



ENAGIC (MALAYSIA) SDN BHD

Company No.: 971103-W

Direct Sales License No.: AJL931978

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www.enagic-my.com

Policies and Procedures

ENAGIC INTERNATIONAL

For Malaysia Distributor Use

NOTE:

Please read this Policies and Procedures carefully before executing the Distributor Agreement to act as distributor of Enagic (Malaysia) Sdn Bhd.

Kindly be informed that distributors are prohibited from selling bottled Kangen Water™ or any other water in any form produced from Enagic (Malaysia) Sdn Bhd's water purifying machines as stated in Clause 14 (Prohibition of Sales of Kangen Water) of this Policies and Procedures. All distributors are also not permitted to carry out any acts which are prohibited by this Policies and Procedures. Distributor who fails to adhere to this Policies and Procedures shall face disciplinary actions and shall indemnify and hold Enagic (Malaysia) Sdn Bhd harmless from and against any claims, causes of action, administrative proceedings, losses and damages due to the said breach of the Policies and Procedures as stated in Clause 40 (Disciplinary Actions) and Clause 55 (Indemnification and Hold Harmless) of this Policies and Procedures. Enagic (Malaysia) Sdn Bhd reserves the right to terminate the membership of the distributor who fails to adhere to this Policies and Procedures with immediate effect without the need to provide any justification for such termination.

1. The Company, Company Policies and Procedures and Distributor's Handbook

- 1.1 Enagic (Malaysia) Sdn Bhd (the "Company") is a direct selling company marketing health and other consumer products and services to consumers through independent distributors.
- 1.2 The Company Policies and Procedures (collectively the "Company Policies") herein are applicable to all independent distributors of the Company. Further, the published Enagic Distributor's Handbook (the "Handbook"), as amended and published from time to time, is incorporated as a part of the Company Policies and the Distributor Agreement (collectively the "Agreement").

2. Distributor Qualifications

- 2.1 The A person(s) who has/have submitted an application for distributorship and whose application has been accepted by the Company by way of a duly completed Agreement between the Company and the person(s) is a Distributor.
- 2.1 The Company reserves the right and at its sole and entire discretion to accept or refuse all distributorship applications.
- 2.2 Only persons who have attained the age of majority in Malaysia of **eighteen (18) years** may be appointed as Distributors. Unless waived in writing by the Company upon application, the Company will consider each married couple as a single distributor. Husbands and wives may sponsor each other directly, but may not be sponsored in different lines. If the Company finds that the second spouse was sponsored in a different line by any reason after the initial spouse was sponsored, the Company reserves the right to change the status of a spouse from a distributor into a user, or transfer the distributorship of a spouse into his or her upline distributor. If a spouse is already a distributor, the non-participating spouse may elect to become a distributor, but must join the same distributorship as his or her spouse, or be directly sponsored by his or her spouse. The Company reserves the right to reject any applications for new distributorships. Should a husband/wife distributor divorce, they should notify the Company as to how the distributorship is to be managed thereafter. Otherwise, the Company will recognize the final judicial or adjudicatory disposition of the distributorship. When an existing distributor is willing to open the second or third distributorship, this account has to be opened under his existing account. Distributors are independent marketing representatives of the Company and are not to be considered purchasers of a franchise or a distributorship. The agreement between the Company and its distributors does not create an employer/employee relationship, agency, partnership, or joint venture between the Company and the distributors. Each distributor shall hold harmless, the Company from any claims, damages or liabilities arising out of distributor's business practices. Company distributors have no authority to bind the Company to any obligation. Each distributor is encouraged to set up his own hours and to determine his own method of sale, so long as he/she complies with the policies and procedures of the Company, as

set out in the Company Policies, Handbook and duly agreed to by the distributor in the Agreement.

- 3 Independent distributors are fully responsible for properly paying all applicable taxes and fees as may be required by the laws of the Malaysia. The Company does not perform any withholding services nor is the Company responsible for unpaid taxes on behalf of independent distributors. The company's programme is built upon retail sales to the ultimate consumer. The company also recognizes that distributors may wish to purchase product or service in reasonable amounts for their own personal or family use. For this reason, a retail sale for bonus purposes shall include sales to non-participants, as well as sales to distributors for personal or family use which are not made for purposes of qualification or advancement. It is Company policy, however, to strictly prohibit the purchase of product or large quantities of inventory in unreasonable amounts solely for the purpose of qualifying for bonuses or advancement in the marketing programme. Distributors may not inventory load nor encourage others in the programme to load up on inventory. Distributors must fulfill published personal and downline retail sales requirements, including but not limited to, requisite retail sales to non-participants, as well as supervisory responsibilities, to qualify for bonuses, overrides or advancements. Distributors may not make statements or representations regarding the Company other than those approved and provided in writing by the Company; such as its Company Policies, Handbook and/or any other official Company printed literature and publications.

3. Transaction Submission Integrity

- 3.1 It is essential to the success of the Company, its distributors and customers that all relevant transactions relating to and arising out of the Agreement between the Distributor and the Company be submitted to the Company in order to maintain the integrity of communications between the Company and the distributor.
- 3.2 It is to be expected that all transactions submissions to the Company, including, but not limited to, distributor applications, distributor communication, distributor financial transactions and consumer transactions, be submitted by the individual or entity involved in the transaction – third party submissions of any and all transactions is prohibited.
- 3.3 A distributor should not communicate any transactions submissions on behalf of another distributor, distributorship applicant or customer. A distributor may not use his or her credit card or bank account on behalf of another individual or distributor,

except as expressly permitted by the Company for as an alternate payer. This rule is applicable to any and all forms of transactions submissions, including, but not limited to, online, telephone, fax, email, et cetera.

4. Business Conduct

In the conduct of business, the distributor shall safeguard and promote the reputation of the products and services of the Company and shall refrain from all conduct which might be harmful to the reputation of the Company or to the marketing of such products and services or inconsistent with the public interest, and shall avoid all discourteous, deceptive, misleading, unethical or immoral conduct or practices. A distributor shall not interfere with, harass or undermine other distributors and, at all times, shall respect the privacy of other distributors. A distributor must not disparage the Company, other Company distributors, Company products and/or services, the marketing and compensation plans, or Company employees. Violation of the above is grounds for termination of the Agreement.

5. Providing Sponsor Support

- 5.1 Any distributor, who sponsors other distributors, must fulfill the obligation of performing a bona fide supervisory, distributing and selling function in the sale and/or delivery of product to the ultimate consumer and in the training of those sponsored. Distributors must have ongoing contact, communication and management supervision with their sales organization(s). For the avoidance of doubt, potential distributors shall not be required to provide any form of payment or benefit in order to be sponsored. Examples of such supervision may include, but are not limited to: written correspondence, personal meetings, telephone contact, voice mail, electronic mail, training sessions, accompanying individuals to company training, et cetera.
- 5.2 Distributors must also be able to provide to the Company annually proof of ongoing fulfillment of their sponsorship responsibilities.

6. Responsibility for Paying Taxes

All distributors are personally responsible for compliance with all relevant taxation laws and regulations of Malaysia that may arise out of his earnings from commissions or any other earnings generated as a seller of Company products and services.

7. Advertising Correct Information

- 7.1 Company distributors shall not advertise Company products and services and/or marketing plans except as specifically approved by the Company.

7.2 Company distributors agree to make no false or fraudulent representations about the Company, the products, the Company compensation plan, or income potentials.

7.3 Distributors do not buy the Company's water treatment systems for resale. A distributor acts as an order taker to retail customers, or, orders a Company water treatment system for personal use in the capacity as a customer who is also a distributor. The Company's water treatment systems purchased by distributors are not for resale. All Company water treatment systems are sold at Company-specified prices. A distributor may not advertise for sale or put up for sale a Company water treatment system that deviates from Company pricing. A distributor may not advertise, offer or provide a customer with a rebate or other consideration to facilitate a lower customer price for a Company water treatment system.

8. Trademarks, Trade Names, Advertising

8.1 The name of the Company and other names as may be adopted by the Company are proprietary trade names and trademarks of the Company. As such, these marks are of great value to the Company and are supplied to distributors for distributor use only in an expressly authorised manner. Distributors agree not to advertise Company products or services in any way other than the advertising or promotional materials made available to distributors by the Company. Distributors agree not to use any written, printed, recorded or any other material in advertising, promoting or describing the products or services or the Company marketing program, or in any other manner, any material which has not been copyrighted and supplied by the Company, unless such material has been submitted to the Company and approved in writing by the Company before being disseminated, published or displayed.

8.2 The distributor, as an independent contractor, is fully responsible for all of his/her verbal and written statements made regarding the products, services and/or marketing programmes which are not expressly contained in writing in the current distributor agreement, advertising or promotional materials supplied directly by the Company. The distributor agrees to indemnify the Company and hold it harmless from any and all liability including judgments, civil penalties, refunds, attorney fees, court costs, lost business or claims incurred by the Company as a result of distributor's unauthorised representations.

8.3 The Company does not permit the use of its copyrights, designs, logos, trade names, trademarks,

etc. without its prior written permission. Independent distributors may not use the Company logo in marketing or sales materials. Independent Distributors may only use the Distributor Logo specifically developed to demonstrate their status as an official "Enagic Independent Distributor". The Distributor Logo can be downloaded in the Distributor section of the Company website and may only be used by the Independent Distributor in their Distributorship. Trademarked terms such as Kangen Water® and Change Your Water... Change Your Life.® should be appropriately annotated. In addition to general prohibitions on use of the Company trademarks or logos, the Company specifically prohibits the use of Company trademarks or logos in conjunction with the sale of any other non-Company products.

8.4 All Company materials, whether printed, on film, produced by sound recording, or on the internet, are copyrighted and may not be reproduced in whole or in part by distributors or any other person except as authorised by the Company. Permission to reproduce any materials will be considered only in extreme circumstances. Therefore, a distributor should not anticipate that approval will be granted.

8.5 A Company distributor may not produce, use or distribute any information relative to the contents, characteristics or properties of Company product or service which has not been provided directly by the Company. This prohibition includes but is not limited to, print, audio or video media.

8.6 A Company distributor may not produce, sell or distribute literature, films or sound recordings which are deceptively similar in nature to those produced, published and provided by the Company for its distributors. Nor may a distributor purchase, sell or distribute non-company materials which imply or suggest that said materials originate from the Company.

8.7 Any display ads or institutional or trademark advertising copy, other than covered in the foregoing rules, must be submitted to the Company and be approved in writing by the Company prior to publication. 8.8 All advertising, direct mailing, and display must be approved in writing before being disseminated, published or displayed. Advertising on radio, TV, newspapers, magazines, and websites except through the permitted website under Clause 9.2 is strictly prohibited.

8.8 No claims as to the therapeutic or curative properties about the products may be made. In particular, no distributor may make any claim that the Company products are intended to diagnose, treat, cure or

prevent any disease. Such statements can be perceived as medical claims and unsubstantiated claims such as these are strictly against general Company policies and may also violate relevant laws in Malaysia. Pursuant to the Company's general policies of prohibition of medical, curative or treatment claims, the Company enumerates the following specific policies which include but are not be limited to:

- A. Distributors are prohibited from making medical, curative or treatment claims, whether expressed or implied;
- B. Distributors are prohibited from using in any and all of their marketing materials and promotion any descriptions that are regarded as health or medical claims stating that; Kangen Water™ may alleviate, cure, diagnose, prevent, relieve, or treat any medical condition, disease, ailment or malady.
- C. Any violation of these guidelines will constitute grounds for discipline, commission suspension and/or termination of Agreement.

8.9 Sales of Marketing Materials and Trademark License Agreement – all distributors who plan to sell any additional products, including health and beauty related products, other than electrolysis water generator devices must receive prior approval from the Compliance Department of the Company. Each approved item must be specified on the contract called Sales of Marketing Materials and Trademark License Agreement. Productions and sales of any marketing materials including but not limited to, DVDs recorded at any seminars without prior authorisation from the Company are strictly prohibited in any circumstances. Violation of this clause is grounds for suspension of the distributor's rights under the Agreement and/or the termination of the Agreement.

9. Internet and Website Policy

- 9.1 Distributors are prohibited from creating any independently-designed website relating to the Company business, or using any non-EWS current websites. All distributors must receive prior authorisation from the Company by submitting all promotional products such as DVDs, CDs, Brochures, flyers et cetera, prior to their use. Violation of this clause will subject the distributor to commission suspension and/or termination of the Agreement.
- 9.2 Distributors are allowed to advertise on the internet through an approved Company Web System(www.enagicwebsystem.com) site (the "System"). All distributors who are newly subscribed to the System will be offered a free 21-day trial. The System allows distributors to choose from among

Company's homepage designs that can be personalised with the distributor's message and the distributor's contact information. These websites link directly to the Company website giving the distributor a professional and Company-approved presence on the internet. Only these approved websites may be used by distributors. No distributor may independently design a website that uses the names, logos, product or service descriptions of the Company, nor may a distributor use "blind" ads on the internet making product or income claims which are ultimately associated with Company products, services or the Company's compensation plan. Any person using Company names, logos, trademarks, et cetera, on the internet or any other advertising medium, except as permitted and approved by the Company, shall be subject to immediate disciplinary which may include termination of the Agreement.

10. Prohibition of Sales on Unauthorised Internet Sites

A distributor is prohibited from selling or promoting Company products on internet shopping sites, internet auction sites, and internet classified listings including, but not limited to, eBay, amazon.com, and craigslist.com. Any violation of this article will constitute grounds for commission suspension and/or termination of the Agreement. All warranties on Company products are limited and non-transferable. The Company disclaims all statutory and implied warranties to the extent as permitted by law. The product warranty is limited to the express terms of the Consumer Limited Warranty and the Extended Consumer Limited Warranty.

11. No Spam Policy

It is specific Company policy to prohibit unsolicited email (spamming) or information by facsimile relating to the Company's opportunity and products and services. The Company has a zero tolerance policy of spamming practices. Distributors who violate the Company's "no spam policy" are subject to disciplinary action which may include termination of the Agreement.

12. Retail Establishments

- 12.1 Company products or services may only be displayed and sold in retail establishments where the nature of the business is to make appointments with customers (such as salons, doctor's offices, and health clubs where appointments are made for personal training or classes are scheduled).
- 12.2 The sale of such products or services within such retail facilities must be conducted by a distributor and must be preceded by a discussion where the distributor introduces the Company's products or services and opportunities just as they would if they

had met outside of the retail facility. Company produced literature, banners, or signage only may be displayed on a shelf, counter, or wall and must be displayed by itself.

12.3 Company products or services may not be sold from a shelf or taken from a display for purchase by a customer.

12.4 Company products or services may not be sold in any retail establishment, even by appointment, if competitive products or services are sold in the establishment.

12.5 From time to time, the Company may announce policies and rules that expand or contract restrictions on sales in retail establishments.

13. Prohibition on Affiliation with Other Water Treatment Marketing Companies

7.3 It would undermine the basic distributor relationship if distributors marketed competing water treatment, water filtration or alkaline water conversion products. Therefore, so long as a distributor desires to maintain his distributorship status, he may not sell or market any water treatment, water filtration or alkaline water conversion products that are similar to the products sold by the Company.

14. Prohibition of Sales of Kangen Water™.

14.1 Sales of bottled Kangen Water™ or any other water in any form produced from a Company machine is strictly prohibited, to include all sales of Kangen Water™ in which a person receives water, bottled or otherwise from a Company machine. No “donations” or other sums may be collected for the distribution of Kangen Water™.

14.2 Charging customers due to the use of electricity or the general usage of the machine is prohibited. These are considered to be business expenses, and therefore should be paid by the distributor, and not by the customer.

14.3 Any violation of this clause will constitute grounds for termination of Agreement.

14.4 Providing bottled Kangen Water™ to a prospective buyer is authorised; However, any labeling on the bottle or attached to the bottle is strictly prohibited, as it may create a confusion that the sample water is “bottled” or “for sale”, rather than a mere sample provided to person or prospective buyer at no charge.

15. Trade Shows

15.1 Company products or services and opportunity may be displayed at trade shows by distributors only with written authorisation from the Company.

15.2 Request(s) for participation in trade shows must be received in writing by the Company at least two weeks prior to the show. Written authorisation from the Company must be received before the distributor participating in the trade show.

15.3 Unless written authorisation is secured from the Company, Company products or services and opportunity are the only products or services and/or opportunity(ies) that may be offered in the trade show booth.

15.4 Only Company produced marketing materials may be displayed or distributed. No distributor may sell or promote the Company products or services or business opportunity at flea markets, swap meets, or garage sales.

16. Assigned Territory

Distributors are not assigned exclusive territories for marketing purposes, nor shall any distributors imply or state that he does have an exclusive territory. There are no geographic limitations on sponsoring distributors or selling product within the Malaysia and any approved countries in which the Company is registered to do business.

17. International Sales

17.1 No independent distributor may export or sell directly or indirectly to others who export the Company's products, literature, sales aids or promotional material relating to the Company, its products or services or the Company's programme from Malaysia to any other country. Independent distributors who choose to sponsor internationally may do so only in countries in which the Company or its parent company has registered to operate its business and must comply fully with the Rules of Operation of a Company distributorship in that country.

17.2 Any violation of this clause constitutes a material breach of this Agreement and is grounds for immediate termination.

18. Change of Business Name

The Company reserves the right to approve or disapprove a distributor's change of business names, formation of partnership, corporations, and trusts for tax, estate planning, and limited liability purposes. If the Company approves such a change by distributor, the organisation's name and the names of the principals of the organization

must appear on the distributor application agreement. It is prohibited to make change to attempt to circumvent or violate Company rules on raiding, solicitation, targeting, cross- sponsoring or interference.

19. Cancellation of Distributorship

19.1 The independent distributor agreement may be cancelled at any time and for any reason by a distributor notifying the Company in writing of his election to cancel.

19.2 All cancellations are accepted and effective as stated. As of the effective cancellation date, the independent distributor loses all privileges of leadership and down line organisation, and is no longer eligible for any commissions, bonuses or prizes. He cannot advertise, sell or promote the Company products or purchase product from the Company. The cancelling distributor's down line organisation automatically transfers to his immediate up line. The resigning distributor must wait six (6) months before he is eligible again to be sponsored again as a Company distributor, either as an individual or a corporation.

19.3 The Company will consider an application to reinstate a "resigned distributor" one year after the resignation date. As part of the application, the former distributor must pledge to adhere to the existing requirements of the Company Policies, Handbook and Agreement. Acceptance of the application is at the discretion of the Company and the Company shall also have the discretion to reinstate the former distributor in the sales organisation at his or her former position or to require a lesser placement as a condition to reinstatement. The Company reserves the right to, at its sole and entire discretion, accept or reject such application.

20. Change to Product of Service Prices

The Company shall be entitled to change product or service prices at any time and without notice, and to make changes in the statement of policy and procedures.

21. Taxes and Regulations

Each distributor shall comply with all local taxes and regulations governing the sale of Company products or services.

22. Cooling Off

Notwithstanding the Company's longer retail customer guarantee policy, all retail sales must comply with the Ten(10) days Cooling-off Rule which requires statutory language and notice of cancellation on the retail sales receipt. The 10-days right of cancellation must be orally

explained to the customer and customer must receive a copy of the notice of cancellation form.

23. Company's Signature Products

The signature product of the Company is one which involves water treatment relating to purification and adjustment of alkaline content. This signature product is fundamental to the branding and image of the Company. Therefore, although distributors are free to sell, within the guidelines of the Company's policies, products of third-party vendors, a Company distributor shall not, during the term of the distributorship, sell products which involve the Company's signature products, namely, products that involve water treatment relating to purification and adjustment of alkaline content. Violation of this provision may result in termination of the Agreement.

24. Prohibition on Raiding and Cross-Solicitation of Products or Other MLM and/or Business Opportunities.

24.1 The Company takes seriously its responsibility to protect the livelihood of its sales forces and the hard work invested to build a sales organisation. Raiding and solicitation actions in which distributors seek to raid and solicit other distributors in the sales organisation to non-company products and services and to other MLM/business opportunities, severely undermines the marketing programme of the Company, interferes with the relationship between the Company and its sales force and destroys the livelihood of other distributors who have worked hard to build their own business, the business of their sales and benefits they have earned by helping to build a sales organisation. Therefore, distributors shall not directly or indirectly sell to, nor solicit from, other Company distributors, non-company products or services, or in any way promote to other Company distributors business opportunities in marketing programmes of other MLM or business opportunity companies at any time.

24.2 A Company distributor shall not engage in any recruiting or promotion activity that targets Company distributors for opportunities or products of other direct selling companies or business opportunities, either directly or indirectly, by themselves or in conjunction with others, nor shall a distributor participate, directly or indirectly, in interference, raiding or solicitation activity of Company distributor for other direct selling companies or business opportunities. Unless approved in writing by the Company, this general prohibition includes sales or solicitation of non-company products or services at meetings organised for Company sales, promotion,

training recruitment, demonstration, et cetera. This prohibition on targeting, interference, soliciting and raiding shall be in effect during the term of the distributor agreement and for a period of three(3) years after the termination of the distributor agreement. For the term of this agreement and for three (3)years after termination hereof, a distributor shall not, directly or indirectly, recruit any of Company's distributors to join other direct sales or network marketing companies nor solicit, directly or indirectly, Company's distributors to purchase services or products, or in any other way interfere with the contractual relationships between Company and its distributors. Because of the unique nature and signature characteristic and association with the field of water treatment with Enagic, and because of the inherent confusion and conflict that may occur, Enagic distributors may not engage in the representation or sale of water treatment systems offered by any company other than Enagic.

25. Purchases for Inventory of Mandatory Sales Aids

If the distributor has purchased products for inventory purposes or mandatory sales aids while the distributor agreement was in effect, all products in a resalable condition then in possession of the distributor, which have been purchased within 90 days of cancellation, shall be repurchased. The repurchase shall be at a price of not less than ninety per cent (90%) of the original net cost to the participant returning such goods, taking into account any sales made by or through such participant prior to notification to the Company of the election to cancel.

26. Vendor Confidentiality

The Company's business relationship with its vendors, manufacturers and suppliers is confidential. A distributor shall not contact directly or indirectly, or speak to or communicate with any representative of any supplier or manufacturers of the Company except at a company sponsored event at which the representative is present at the request of the Company. Violation of this clause may result in termination of the Agreement and possible claims for damages if the vendor/manufacturer's association is compromised by the distributor contact.

27. Commission Recuperation

The Company shall be entitled to repayment of any commission previously paid on a sale of product/service if the product/service purchase is cancelled or reversed or a refund paid for a terminated purchase. The Company shall recover the commission by adjustment on the distributor's next cheque payment. In the event that no commissions available for adjustment, the distributor who has received the commission shall repay the commission paid on the

"reversed sale" within 30 days of the Company's notice to repay.

28. Downline Information Confidentiality

On a periodic basis, the Company will supply data processing information and reports to the distributor, which will provide information concerning the distributor's downline sales organisation, product purchases and product mix. The distributor agrees that such information is proprietary and confidential to the Company and is transmitted to the distributor in confidence. The distributor agrees that he will not disclose such information to any third party directly or indirectly, nor use the information to compete with the Company directly or indirectly during or after the term of the Agreement. The distributor and the Company agree that, except as provided for by the confidentiality and nondisclosure provisions of the Agreement, the Company would not provide the above confidential information to the distributor. A distributor seeking to sell his distributorship must acknowledge and agree to this provision prior to the finalisation of the sale of their distributorship.

29. Change in Status

29.1 Marriage – two Company distributors who marry after having established their own individual distributorships may continue to operate their existing distributorships.

29.2 Divorce – should a married couple become divorced, they agree to notify the Company as to who will assume responsibility for the distributorship in one of the following manners:

- A. Written agreement signed by both parties in the presence of witnesses (which may be an advocate and solicitor or commissioner or oaths or a notary public) indicating who will retain the distributorship;
- B. Court order delineating who receives custody over the distributorship; or
- C. Both parties may choose to retain their joint distributorship and operate it as a partnership.

The divorced distributor may apply for a new distributorship without having to wait 6 months.

29.3 Death – upon the death of a distributor, the rights and responsibilities of the distributorship may be passed onto the rightful, legally-documented heir as long as that person has filled out a new distributor application, together with a copy of death certificate.

29.4 Disability – should a distributor become disabled to the extent that he can no longer fulfill the required duties of the Company distributor, such disabled consultant's legal representative or conservator shall:

- A. Contact the Company within thirty (30) days of the disability and advise the Company of the distributor's status and the plans for future management or cancellation of the distributorship;
- B. Provide a notarized or court-confirmed copy of appointment as legal representative or conservator; and
- C. Provide a notarized or court-confirmed copy of document establishing right to administer the Company business.

Should the legal representative or conservator plan to continue the business of the distributorship, then he/ shall fill out a new distributor application, return policy and receive the required training consistent with the disabled distributor's level at the time of disability. These requirements shall be satisfied within a deadline of six months.

30. Upgrades of Machines

All upgrades on machines need to be authorised by the regional sales manager in charge of the respective sales area. The Company reserves the right to refuse machine upgrades at its discretion.

7.3 Upgrades of unused, new machines are allowed within one (1) year of purchase. All requests must be accompanied by a **Malaysian Ringgit** (RM200) upgrade fee.

31. Sale or Transfer

31.1 Third parties who buy any Enagic products do not automatically qualify to be Enagic distributors.

31.2 Distributors agree to inform all third parties to whom they sell Enagic products of the facts above and further agree not to promise any possibility of transferring distributor rights. A distributor may not sell, assign or otherwise transfer his distributorship, marketing position or other distributor rights without written application to and approval from the Company. This clause is also applicable to the transfer of any interest in an entity that owns a distributorship, including but not limited to a corporation, partnership, trust or other non-individual entity.

31.3 The potential buyer must be of similar standing as the selling distributor. The distributorship must be offered in writing first to the distributor's sponsor. If the sponsor declines the offer, the distributor may offer the distributorship for sale to upline distributors of the sponsor within the same group. A distributor who sells his or her distributorship shall not be

eligible to re-qualify as a distributor for a period of at least six (6) months after the sale.

31.4 The Company reserves the right to review the sale agreement and to verify waiver from the upline sponsor in the event the upline sponsor declines to purchase the distributorship. A distributor may not add a co-applicant to their distributorship and thereafter, remove their name from the distributorship, as an effort to circumvent the Company's sale, assignment, delegation or merger procedures. The primary distributor must wait twelve(12) months after adding a co-applicant to the distributorship before they are allowed to remove their name from the distributorship.

31.5 It is prohibited to use a sale or transfer to attempt to circumvent Company policy on raiding, soliciting, cross-sponsoring or interference. A distributor seeking to sell or transfer his distributorship must acknowledge and agree to Clause 60 prior to the finalisation of the sale or transfer of his distributorship.

32. Rights of the Company

32.1 The Company expressly reserves the right to alter or amend prices, Rules and Regulations, Policies and Procedures, product availability and the compensation plan. Upon notification in writing, such amendments are automatically incorporated as part of the Agreement between the Company and distributor. Company communication of changes may include, but shall not be limited to mail, email, fax, posting on the Company website, publication in company newsletters or magazines, et cetera.

32.2 The Company reserves the right to make all final decisions as to the interpretation of the articles stated in this document. The final Company decision based on the interpretation of the articles stated herein is effective immediately. All distributors are obliged to follow the Company's decision as to the interpretation of the articles herein.

33. Non-Individual Ownership

33.1 A partnership or corporation may be a distributor. However, no individual may participate in more than three(3) distributorships in any form without express written permission from the Company. It should be noted that any request for more Company approval for a distributor to participate in more than three (3) distributorships will only be considered on a case-by-case basis and on the individual merits of each case.

33.2 A distributorship may change status under the same sponsor from individual to partnership or corporation

or from partnership to corporation with proper and complete documentation.

33.3 To form a new distributorship as a partnership or corporation or to change status to one of these forms of business, a distributor must request a change request form from the Company's Corporate Headquarters Office. This form must be submitted detailing all partners, stockholders, officers or directors in the partnership or corporation. The partner or officer who submits the form must be authorised to enter into binding contracts on behalf of the partnership or corporation. In addition, by submitting the partnership/corporation form, the said individual certifies that no person with an interest in the business has had an interest in a distributorship within three (3) months of the submission of the form (unless it is the continuation of an existing distributorship that is changing its form of doing business).

34. Individual Distributorship

An individual can have up to three (3) distributorships in the Company. He may not own any other distributorship, either individually or jointly, nor may he participate as a partner, owner, stockholder, trustee, director, or association member, outside his sponsorship.

35. Entity Distributorship

35.1 An entity (corporate) owner can have up to five (5) distributorships in the Company, as long as they are within the same distributorship:

- A. Proprietorship – a copy of fictitious name filing must be submitted.
- B. Corporation: Copies of articles of incorporation with CCM list.

36. Entity Guarantee for Owners

Although the Company allows distributors the opportunity to conduct their distributorship as a corporation, the Company is also aware that a corporation is under the control of its owners and principals and that the actions of individual owners or beneficiaries may affect Company's business. It is therefore agreed that in the event where the distributor is a corporation, the actions of the corporation's shareholders, officers, directors, trustees, beneficiaries, agents, employees or other related or interested parties and the actions of such parties, insofar where they violate the Company Policies, Handbook and/or Agreement, shall be attributable to the corporate. In the event that any of the corporation's shareholders, officers, directors, trustees, beneficiaries, agents, employees or other related parties terminate(s) his/their ownership interests in the distributorship, any breach(es) of the Company Policies, Handbook and Agreement by

such part(ies), insofar where he/they continue to have a beneficial financial interest, either directly or indirectly, in the distributorship, shall be attributable to the corporation's distributorship.

37. Members of Same Household

37.1 Responsibility – members of a distributor's household may operate together as under a single distributorship and may not become separate Company distributors. A Household is defined as husband, wife, and dependents. It is important to note that children who have attained the age of majority of eighteen (18) years will not be considered to be a part of their parents' household for the purposes of the distributorship.

37.2 The Company recognises that members of the same household may belong to competing direct selling opportunities. Although the actions of the parties are assumed to be taken in good faith, in some circumstances, there might be an abuse of relationships in which the non-company household member is engaged in recruitment, solicitation or raiding of the Company sales organisation. Since the household member that has an ownership interest in the Company distributorship is in the best position to prevent the raiding or cross-sponsoring activities by their members of their household (as defined in clause 37.1), any cross-recruiting activity of the non-Company household member shall be attributed to the household distributor and will accordingly subject the distributor to possible disciplinary action or the termination of the Agreement.

38. Foreign Distributors

A foreign distributor will be solely responsible for all applicable taxes, duties, and other fees associated with his distributorship. The foreign distributorship is subject to all applicable laws and regulations of his country of residence. The Company is not responsible for any failure by the foreign distributor to abide by the laws of his country of residence or other controlling jurisdiction. While the Company does attempt to provide notice whenever possible, it may not always be possible to do so. Change in Company policy or other actions such as termination may occur without notice to the foreign distributor. 10% withholding tax which is Malaysia government requirement will be deducted from all commission and bonuses.

39. Default in Payment

A distributorship will be terminated if a distributor defaults in payment of product purchases from the Company. For the avoidance of doubt, potential distributors shall not be required to provide any form of payment or benefit in

order to be, other than where payment or benefit is made in relation to demonstration equipment and materials, accepted as a distributor by the Company. In the event where a distributorship purchases products, either in the capacity of a consumer or distributor of the Company, and subsequently defaults on payment, the distributorship is subject to immediate termination of the Agreement. The preceding rule is applicable to a distributor who is either an individual or to a corporation or partnership distributor where one of the principal owners defaults in payment.

40. Disciplinary Actions

A distributor's violation of any policies and procedures, the agreement, terms and conditions or any illegal, fraudulent, deceptive, or unethical business conduct may result, at the Company sole and entire discretion, in one or more of the following disciplinary actions:

- A. Issuance of a written warning or admonition; and/or
- B. Imposition of a fine, which may be imposed immediately or withheld from future commission checks; and/or
- C. Reassignment of all or part of a distributor's organisation; and/or
- D. Freezing of commissions for an indefinite period; and/or
- E. Suspension, which may result in termination or reinstatement with conditions or restrictions; and/or
- F. Termination of the distributorship.

41. Right to Terminate

The Company reserves the right, at its sole and entire discretion, to terminate any distributorship at any time if the Company determines that the distributor has violated the provisions of the Agreement, including the provisions of the clauses contained in this document herein, including as and when these clauses may be amended by the provisions of applicable laws and standards of fair dealings. In the event of termination, the Company shall notify the distributor by mail at the most current address of the distributor lodged with the Company. In the event of termination, the terminated distributor agrees to immediately cease representing himself as a distributor.

42. Termination

42.1 When a decision is made to terminate a distributorship, the Company will inform the distributor in writing that the distributorship is terminated immediately, effective as of the date of the written notification. The termination notice will be sent by registered mail to distributor's most current address on file with the Company.

42.2 The distributor will have fifteen (15) days from the date of mailing of the registered letter in which to appeal the termination in writing, and provide written response as to the findings of violations by the Company of the Company Policies, Handbook and/or Agreement. The distributor's appeal and/or response correspondence must be received by the Company within twenty (20) days of the Company's termination letter. If the appeal is not received within the 20-day period, the termination will automatically be deemed to be final.

42.3 If a distributor files an appeal in accordance with the stipulated procedures and time period, the Company will review and consider the distributor's appeal. In addition, the Company will also consider any other appropriate action, and notify the distributor of its decision in due course.

42.4 The decision of the Company will be final and subject to no further review. In the event the termination is deemed to be final, the termination will be effective as of the date of the Company's original termination notice. The terminated distributor may not be sponsored as a Company distributor again.

42.5 Upon termination of a distributorship, all rights under the Agreement cease. The terminated ex-distributor will no longer be eligible for any commission, bonuses or prizes. The terminated ex-distributor can also no longer advertise, sell or promote the Company products or purchase products from the Company and any violation of this clause will be sufficient grounds for the Company, at its sole and entire discretion, to commence whatever action including but not limited to, legal action, against the terminated ex-distributor.

43. Sponsorship

43.1 All distributors have the right to sponsor others. In addition, every person has the ultimate right to choose his own sponsor. If two distributors should claim to be the sponsors of the same new distributor, the Company shall regard the first application received by the corporate home office as controlling.

43.2 As a general rule, it is good practice to regard the first distributor who has meaningfully worked with prospective distributor as having the first claim to sponsorship though this is not necessarily the sole factor of consideration. Other factors of consideration such as common sense and equitable principles should also be utilised.

43.3 The Company may provide the distributors with various methods of registration or information of newly sponsored distributors, including but not

limited to, facsimile registration and online registration for the convenience of the distributors. The Company. Until such time as the Company receives a duly completed application, containing all appropriate and required information as well as the signature of the proposed new distributor, the Company will only consider any application as one which is merely a non-binding expression of interest. Although the Company is attempting to create convenience for its sponsoring distributors, it is the responsibility of each sponsoring distributor to cause delivery to the Company of a completed and signed distributor agreement if the sponsor is expected to be recognised as the official sponsoring distributor. For the avoidance of doubt, potential distributors shall not be required to provide any form of payment or benefit in order to be sponsored.

43.4 There is no “magic” involved in the Company or in any business. Those who sponsor widely but who do not help new distributors develop their business meet will be met with limited success. Therefore, it is the distributor’s responsibility to follow through and make sure the new distributor is properly informed and trained in the areas of product knowledge, the compensation plan, the professional guidelines of the network marketing industry, the Company Policies, Handbook and Agreement.

43.5 When soliciting a prospective distributor to join the Company’s network programme, the distributor must clearly explain the following:

- A. Products: type, performance and quality of each product;
- B. Compensation plan;
- C. Policies and Procedures;
- D. Distributor’s rights and duties; and
- E. Other important items that will affect the judgment of the prospective distributor.

43.6 Distributors should never provide false and/or misleading information in order to encourage the conclusion of a sales agreement or to prevent the buyer from cancelling the agreement.

43.7 Retail sales are a requirement of the Company’s network programme.

43.8 Each distributor must identify himself by name and Company ID number to the prospective buyer.

43.9 The Company offers no sales discounts or other concessions and the distributor may not offer either. Any discounts offered by distributors may be grounds for termination.

44. Transfer of Sponsorship

44.1 Transfer is rarely permitted and is actively discouraged. Maintaining the integrity of sponsorship is absolutely crucial for the success of the overall organisation.

44.2 Transfers will generally be approved in the following two (2) circumstances:

- A. In the case of unethical sponsoring by the original sponsor – in such cases, the Company will be the final authority; or
- B. Resigning from the Company entirely – waiting six (6) months to reapply under the new sponsor.

44.3 In cases of unethical sponsoring, the individual may be transferred with any downlines intact; in all other events, the individual alone is transferred without any downline distributors being removed from the original line of sponsorship.

45. Income Claims

No income claims, income projections, income representation, or showing of commission checks (“check waving”) may be made to prospective distributors. Any false, deceptive or misleading claims regarding the opportunity or product/service are prohibited. In their enthusiasm, distributors are occasionally tempted to represent hypothetical income figures based upon the inherent power of network marketing as actual income projections. This is counter-productive, since new distributors may be quickly disappointed if their results are not as extensive or as rapid as a hypothetical model would suggest. The Company believes firmly that the income potential is great enough to be highly attractive in reality without resorting to artificial and unrealistic projections.

46. Representation of Status

In all cases, any reference the distributor makes to him must clearly set forth the distributor’s independent status. For example, if the distributor has a business telephone, the telephone may not be listed under the Company’s name or in any other manner which does not disclose the independent contractor status of the distributor.

47. Judgment and Tax Lien

The Company will comply fully with any court order or instruction/demand by any Malaysian Government taxation authority, in relation to a distributor’s earnings as a result of his distributorship relationship with the Company.

48. Subpoenas Duces Tecum (Demands for Records)

Assuming proper jurisdiction, the Company will comply with all subpoenas duces tecum demanding financial compensation records of a distributor in his capacity as an independent contractor with the Company.

49. Request for Records

The Company will comply fully with all requests for records accompanied by a properly prepared and signed authorisation by the person whose records are being sought. The Company will comply fully with all requests for records by Malaysian Government agencies with the authority to request such records and accompanied by the requisite legal documentation.

50. Newspaper Advertisement

Some Independent Representatives use classified advertising in the newspapers to find prospects. The following rules apply – no advertisement may imply that a “job” or “position” is available. No specific income can be promised and advertisements must contain no misleading facts or distortions of the Company opportunity or product line.

51. Business Cards and Stationery

Any printed materials, including business Cards and stationery, must be approved by the Company in advance. The criteria for approving these materials will include an assessment of the quality of the materials submitted as well as properly the adequacy of establishing the independent status of the distributor.

52. Telephone Solicitation

The use of the Company’s name or copyrighted materials may not be made with automatic calling devices or “boiler room” operations either to solicit distributors or retail customers. The use of these methods in ways that are legal and the equivalent of the “blind ads” alluded to above cannot be regulated by the Company.

53. Press Inquiries.

Any inquiries by the media are to be referred immediately to the Company. This policy is to assure accuracy and consistent public image.

54. Endorsement

Distributors may not represent that the Company’s programme has been approved or endorsed by any Malaysian Government agency.

55. Indemnification and Hold Harmless

The independent distributor hereby indemnifies and releases the Company, its officers, directors, agents and assigns and holds harmless from and against the full amount of any and all claims, causes of action, judicial and administrative proceedings suits, charges, liabilities, losses,

damages, costs and expenses, including without limitation court costs and reasonable fees and expenses of attorneys and consultants, which are or may be made, filed or assessed against Company at any time arising out of distributor’s business operations and representations made by the distributor in the operation of his business, arising from the following:

- A. Violation and/or lack of compliance with terms of the distributor agreement, policies and procedures, rules and regulations, marketing programme manual or guidelines or any other directive from the Company as to the method and manner of operation of the independent distributor business; and/or
- B. Engaging in any conduct not authorised by the Company in the Company marketing programme; and/or
- C. Any fraud, negligence or willful misconduct in the operation of the independent distributor business; and/or
- D. Misrepresentation or unauthorised representation regarding the Company’s product or service, marketing opportunity or potential or the Company’s marketing program; and/or
- E. Failure to adhere to the relevant laws of Malaysia; and/or
- F. Engaging in any action which exceeds the scope of authority granted to the distributor by the Company; and/or
- G. Engaging in any activity over which Company has no effective control as to the actions of the distributor.

56. Waiver

The Company never gives up its right to insist on compliance with these rules or with the applicable laws governing the conduct of a business. This is true in all cases, both specifically expressed and implied, unless an officer of the Company who is authorised to bind the Company in contracts or agreements specifies in writing that the Company waives any of these provisions. In addition, any time the Company gives permission for a breach of the rules, that permission does not extend to future breaches. This clause deals with the concept of “waiver,” and the parties agree that the Company does not waive any of its rights under any circumstances short of the written confirmation alluded to above.

57. Governing Law

These rules are reasonably related to the laws of the Malaysia and shall be governed in all respects thereby. The parties agree that jurisdiction and venue shall lie with the place of acceptance of the distributor application, Malaysia.

58. Partial Validity

If any article or articles of this document shall be held to be invalid, illegal, unenforceable or in conflict with the law of any jurisdiction, the validity, legality and enforceability of the remaining articles shall not in any way be affected or impaired thereby.

59. Non-Competition

For a term of one (1) year after sale, transfer or termination of the distributorship, a distributor agrees that he shall not, directly or indirectly, disrupt, damage, impair or interfere with the business of the Company within Malaysia, whether by way of interfering with, or raiding its employees or distributors, disrupting its relationship with customers, agents, representatives, distributors, suppliers, vendors or manufacturers or otherwise. "Disrupting" or "interfering" include, but are not limited to, direct or indirect solicitation or recruitment for other direct selling business opportunities or products or services of other direct selling companies.

60. Product Handling and Distributor's Responsibility

60.1 The prospective distributor shall fulfill stated personal sales volume requirements to be recognised and registered as an active Company distributor.

60.2 Special favourable payment plans are available to distributors who wish to purchase Company products.

60.3 The distributor may sell products through the Company-contracted credit companies.

60.4 The distributor shall take full responsibility for any of the following issues arising in connection with his own customer(s).

60.5 The distributor shall take the following actions without delay in case of cancellation of a sales agreement during the Cooling-off Period:

- A. Refund the commission and other applicable fees/charges to the Company;
- B. Substitute the cancelled account with another account;
- C. Any actions other than A and B above will be taken after discussions involving the distributor, the Company and the referrer.
- D. Provide such information as the Company may request from time to time in connection with the Company's collection of money payable for the products.
- E. Provide such information as the Company may request from time to time in connection with the Company's handling of sales-related claims other than the above;
- F. The commission shall be paid by cheque issued by the Company in favour of the distributor promptly after the expiration of the cooling-off period or otherwise based on the distributor's instruction.

