



Synergy House Berhad Group of Companies - Credit Policy



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1. INTRODUCTION, SCOPE AND PURPOSE

In line with Synergy House Berhad credit management objective, the Credit Committee formulates the risk management policies, procedures and authorization limits to better serve the global businesses conducted by the company.

Therefore, the scope of the Risk Policy shall include the following Synergy House Berhad Group entities i.e., companies:

1. Synergy House Furniture Sdn Bhd
2. Synergy House International Sdn Bhd
3. Sunny & Ker Furniture Industries Sdn Bhd
4. Synergy House Berhad


The purpose of this Credit Policy is to set the minimum credit exposure management frameworks and policies, achieve standardization of credit terms and to enhance the sharing of credit information across the Synergy House Berhad group of companies.

All the Heads of business units and their respective Finance Departments shall comply with this Credit Policy and when in doubt, seek clarification from the Credit Committee.

The responsibility for issuing new management procedures, policies, amendments and maintaining the Credit Policy lies with the Credit Committee in consultation with the respective Heads of Departments.

2. DEFINITIONS

- a) **Credit risk** is the overall risk of financial loss from the failure/default of customers to discharge their financial and contractual obligations arising from trade credits or trade receivables.
- b) **Credit Limit** – refers to the payment default risk by the customer. Credit limit includes unbilled deliveries, and forms part of total credit exposure.

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3. OBJECTIVES OF CREDIT RISK MANAGEMENT

Credit risk exposure is to be managed at the business unit level, but macro-Group-wide policies on the granting of credit and credit control may be issued and monitored centrally, such as those relating to credit risk concentration, adequacy of formal credit rating and evaluation of customers credit impairment and unit level credit control performance.


The Group’s objectives on credit and risk management are to avoid significant exposure to any individual customer, minimise concentration of credit risk, safeguard financial assets and optimize working capital on trade receivables.

4. RISK MANAGEMENT APPROACH

Credit risk is managed through the application of credit approvals, credit limits, insurance programmes and monitoring procedures on an on-going basis. If necessary, collateral may be obtained from customers as a means of mitigating losses in the event of default. The objective is to trade with approved creditworthy customers and minimize country risk exposure wherever possible.

Credit and risk exposure shall be proactively managed as follows:

- a) Customers should be assessed for credit and sovereign nation risks (where applicable) on both quantitative and qualitative elements prior to the approval of credit limits. In this regard, external credit rating services should be used where possible. Regular reviews should be carried out;
- b) Credit limit – establishing a credit limit for each customer (and ensuring credit exposure does not exceed this limit at all times). Credit limit includes unbilled deliveries.
- c) Setting appropriate credit limits for single customers trading with two or more Synergy House Furniture entities.
- d) Establishing credit period (if applicable) based on respective credit standing – and ensuring the credit exposure does not spill beyond the approved credit period which would contribute to overdue.
- e) Credit exposure should be monitored on limits and ageing, managed and reviewed periodically. Customers with emerging credit problems should be identified early and remedial actions should be taken promptly to minimise further exposure and to restore past due status.
- f) Regular monitoring of credit exposure. Breaches of the limits, particularly due to overdue accounts, shall be immediately reacted upon.

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- g) Where overdue has occurred:
 - i) Exercise restraint on new contractual arrangement that would further add credit exposure until the overdue is cleared.
 - ii) Prompt action is taken to impose “STOP” deliveries if previous deliveries have not been paid.
- h) When possible, obtain collateral and other credit enhancement arrangements to reduce net exposure.
 - i) Regular review of individual credit risk rating.
 - j) Active participation from Credit Committee.


5. COLLATERAL AND CREDIT ENHANCEMENT

In general, collateral and credit enhancement may be a combination of the following where applicable:

- a) Bank guarantee may be required for local customers;
- b) Cash deposits/advance may be required for certain customers or orders;
- c) Transactional documentation (i.e. Letter of Credit) for overseas customers; and
- d) Credit insurance coverage (up to certain established credit insurance limits) – leaving some credit exposure on declined coverage and those beyond approved credit insurance limits.

6. CREDIT COMMITTEE

- a) Synergy House Furniture shall establish Credit Committees to meet on a periodic basis to discuss and review credit evaluations of new and existing customers, and to monitor debtors’ ageing and overdue accounts.
- b) Structure of the Credit Committee:
 - i) The Committee shall comprise members from Marketing, Finance departments and head of respective business units.
 - ii) Chairman of the Committee is to be appointed.
 - iii) A Secretary is to be appointed to take minutes of the meeting. The minutes shall record the credit decisions taken by the Committee based on the credit information and documents submitted.

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- c) Scope of responsibilities:
- i) Setting appropriate credit limits for customers trading with Synergy House Furniture entities.
 - ii) Setting appropriate credit terms and conditions for each customer.
 - iii) Approving variations in credit limits and credit terms and conditions.
 - iv) Annual review of credit limits and credit terms and conditions.
 - v) Regular monitoring of debtors' ageing and overdue accounts.
 - vi) Monitoring achievement of target average days outstanding (ADO) of debts.
 - vii) Recommending the write-off of bad debt subject to approved limit.
 - viii) Providing oversight on credit control functions including enforcement and compliance of credit control policies and procedures herein.


7. NEW CUSTOMER CREDIT EVALUATION AND CREDIT INFORMATION CHECKS

7.1 New Customer Evaluation Documentations

A) Documents for submission

A new customer credit evaluation form should be completed. The following documents should be submitted by the potential customer. Please note that this list is not exhaustive but should be obtained if possible.

- i) Latest copy of audited Financial Statements
- ii) Copy of the credit report from credit rating agencies (where available)
- iii) Bank references
- iv) Trade reference
- v) History of account experience (This should be used where there is current trade with the customer, and should include the payments history)
- vi) Market information (any information from other suppliers will add to the overall creditworthiness)
- vii) Credit Insurers reports
- viii) Register of legal/Court judgements against the company (This may not be relevant in all jurisdictions. If a company has defaulted on loans and the creditor has applied for the recovery of the balance then the case may be made publicly available with the local Courts)
- ix) Copy of customer's Memorandum and Articles of Association and the latest statutory return/filing of shareholders (for less known customer) or similar documents applicable to the customer's country of incorporation.

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B) Description of the business

For a potential customer who is intending to trade with Synergy House Furniture, the Marketing Department must provide as much information on the customer as possible.

- i) As part of the information gathering process, a short description of the customer's operations needs to be stated and the key markets in which it operates. Such background information should be available from the sales person responsible for that potential customer,
- ii) The company's legal name and form. Some customers may trade as a registered company and some as partnership,
- iii) Address
For every customer there must be a link between delivery address, contract partner and payment (invoice) address.
- iv) How long has it been operating?
An established and well known company should have a good track record which should show a healthy position.
- v) Do sales fluctuate by season? Is it a subsidiary of another company that might provide a guarantee? Where does the company stand vis-à-vis competitors?

C) Management Team


A brief description of the key management of the new customer should be provided. Full contact details should also be given for the customer sales personnel and also their Finance (Payment) Department.

D) Financial Statements

The latest copy of the audited financial statements should be obtained and reviewed for the solvency of the company. Key review criteria should include the current ratio, overall reserves position, net inflow/outflow of cash (where Cash Flow Statements are available), long term loans (external and inter-company).

E) New Customer Credit Evaluation Form

This should be completed by the marketing person responsible for that new customer based on the information available.

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7.2 New Customers Credit Information Checks

A) Credit Rating

Before any trade commences with a potential customer, a “Credit Rating” must be performed (where possible) by the entity before any shipment is made.

B) Other sources of information for credit ratings:

In addition to credit rating agencies, there are several other sources of valuable information which give an indication of the creditworthiness or rating of a potential customer. These sources may be used in conjunction with the agency’s ratings to give an overall view of the potential credit risk.

- i) Bank References
- ii) Trade References
- iii) Visits to Customers by Credit or Sales staff
- iv) Industry Credit Circles
- v) Credit Insurers
- vi) Financial Statements
- vii) Companies Commission
- viii) Register of Court Judgements or equivalent
- ix) Insolvency Services Agency or equivalent


8. GUIDELINES IN DETERMINATION AND APPROVAL OF CREDIT LIMITS

Credit limits and credit terms shall be subject to review by the Credit Committee at least on an annual basis.

The following are Guidelines in Determination and Approval of Credit Limits:

- Credit limits shall be determined based on monthly average sales for existing customers (expected monthly average sales for new customers), payment lead time and payment turnaround time.
- Proposed credit limits and credit (payment) terms shall be presented to the Credit Committee and approved in accordance with the Chart of Authority.
- Credit limits and credit terms shall be subject to review by the Credit Committee at least on an annual basis.

8.1 Approval for increase in existing credit limit

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If an increase in a customer’s credit limit is required, then the proposed limit should be supported by a revised credit limit application form via Wrike, including details of the current sales levels per month and the expected sales level per month. Any other supporting documentation should also be provided such as correspondence between the customer and sales manager, and where possible a justification for the increase from the sales manager. Approval to be in line with the Chart of Authority.

8.2 Reduction of existing credit limit

Where customers are consistently slow in paying or there is some adverse change in the risk profile of the customer then it may be advisable to reduce the credit limit of that customer. The reduction should serve to highlight the risk from trading with customer or to “freeze” any further sales to that customer.

In certain cases it may be advisable to reduce the credit limit to zero so that further sales are frozen. Putting such a stop on sales serves to highlight that the customer is a high risk, and only when specific authorization has been given, can further sales be made.


9. BLOCKING OF CUSTOMER’S ACCOUNT/FREEZING CREDIT TO CUSTOMERS

There may be occasions where an account is required to be blocked or frozen for several reasons. To ensure that the credit risk is minimized, if there is any doubt as to the creditworthiness of a customer due to deterioration of financial affairs, then the customer account should be blocked until further authorization is given.

9.1 Conditions for Blocking Accounts:

- a) Non-payment from customer – overdue account
 - i) Where a customer has not paid on the due date as per the invoice (i.e., previous shipment has not been paid), then the customer account should be BLOCKED by the Credit Control / Finance Department. The issuance of instruction by Shipping/Operation Department to Logistics Department to load deliveries for further shipment will be suspended.

Before blocking the customer’s account, contact should be made with the customer to understand the reason for the non-payment. There may be occasions when the payment is in transit, or has been delayed for several reasons (seasonal closures of customer’s offices, customer’s staff being sick, customer payment system problems).

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To ensure that good relationship with customers is maintained when such reasons occur for the non-payment of receivables, then it maybe more beneficial to keep the customer account active.

Such reasons should be noted in the customer account, with a flag as a reminder to follow up within the time frame specified from customer (i.e. when payment can be expected).

- b) Customer account is overdue and/or credit limit is exceeded
Customer account should be blocked when the customer account is overdue and/or credit limit is exceeded.
- c) Deterioration in the financial affairs of the customer
The financial affairs of the customers may deteriorate due to poor management, political events and slowing down of the world economy hence the Credit Committee must keep abreast with the economic affairs of the customers at all times. In such an event should occur, instructions must be issued to freeze/block the customer accounts until additional credit enhancements are in place, e.g., confirmed Letter of Credit.
- d) If there is any exception to the point above, the Credit Committee must obtain authorization according to Chart of Authority.


10. PERIODIC REVIEW OF OVERDUE ACCOUNTS AND CREDIT LIMITS

10.1 Overdue Accounts and collections

As part of the good credit management of customer accounts, such customers should be continually reviewed for those accounts being overdue and exceeding the authorized credit limit. This should be a weekly routine as a minimum, and should be completed by the Credit Control Department as part of their core responsibility.

The Credit Committee shall review the listing for overdue accounts and review the effectiveness of the collection efforts made to collect the overdue amounts. The Committee may take the following actions, e.g.:

- i) Business Head to visit the Managing Director/CEO of the customer to mutually agree on a repayment schedule,
- ii) To seek credit enhancement for the account e.g., corporate guarantee, Letter of Credit

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iii) As a last resort to commence legal action

10.2 Minimizing Invoice Disputes

Prompt efforts should be made to investigate and clear the overdue amounts due to disputes with customers e.g., freight charges, quality issues or quantity.

10.3 Preventing the Build Up of Overdues

Concerted efforts must be put in place to prevent ongoing deliveries when the customer accounts are already in arrears or exceeded its customer limit.

11. PROVISION FOR DOUBTFUL DEBTS AND WRITE OFF FOR BAD DEBTS

11.1 It is recommended that the Credit Committee makes a specific provision for doubtful debts when the accounts are overdue for more than 180 days unless prior payment arrangements are in place.

11.2 The Credit Committee is to recommend to write off a specific debt AFTER all legal and collection efforts have failed which must be supported by documentary evidence.

11.3 The approval for the write off of debt is based on the Chart of Authority.

12. MONTH END CREDIT REPORTING


12.1 Credit Reporting Procedures

Month end credit reports should be prepared for submission to Credit Committee members.

The Credit Committee should take a strong interest in the credit risk management of receivables and recommends credit instructions from time to time. Whilst there is a business objective to balance sales opportunity with strong credit management, all Business Heads are encouraged to play a proactive role to continuously reduce the "outstanding credit days" so as to "free" up the cash resources for the Group.

12.2 Month end credit reports

- i) Overdue analysis- credit risk exposure
- ii) Impairment of receivables

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- iii) Exception report on external overdue receivables
- iv) Average trade receivables outstanding (ADO)