



Credit Policy and Procedures

For

**Eendag Meule Bothaville (Pty) Ltd
t/a E-Milling**

(hereinafter referred to as the “Company”)

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INTRODUCTION AND OBJECTIVE

This credit policy shall serve as a guideline for the extension of all credit and credit-related facilities by the Company and its divisions to its Customers. In addition, the document serves as a Service Level Agreement between the Company's Credit Department and relevant other Company Departments or Divisions.

The purpose of the document is:

- To ensure maximum possible book debt recoveries within the shortest possible time period, while maximising profit and turnover to the Company by means of effective credit extension and collection procedures.
- To provide a source of reference and guidelines to all employees involved in the credit extension process within the Company.

POLICY AND PROCEDURE

1. CASH ACCOUNTS

- Cash accounts are defined as any account where the payment for goods sold is received prior to delivery. Cash accounts are therefore customers that purchase via terms Cash in Advance. Accepted payment methods against such purchases only include Electronic Fund Transfers (EFT) with required proof of such transfer; Cash; Bank Guaranteed Cheques and Credit Card payments.
- All cheques that are not bank guaranteed and deposited into the Company's account against a Cash purchase from a Cash Customer shall require a 7 working day clearance period before any goods may be released. In such instances cheques are to be deposited "Special Clearance" with the Company's bankers.
- In the event of any default occurring on Cash accounts, the Credit Controller shall be forwarded the returned paper or notice of the failed transaction as soon as is possible, after which the Credit Controller will use its best endeavours to recoup the monies. The Credit Controller will take such steps as is required to recover such funds including legal action should this be required.
- Under no circumstances may cash accounts be given credit.

2. CREDIT ACCOUNTS

- Credit accounts are defined as any account where the payment for goods sold or services rendered is not made prior to delivery. Typically, credit accounts will include customers that purchase from the Company on **30 days** from statement terms.
- All customers that require a credit account shall be required to complete a "Credit Application Form" **and send Alternative Documents.**
- Written conditions of sale must be given to, and acknowledged by, the customer in writing. Where a written agreement is not commercially practical, then the conditions of sales should be brought to the customer's attention.

2.1. New Accounts & Limit Increases

- Controllers responsible for the processing of new account applications or credit limit increases should ensure that all the relevant information and completed forms be obtained and peruse this for completeness prior to further processing.
- Controllers are to ensure that the required credit limit is correctly calculated based on the maximum anticipated monthly sales multiplied by the number of months for which this will outstanding (i.e. 30 day terms = anticipated maximum sales volume x 2). Controllers are always to apply for the maximum amount as this diminishes the requirement for constant revision of limits.
- This completed application shall be forwarded to Debtsource who will obtain the necessary credit information required to make an accurate credit decision. In 95% of such applications, the Credit Department will finalise its investigations and recommendations **within 5 working days** Applications for large amounts of credit, or applications from companies where their data is not readily available may take longer, but the Credit Department undertakes to handle all such applications without unnecessary delay. The Credit Department further undertakes to notify the relevant applying department or division of any application that may exceed the agreed number of days to complete an investigation.
- Debtsource will provide a detailed information report with a suggested limit.
- Debtsource shall furnish such information and shall retain scanned images of the credit application form, the completed report and other related documentation such as financial statements provided by customers from time to time. Such information shall also be made accessible to the Credit Department utilizing a secure Internet access method.
- **Representatives and marketing manager must provide recommendations supporting the opening of all new accounts**
- Irrespective of approval obtained from Debtsource, the account may only be opened once it has been approved, in writing, as detailed below:

Credit Limit	Required Approval Level
All Levels	F.M and CEO

- Customers will be notified in writing of the outcome of their application or credit limit increase by the Credit Department with a copy issued to the relevant sales personnel or division.

2.2. Credit Limits

- The credit limit equals the maximum credit exposure the Company shall have to a particular Customer at any point in time.
- The exposure to any individual customer includes all amounts due by the customer, as well as specific stock held by the entity exclusively for that particular customer and stock in transit designated exclusively for that customer.
- A Credit Limit will be set for every credit account by the Company after taking into account all circumstances pertaining to the Customer.
- All personnel within the Company undertake not to exceed such credit limits, and can contact Debtsource at any time to review the credit limit of an existing customer.
- All credit limits must be reviewed by the **Financial Manager and CEO and confirmed in writing on an ongoing basis:**
 - upon change of trading terms
 - upon late or non-payment of account or where management is concerned regarding the recoverability of outstanding amounts
 - upon market conditions changing significantly
 - upon change of ownership
 - upon a matter being handed over to Debtsource for recovery of an outstanding amount
 - when a payment is returned (irrespective of reason)
- Debtsource will in any event not review a Customer's credit limit more often than every 30 days; unless there is new information that suggests it should do so.
- The Customer will be notified **in writing** of any changes to their credit limit by the Credit Department, copied to the relevant sales personnel, department or division.
- Controllers are further to ensure that continual assessment of Customers take place via the payment pattern of the debtor, and immediately report to the Credit Manager any concerns or exceptions.

2.3. Fraud

In the interest of preventing fraud the company shall implement the following procedures:

- The Company shall under no circumstances allow debtors to collect goods, unless the person and or debtor collecting the goods is extremely well-known to the company and there is in the opinion of the company no possibility of fraud in allowing the debtor to collect such goods. Under no circumstances shall a new account debtor be allowed to collect goods in instances where an account has only been opened for the debtor within the prior 6 months.
- For Cash transactions, payment must reflect on the bank statement before goods are released. The bank statement must confirm the payment method, being EFT or cheque. In the case of cheques, the cheque will need to be cleared (waiting period of 7 days) before goods are released.
- Refunds will only take place eight days after a payment has been received in the bank account.
- All staff must be on the lookout for Hotmail and yahoo email addresses. 99% of businesses have their own email addresses.

- The company shall not allow controllers whom have access to the passing of credit notes or processing of transactions such as journals to handle cash under any circumstances. In this regard there should be a distinct separation of duties where those handling cash and those processing transactions should be separated.
- The company shall implement and maintain a register for the passing of credit notes, and under no circumstances allow debtor controllers to sign off credit notes. **All credit notes must be signed off by the Financial Manager or the CEO.** The company shall further be required to generate a monthly listing of all credit notes passed which should be signed off and filed safely for audit purposes by a senior manager.
- The company shall allow for a control system when processing inter-account journals and controllers shall not be able to upload journal batches without the authorization of a senior manager.

2.4. Securities

- The Company shall consider whether any form of security is required for open accounts, taking into consideration industry practices, competitive pressures and the cost of risk cover.
- Debtsource shall be responsible for the drawing up of any such document and the relevant sales personnel, department or division will assist in obtaining the required signatures from the Customer. Debtsource may recommend securities in the following circumstances:
 - Where large amounts of credit are being granted
 - Where a potential or existing customer is a new entity
 - Where information sources indicate that securities are required to conduct reasonable risk credit transactions
- Typical securities that may be required include:
 - Cessions (typically cessions of book debts)
 - Pledges
 - Notarial Bonds
 - Immovable property bonds
 - Personal Suretyships from Directors or Members of the Customer
 - Bank Guarantees
- The value and type of security to be obtained from the Customer will depend on factors such as:
 - The normal terms of trade in the industry
 - The degree of risk
 - The size and value of the credit required
 - The nature of the product
 - The credit history of the Customer
- Debtsource shall in any event reasonably ensure that security documentation comply with legal standards and requirements.

2.5. Terms of Sale

- The Company's terms of sale will be:
 - Cash in Advance (C.I.A.)/**Cash on Order**
 - 30 days from Statement;
 - **Pay Stock Sold Account with stock counts**
 - **7-day Account**

Unless agreed to by the Company's senior management in exceptional circumstances. Requests for terms of sale that fall outside of this should be referred to the Financial Director.

- Any debtor given special terms i.e. outside normal payment terms, must be reported to the following officials:

Debtor Amount	Report to
All Levels	Financial Manager
All Levels	CEO

2.6. Collections & Payment Allocations

- Every Credit Controller shall be allocated specific accounts and it shall be the responsibility of the Controller to manage those accounts assigned to them.
- The Credit Department and Credit Controllers are to strive for a monthly targeted DSO (Days Sales Outstanding) for the Company of 45 days. The importance of reaching this target cannot be stressed enough, as this has a direct impact on the Company's cash flow and cash forecasting process.
- Only monies received in the Company's bank account up until the closing of the Company's financial month-end shall be included in the Controller's collected target. Monies reflecting on the bank account thereafter shall count towards the following month's collection target.
- All payments received are to be allocated according to the Customer's remittance advice.
- Controllers are to keep detailed notes on all "promises to pay" or reasons for delays in payment and related dates from Customers and to ensure follow up on such days. These notes are to be kept on Debtman (provided by Debtsource). Controllers are to ensure that such information is available to the **Financial Manager** on demand.
- **Collection Steps to be followed:**
 1. **Reminder to pay letter to be send between 21st and 25th of each month, requesting recon/remittance payment amount and payment date.**
 2. **7 days after month-end (to be send on the 8th) in new month first reminder letter on overdue account.**
 3. **16th of same month second reminder letter giving debtor 7 days to pay before they will be handed over to Debtsource**
 4. **21st of the same month – Final Notice – saying that we will be giving the account to Debtsource**

5. Pre-legal Action starts 52days days after due date within the 60 day period

- **The Debtsource Credit Management demand letters to be included as part of the credit policy.**

2.7. Non-Paying Customers

- Non-paying Customers are defined as accounts who do not settle the due and payable balance on their account on due date, and who have no legitimate reason (such as a dispute) for doing so.
- Adherence to payment terms must be properly monitored and tracked. Failure by a customer to adhere to payment terms must initiate immediate follow up action.
- All customers who have failed to make full payment of amounts due must be reported to the Financial Manager by the 15th of each month.
- **The Financial Manager** will give instructions on the next course action, i.e. suspension of the account, pre-legal action or legal action.
- Furthermore, a Customer's account will also be immediately suspended, pending investigation in the following circumstances:
 - A customer's payment is not met by their bankers
 - A telephonic and/or written request by the customer not to present an instrument (such as a cheque) for payment
 - The Customer fails to acknowledge receipt of goods delivered
 - The Customer requests that documentation be amended to reflect a business name other than the name in which the account was originally opened
- Any Credit account not settled within the time period stipulated may be managed by Debtsource who will firstly attempt to collect payment, and secondly refer the account for immediate legal action.
- Debtsource shall take all such steps in consultation and agreement with the Company.

2.8. Pricing, Rebates and Discounts

- Selling prices, rebates, payment and discount terms (where applicable) must be agreed on a regular basis (at least once a year) and confirmed in writing – **refer to official rebate document on file.**

2.9. Credit Notes

- **Discount Adjustments**
- **Quantity**
- **Pricing**
- **Stock Returns**

- The Credit Department shall be required to generate a monthly listing of all credit notes issued, which shall be verified and signed-off by the Financial Manager. The signed copy of this document shall be placed on file for record-keeping and internal or external audit purposes.
- Reason codes should be generated that relate to the credit notes queries. The reason being to track the percentage of queries falling in the various categories
- A rebate draft is to be placed on record with every client file who received any rebate of any kind. The wording of the draft should be very specific as per the agreed terms and conditions between client and E-Milling

2.10. Ratings

- Every active Credit customer shall be defined by a rating key which shall serve as an indication of the underlying risk profile of the Customer. From a strategic credit management perspective, Customers should not all be managed equally, especially with regard to the exceeding of credit limits, “stop supply” rules and eventual pricing or profitability structures. The rating key shall be as follows:
 - A = **Negligible or zero risk** – Typically government institutions, large public companies, subsidiaries or divisions of large public companies or private companies that have been in existence for a number of years, where there is no adverse recorded and with a positive payment profile.
 - B = **Ordinary trade risk** – Companies, Partnerships, Close Corporations or Sole Ownerships of good reputation and financial status, having no known payments problems.
 - C = **Potentially slow payers** – Entities believed to be financially sound but with a known history of slow or late payments.
 - D = **Significantly High Risk** – Entities of known or suspected financial weakness, including very new small businesses.
 - E = **Unacceptable Risk – recommend cash terms only**. This category embraces customers who are financially weak and/or chronically unreliable in payment habits, or where the potential of fraud exists.

2.11. Inactive Accounts

- A credit account (typically 30 days from statement) shall be considered inactive if the debtor has not purchased from the Company for a period of 6 **months** and there is no balance outstanding for payment from the Customer. In such instances the debtor’s account status shall be:
 - Regarded as “Dormant”
 - The credit limit reduced to R nil
 - The terms on the account altered to “Cash in Advance”
 - **After 6 months the account to be blocked and after 12 months a new credit limit to be applied for – Marketing Manager to authorize re-instatement of account**

- In such instances no, further research or monitoring will be conducted on the account and the debtor required to re-apply for a term account, including completion of a new credit application form, after which the debtor shall again be evaluated as per the process described in section 4 of this document.

2.12. Customer Service

- All Customers contacted by Controllers must be handled in a firm, yet professional manner. Controllers are not to jeopardize the business relation between the Company and the Customer, and are obliged to report or escalate problem matters to the Financial Manager or the CEO.
- Customer queries are to be handled within 48 hours, unless otherwise agreed to by the Financial Manager.
- Requests for credit notes are to be handled within a time period of 48 hours, unless otherwise agreed to by the Financial Manager.
- Requests for trade references from outside entities on Customers must be in writing (faxed) and should always be supplied honestly and professionally. Requests for trade references are to be handled with 24 hours from request.
- The Controller shall be responsible for ensuring that new account applications and limit increase requests are to be handled in accordance with the time periods stipulated in section 2.1 of this document.
- Customer Statements are to be generated and sent to Customers within 48 hours of financial month-end.

3. GENERAL

3.1. Sources of Information

- Debtsource and the Credit Department shall use as it's sources for information the following institutions or methodologies:
 - The Company's sales and other staff
 - Newspapers
 - Trade magazines
 - Bankers
 - Suppliers
 - Competitors
 - Information sharing groups
 - Credit information agencies
 - The Customer
 - Holding, Subsidiary and associated companies
 - Registrar of Companies and Close Corporations
 - Johannesburg Stock Exchange
 - Finance Houses
 - Credit Insurance companies
 - Other institutions or companies that it may require information from, from time to time.

- The Credit Department shall keep updated credit information records from the above sources on credit accounts, the nature and extent of the information being dependent on the extent of credit to be granted to the Company's Customer.

3.2. Source Documentation

- The Company acknowledges that without source documents the Credit Department will be unable to effectively collect receivables. The Credit Department is therefore required to securely store the following documentation such as:
 - Credit Application Form
 - Security documents
 - Debtor correspondence
 - Legal correspondence pertaining to a specific Debtor
 - Credit Information reports
 - Liquidators reports
 - Credit Notes
 - Proof of Deliveries – including where such documentation is provided by the Company's outsourced logistics contractor.
- Such documentation may not be removed by any personnel without the explicit authority of the Financial Director.

3.3. Monthly Reporting (pending on the Debtsource contract/credit management product selected, this section is still to be finalised)

- Debtsource shall produce the following reports monthly:
 - Total age analysis movement for the period compared to target.
 - Days Sales Outstanding calculation
 - Number and value of overdue accounts, where an overdue account is defined as 60 days beyond past due date.
 - Such reports produced shall be submitted to the **Financial Manager** monthly.
- Debtsource shall produce the following reports on demand:
 - Listing of all accounts where the balance outstanding exceeds the credit limit, including Debtor name, Credit Limit and Balance outstanding.
 - Listing of accounts to be placed on hold
 - Sales per debtor category
 - Listing of all legal accounts

3.4. Credit Control Staff

- The Company shall be responsible for employing qualified, experienced and well-trained credit control staff to adequately manage the Company's cash and credit accounts at all times. The Credit Department shall further assign specific staff members that handle the Company's customers, thereby ensuring continuity and an ongoing business relationship.

3.5. Training

- The Company acknowledges that Company appointed staff buy-in to this credit policy is as important as the policy itself, and therefore undertakes to arrange workshops with a view to informing and educating relevant Company staff of the implications and responsibilities of this policy and credit generally.

3.6. Authority Levels

- While it is the responsibility of all the Company's departments and divisions to make recommendations to the Credit Department on the opening of new accounts, setting of credit limits, and other related credit functions, the final authority remains with the following people:
- New Accounts:

<i>Credit Limit</i>	<i>Required Approval Level</i>
All Levels	Financial Manager and CEO

- Special Terms

<i>Debtor Amount</i>	<i>Report to</i>
All Levels	Financial Manager and CEO

3.7. Bad & Doubtful Debts

- Should outstanding balances not be recoverable using internal procedures, accounts may be handed over to Debtsource.
- If the amount remains unrecoverable it should be written off as below:
 - **Bad Debts**

Specific bad debts must be written off to the income statement as soon as available information supports that the debt is irrecoverable
 All attempts must be made to recover the debt even though it has been written off.
 A list of bad debts written off must be maintained
 All write-offs must be approved as below"

<i>Value</i>	<i>Required Approval Level</i>
All Levels	Financial Manager and CEO

○ ***Doubtful Debts***

At the end of each reporting period the Company shall assess whether there is any objective evidence that any outstanding debtors balance is impaired. If any such evidence exists, the Company shall determine the amount of any impairment loss.

SUMMARY

Accounts receivable as an asset is the end-product of the production/sales chain of events and is the prime source of corporate revenue. Successful management of this asset depends on proper application of credit management and control principles not necessarily directly under the control of the Credit Department. The document is therefore an attempt to co-ordinate the efforts of all stakeholders, thereby ensuring a coherent, disciplined and customer-centric approach to the process. The following individuals are required to approve the document:

CEO:

Date approved:

Financial Manager

Date approved:
