and supervision on the franchisee's operation, and the obligations that the franchisee must fulfill as well as the consequences resulting from the franchisee's failure to fulfill such obligations.

2. Whether the franchisor will bear joint and several liability for customer complaints. If so, how.

(VII) Investment estimate of franchise stores/outlets.

1. The investment estimate may include the following expenses: franchise fees; cost of training; real estate property and decoration expenses; expenses for equipment, office appliances, furniture, etc.; initial inventory; fees for water, electricity and gas; expenses for obtaining license(s) and other governmental approval(s); start-up working capital.

2. The source of data and the basis of estimation of the above expenses

(VIII) Relevant information of the franchisee(s) within China.
1. Number, geographic distribution and the authorized franchise scope of existing and anticipated franchisees, and whether they have any exclusive franchising rights (if any, specify the specific area expected to be covered).

2. Appraisal of the operation of franchisees. The franchisor shall disclose the franchisees' actual or estimated average sales volume, cost, gross profit, net profit, and simultaneously explain the source of the aforesaid information, time span, franchise stores/outlets concerned, etc. If such information is an estimate, the franchisor shall explain the basis of such estimate, and explicitly warn potential franchisees that the actual operating circumstances may be different from the estimate.

(IX) Abstract of financial accounting report and abstract of auditing report of the past two years that have been audited by an accounting firm or an auditing firm.

(X) The franchisor's material litigation and arbitration in the past five years related to the franchise activities.

1. Material litigation and arbitration refer to litigation and arbitration involving 500,000 Renminbi or more; and

2. The franchisor shall disclose basic information, venue and result of such litigation.

(XI) Record(s) of material illegal operation of the franchisor or its legal representative. A record of material illegal operation refers to (1) the imposition of a fine by the relevant authority in charge of administrative enforcement of law in an amount no less than 300,000 Renminbi and no more than 500,000 Renminbi; and (2) the imposition of a criminal liability.

(XII) Franchise contract text

1. Sample of franchise contract;

2. Where the franchisor requires the franchisee to enter into with the franchisor (or its affiliate) any other contract related to the franchise, a
sample of such contract should be provided at the same time.

Article 6 The franchisor may not conduct advertising and promotion acts of a fraudulent or misleading nature, and the advertisements published by it may not contain content publicizing the profits obtained by a single franchisee when engaging in the franchise activities.

Article 7 Before disclosing information to the franchisee, the franchisor shall be entitled to request the franchisee to enter into a confidentiality agreement with the franchisor.

Article 8 After the franchisor discloses information to the franchisee, the franchisee should issue a receipt (in two counterparts) to acknowledge the content of the information obtained from the franchisor. Two counterparts of the receipt should be both signed by the potential franchisee, one of which will be retained by the franchisee, and the other of which will be retained by the franchisor.

Article 9 Where the franchisor conceals information that should be disclosed or discloses false information, the franchisee may terminate the franchise contract.

Article 10 Where the franchisor violates a provision of these Rules, the franchisee has the right to report to the competent commercial administration authority. Upon verification, the competent commercial administration authority may order correction, and impose a fine of no less than 10,000 Renminbi and no more than 50,000 Renminbi; where the violation is serious, a fine of no less than 50,000 Renminbi and no more than 100,000 Renminbi may be imposed, and a public announcement may be made.

Article 11 These Rules will be interpreted by the Ministry of Commerce of the People's Republic of China.

Article 12 These Rules will be implemented as of May 1, 2007.