



F.M.K. FRANCHISE SYSTEMS LIMITED.

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First Millennium Keratin

HAIR STRAIGHTENING SALON

GREETINGS, WELCOME AND

Thank you for your interest in the F.M.K. franchise opportunity. This document explains some of the key elements of the F.M.K. franchise proposition.

In this document you will learn about F.M.K. - our history and background and the operations of our franchise system - what we provide our franchisees with and what you, as a franchisee, can expect to gain by being a part of the F.M.K. network. We also provide some information about franchising in general.

If, after reading this document, you would like to be considered as an F.M.K. franchisee, you will be asked to complete our Franchise Application and Background Statement and sign a Confidentiality Agreement.

After assessing your application and meeting with you so we can get to know each other, if mutual interest continues you will be supplied with the F.M.K. Franchise Disclosure Document.

The Disclosure Document conforms to the Franchise Association of New Zealand's standards provides detailed information about the franchise opportunity, including the investment involved and the potential returns.

After you have reviewed the Disclosure Document, you will be provided with the F.M.K. Franchise Agreement. The Franchise Association of New Zealand requires that you have a lawyer explain your obligations under the terms of the agreement, and have them sign a certificate to that effect. We also recommend that you consult your accountant about the financial aspects of investing in an F.M.K. salon.

Please take time to consider the information in this document carefully. We believe the F.M.K. is a great opportunity for you to take charge of your future by developing your own successful F.M.K. salon, and we welcome the chance to discuss this with you. If you require any further information or have any questions, please call Elnaz on 021573669.

ABOUT KERATIN

Keratin is a naturally occurring protein that is found in nails, skin and hair. Keratin is extracted from sheep's wool and has become a common cosmetic ingredient. Studies have shown the application of keratin gives significant increases in skin elasticity and hydration. ¹

More recently keratin has been used as a hair straightening treatment because, unlike chemical strengtheners, keratin is actually good for your hair. In fact, keratin is great for people's hair.

Unlike chemical treatments, keratin revitalises hair and lasts for up to six months. As a naturally occurring protein, keratin is a sustainable and renewable resource.





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ABOUT THE MARKET

Last year New Zealanders spent over half a billion dollars ⁱⁱ at the hairdresser. How much was spent on hair straightening? We don't know. What we do know is that based on our own experience, the demand for keratin is growing rapidly. In December 2013, F.M.K. employed just one stylist; by March 2014 we employed four keratin stylists and are struggling to keep pace with the demand.

We also know that keratin is a relatively new and at times misunderstood product with clients (and even hair professionals) not knowing how long the process takes (on average two hours, not six hours as some would tell you), and that prices range from \$89.00 to \$700.00 per treatment, and that keratin can be used not just to straighten hair, but also in milder doses to condition hair and remove the dreaded frizz.

We are confident that as people know more about keratin and understand that it is not as expensive or time consuming as they have been told the market will continue to expand.

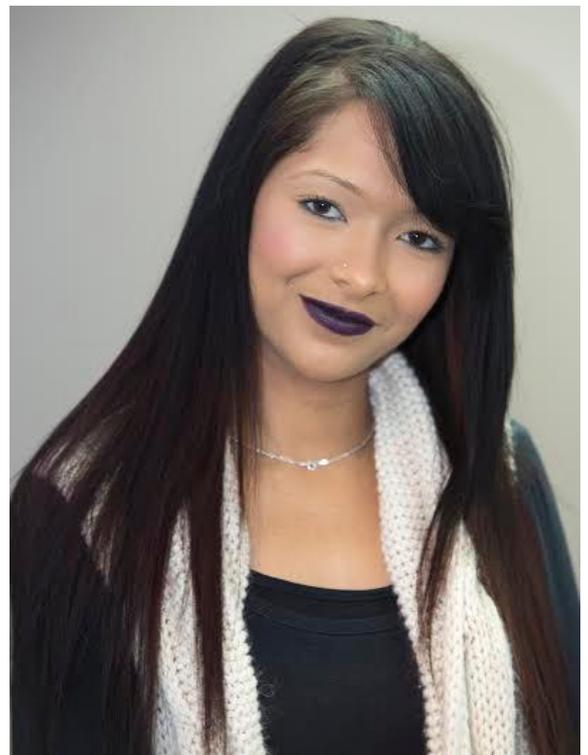
ABOUT F.M.K.

First Millennium Hair Design was founded in 2005 and established itself as a busy and successful hair dressing salon in Onehunga, Auckland.

The F.M.K. concept evolved out of First Millennium Hair Design. In early 2011, our founder, Elnaz Jahanrakshan heard about keratin and decided to try keratin on her own hair. Elnaz experimented with different products and techniques and had tried every product in the market before picking the one she felt worked the best on her own hair. Having lived with frizzy, curly hair all her life and then having silky smooth, straight, healthy-looking hair was a dream come true.



Before



After



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Elnaz loved the treatment so much that she just knew that other women would love it too. Elnaz started to think about the commercial applications for keratin and started to research the market - how to source the right products, the best application method, after-treatment care and products and most importantly what price points and promotional tools will work in the New Zealand market?

Based on the knowledge that Elnaz had acquired, First Millennium Hair Design started doing keratin treatments in May 2011, and business boomed.

Business boomed because the price was right and the promotional channels worked, but most importantly because F.M.K. are really good at what they do. Not only do F.M.K. provide a great keratin treatment, using the best products and application techniques but they delight their clients. Many clients are repeat clients or clients who have been referred by their friends and family. We even have a number of hairdressers who recommend that their clients visit F.M.K. for a keratin treatment.

Some of our competitors (yes we do have a few) come to F.M.K. to learn from the experts.



Today, F.M.K is the busiest keratin salon in New Zealand.



The level of demand for keratin, plus higher levels of profitability has meant that the entire business is now based on keratin treatments with no time left for traditional hairdressing. The other great thing about keratin treatments is that our stylists do not need to be qualified hairdressers, so we are able to draw from a larger pool of potential employees.



In early 2014, Elnaz engaged the services of Franchise Consultants (NZ) Limited ⁱⁱⁱ to assess and advise on the development of a franchise system based on the F.M.K. business model. Their findings and recommendations has resulted in where we are today, being able to offer the opportunity to join the world's first keratin salon franchise system.



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ABOUT ELNAZ

Elnaz discovered her passion for hairdressing in her father's barber shop. She also learnt a lot about what it takes to run a successful business from this inspiring man.

Having moved to New Zealand from Tehran with her family at the age of 5, Elnaz enrolled at the Cut Above Hair Dressing Academy at age 15. Having qualified as a stylist, she worked in a salon to build up her clientele over the next few years before taking the plunge to start her own business, First Millennium Hair Design, in her early 20s.



Locating the right site and project-managing the process of council consent, design and layout of the salon, through to contracting and overseeing tradesmen gave Elnaz invaluable first-hand experience. For the next few years she worked alone to build up her business

before taking the next step of employing staff.

In 2011, Elnaz discovered keratin, and the rest is history.

ABOUT FRANCHISING

Compared to starting a business from scratch - investing in a franchise is quite different. As a franchisee, you are neither a partner nor involved in a joint venture with F.M.K. You are an entirely independently owned and operated business.

It is your business, but you are licensed to use the F.M.K. keratin application techniques and methods, the F.M.K. systems, brand, trademarks, and access our intellectual property that has been developed to assist franchisees to operate a profitable F.M.K. franchise.

Under the F.M.K. franchise system, we only benefit when you are successful, so it is in our interest to help you to establish, operate, and expand your business.

As a franchisee, we will show you how you can use the F.M.K. system to develop your own profitable F.M.K. salon. We provide you with comprehensive initial training and practical ongoing support.





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AN F.M.K. franchise provides you with all the benefits of owning your own business, with the added advantage of belonging to a network where ongoing support and assistance is provided. Remember, our success is your success.

The F.M.K. franchise system involves the franchisor (F.M.K. Franchise Systems Limited) granting you the right to operate an F.M.K. salon as an independently owned and operated business.

In exchange for granting these rights, franchisees are required to pay the franchisor an Initial Franchise Fee or Premium for the right to use the franchisor's intellectual property, an Initial Training Fee plus an ongoing franchise fee or royalty to cover the ongoing support services provided.

Under the F.M.K. model, franchisees are also required to contribute to a central marketing fund and spend a percentage of their projected sales on local area marketing to promote the business at a local / community level. During the first year's trading, franchisees are also required to make a one off investment as a promotional launch.

You need to consider these costs with the benefits of joining the F.M.K. franchise system, as outlined below.

Because you are reading this document, we know that you are thinking about owning your own business. You may be asking:

- ◆ What sort of business suits my financial and lifestyle aspirations?
- ◆ What qualifications do I need?
- ◆ What sort of training do I need?
- ◆ Is there any money in it?

- ◆ Where should I locate?
- ◆ What size premises do I need?
- ◆ Mall or strip shop location?
- ◆ What rent can the business afford?
- ◆ How am I going to finance the business?
- ◆ How much working capital do I need?
- ◆ What should my Gross Profit be?
- ◆ How do I promote the business?
- ◆ How much do I need to spend on promotions?
- ◆ What systems do I need?
 - Booking system?
 - Accounting software?
 - Payroll?
 - Customer Relationship Management software?
- ◆ Do I need a business plan?
 - If so, what do I need to cover?
- ◆ Who can I turn to if I need advice - Someone who really understands my business?

If this describes some of your thoughts, consider the benefits of joining the F.M.K. team. We have proven the concept, we have learnt from our experience, improving and refining our systems and processes developing F.M.K. into a robust franchise system.



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OUR BENEFITS

There are a number of benefits that you should consider when assessing the F.M.K. franchise offer. These are summarised as:

BUSINESS SYSTEM

By investing in an F.M.K. franchise, you are investing in the rights to operate your own F.M.K. salon and also our business system which includes our proven promotional tools, our application techniques, our systemised client service standards, and our proprietary web based client booking system.

Our franchise system design and the franchise support services provide by F.M.K. empowers franchisees with the potential to generate significant personal and financial rewards.

INITIAL TRAINING

We regard your initial training as being critical to your ongoing success as an F.M.K. franchisee and provide a three tiered initial training and induction programme for all our franchisees. The first tier examines the technical aspects of keratin and the correct application and post treatment management and recommended products. As you begin to master the application techniques, we will also be focusing of delivering service excellence - "The F.M.K. way."

The third tier of your initial training looks at how to operate an F.M.K. salon from a business perspective, and includes:

- ◆ How do I get clients?
- ◆ How do I keep clients? (The F.M.K. way.)
- ◆ How do I promote the business?
- ◆ How do I develop relationships with key referral partners?

- ◆ When do I need to employ additional stylists?
- ◆ What personal qualities do they require?
- ◆ How do I recruit, train and motivate them?

All franchisees are required to attain minimum standards of operational excellence and business understanding before opening an F.M.K. salon.

At the conclusion of your initial training you will know what is required to operate a successful F.M.K salon and be focused, enthusiastic and ready to excel as an F.M.K. franchisee.

ESTABLISHMENT ASSISTANCE

We will assist you in identifying a suitable premises and we will take care of organising its fitout and equipment requirements.

During your initial training we will help you develop a local area marketing plan and budget, so that when you open your doors you can expect strong local interest in your business.

Our experience clearly shows the importance of repeat clientele so it is important that when you start your business you have enough first time clients who will become repeat clients and even better advocates for your business. You may only have one chance to impress - so we will be doing everything that we can to help you be amazing.

We also commit to spending extra time with you at the salon during your first two weeks of trading - providing any additional training or guidance that you may need to make your business a complete success.



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Thereafter, F.M.K. staff will continue to monitor your success through our ongoing franchisee support programme.

ONGOING SUPPORT

F.M.K. is committed to provide the system, support and advice to allow you to maximise sales at your salon. Each franchisee contributes Key Performance Indicator data, which are benchmarked and shared within the group, facilitating the dissemination of quality management information.

Each franchisee develops an annual business and marketing calendar to assist in the effective management of the business, receives regular field visits, and has access to F.M.K. staff as required.

INTERDEPENDENCE

At F.M.K., we offer the benefits of owning your own business plus the additional advantages of a mutual support network where you are proactively encouraged / mentored to succeed.

Operating your own business can be stressful at times. Who can you turn to for advice and encouragement? We understand the mechanics of developing a successful and rewarding business and can help you to overcome any challenges you may encounter. Remember, our success relies on your success and we are only a telephone call or email away.

Franchisees will also enjoy the networking opportunities at the Annual F.M.K. conference and regional meetings, mixing with people who are in the same business as you, but are not your direct competitors.

BRAND EQUITY

Possibly the only means to develop a sustainable source of competitive advantage is by investing in the value of a brand. Investing in an F.M.K. franchise automatically entitles you to the use of our signature branding and the ability to leverage the value of the brand through coordinated local marketing initiatives. Research indicates that consumers prefer to use a known brand, rather than an independent operator.

No single operator has the financial resources to match the combined brand development expenditure (and therefore reap the economies of scale) of a franchised network.

RESALE VALUE

Evidence suggests that a franchised business sells for a higher resale price than a non-franchised independent business. When it comes time to exit the business, you should receive a higher price for your business than if you are an independent operator.

PROFESSIONAL ASSISTANCE

Unlike some franchise systems, where a potential "franchisor," takes an existing business and "franchises," it (often not fully understanding what they are letting themselves in for), F.M.K. have invested time and financial resources in using Franchise Consultants (NZ) Limited to assess and advise in the development of the F.M.K. franchise system.

The F.M.K. franchise is based on an existing model that has been professionally developed into a franchise system that meets the Franchise Association of New Zealand membership criteria.



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FRANCHISING - A SYSTEM BUILT ON SUCCESS

Successful franchises are ones where clearly defined benefits (both financial and non-financial), are enjoyed by franchisees so that they are better off as a result of being a part of a franchised network, than operating as an independent operator.

The franchisee / franchisor relationship is a commitment from both parties to mutually help each another. Franchising is a proven business system built on open and honest communication between independent business owners sharing common goals.

The core of a successful franchise is a clear understanding of both parties' roles and obligations as described in the Franchise Agreement.

The following provides a summary of these roles and obligations. Further detail is contained in the F.M.K. Franchise Disclosure Document and the F.M.K. Franchise Agreement. Both documents will be made available to you once your Franchise Application and Background Statement has been reviewed, and we wish to proceed with your application.

ROLES AND OBLIGATIONS

F.M.K. ROLES OBLIGATIONS

Our roles and obligations include:

- ◆ Granting a licence to use of our intellectual property
- ◆ Providing Initial Training
- ◆ Approving a suitable location for your salon
- ◆ Arranging fitout and equipment requirements

- ◆ Providing ongoing assistance, including -
 - Performance monitoring
 - Regular salon visits
 - Annual conference
 - Ongoing training
- ◆ Ensure system compliance across the group
- ◆ Coordinated group marketing initiatives.

FRANCHISEE ROLES AND OBLIGATIONS

In return, your roles and obligations can be summarised as:

- ◆ Performing pre-commencement activities required to operate the business including:
 - Seeking independent legal advice
 - Completing initial training to a level that meets our approval
 - Securing an F.M.K. approved premises
 - Purchasing (or leasing) all equipment required to operate the business
- ◆ Performing ongoing activities including:
 - Proactively manage and develop the business to achieve business plan targets
 - Follow the F.M.K. standards, policies and application methods and procedures including:
 - Application techniques
 - Employing suitable therapists to cope with



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increased demand in your salon

- Training staff
- Ensuring client satisfaction
- Promoting only F.M.K. approved products and services
- Provide the full F.M.K. service offer
- Participate in all national / regional promotions
- Maintain the premises and equipment to current F.M.K. image / standards / specifications
- Develop and execute an annual business and local area marketing calendar for F.M.K. approval
- Maintain information flows (reports, records etc.) as required by F.M.K.

presentation and enjoy working in a client focused, busy salon.

AM I ABLE TO OPERATE UNDER SOMEONE ELSE'S GUIDELINES?

As a franchisee, you will be working within a clearly defined set of procedures and codes of business. Whilst it is your business, you are obligated to adhere to the F.M.K. application methods, service standards, products and promotional methods.

Although you will own your own business, you will not be free to run it however you wish, but rather be subject to our rules - for example following our application methods and techniques, promoting only F.M.K. approved products and services, participating in group promotions.

AM I FULLY COMMITTED TO SUPPORTING AND FOLLOWING THE SYSTEM?

Under the terms of the Franchise Agreement, you are legally obligated to follow the F.M.K. application methods and franchise system. No ifs, buts or maybes.

WHAT ARE THE HOURS OF OPERATION?

Client bookings are usually between 8.00 in the morning with the last booking at 5.30 - Monday to Friday. Saturdays start at 8.00 in the morning with the last booking taken at 12.30 in the afternoon.

We expect that your salon will operate the same hours.

HOW WILL I SPEND MY DAY?

Whilst every day is different, there should be a degree of structure to your day. Franchisees will typically spend their day meeting and greeting clients, applying treatments, taking / confirming bookings, supervising stylists and ensuring an overall great client service experience.

FREQUENTLY ASKED QUESTIONS

Before considering taking the F.M.K. franchise opportunity any further, it is worthwhile for you to take the time to consider if franchising, specifically the F.M.K. franchise system is indeed the right option for you.

Please consider the following points carefully before deciding to continue:

WHAT SORT OF QUALIFICATIONS DO I NEED?

At F.M.K. we are more interested in you as a person rather than your qualifications. Successful applicants will have ambition and drive, enjoy connecting with people, have a high standard of personal



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HOW CAN I GROW MY BUSINESS?

As a part of your initial training, we will be discussing a number of proven promotional options for your business and help you develop a launch plan and budget to ensure that your new business gets off to a good start.

The best way that you can grow your business is by following the system that has been proven over time. Satisfied clients are always followed by personal and financial rewards.

As demand increases in your salon, you will need to employ therapists to provide additional capacity and give you some flexibility in your business. The exact timing of when you will need to employ staff will vary from salon to salon and on how you wish to structure your business and we expect that you will need to start to thinking about employing staff sooner rather than later.

We will be able to guide you as to what staffing structure will work best for your business.

IF I AM THINKING ABOUT GOING INTO BUSINESS, WHY SHOULD I CONSIDER WITH A FRANCHISE?

Research has indicated that a franchise business has a greater chance of success (survival) than a non-franchised equivalent. Also, when it comes time to sell your business, the evidence suggests that you will get more goodwill if you are a part of a franchise rather than an independent operator.

We have developed the systems based on our experience to help you build your own successful business.

IS F.M.K. RESPONSIBLE FOR MY SUCCESS?

You will receive a great deal of support from F.M.K., but your success ultimately

depends on your own commitment and drive.

It is in our best interests for you to do well and your individual success will be positive for the entire group. You can expect us to provide a high level of support, advice, and encouragement, but at the end of the day, it is your business.



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THE NEXT STEPS

If this document excites your imagination, we would love to hear from you, otherwise, thank you for your interest in F.M.K. and please accept our best wishes for your future

If you wish to apply for a franchise, please complete the F.M.K. Franchise Application Form and Background Statement and Confidentiality Agreement return it to us.

On receipt of your application, we will assess your suitability and hopefully arrange a time to meet with you to discuss the F.M.K. franchise opportunity in detail.

At that meeting we will be able to share with you specific investment detail, provide a copy of our Franchise Disclosure Document and Franchise Agreement and show you a copy of our franchisee management manuals which document our franchise system, standards and procedures.

If, after that meeting mutual interest continues, you will need to consult your professional advisors about the F.M.K franchise opportunity.

If you have any questions, please feel free to contact Elnaz on 021 573669.

ⁱ Reference: Barba C, Méndez S, Roddick-Lanzilotta A, Kelly R, Parra JL, Coderch L. (May 2008). "Cosmetic effectiveness of topically applied hydrolysed keratin peptides and lipids derived from wool." *Skin Research & Technology*.

ⁱⁱ The New Zealand Hairdressing Report 2014

ⁱⁱⁱ Franchise Consultants (NZ) Limited - Franchise Association of New Zealand Service Provider of the Year 2006, 2008, 2010 / 2011, 2012/2013 www.franchise.biz