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OVERVIEW

WHO WE ARE

ACE GLOBAL DEPOSITORY and its affiliates and associates ("ACE GLOBAL") are in the business of operating secured lending programs in conjunction with banks all over the world. This system of secured financing is used to increase the credit capacity of commercial borrowers and to provide lenders with needed protection and security on their working capital loans.

ACE Global's financial service is an asset control service in which the company provides lenders with assurances on the existence of inventories, the validity of accounts receivable, and the proper handling of receivables collection's for their commercial industrial, and agricultural loans. These services are used to enhance the loan value of inventories and accounts receivable.

WHAT WE DO

By employing the relevant ACE GLOBAL product program to the envisaged operation, we ensure effective collateral control, expeditious risk identification and risk mitigation expertise as well as continuous monitoring of the goods, through a timely and accurate flow of information furnished to the relevant financial institution throughout the duration of the financing. Our engagement as a risk partner enables financial institutions to extend financing and credit facilities to customers who would have previously been turned away and has the potential to enhance the credit limit generally available to the customer. We ensure that we maintain what is known as "continuous, notorious, and exclusive possession of the goods stored" and that our operations meet the real test of possession (that is physical control plus the intent to exclude others). This is critical in order to render the bailment of the good valid and effective and accomplish an effective change in the possession of the goods and premises.

OUR OBJECTIVE

This Product Program has been developed by our in-house team in order to take the reader through the Field Warehousing services provided by ACE GLOBAL, identify the basic advantages for the key stakeholders, provide a summary of the relevant internal procedures to be adopted by the financial institution, and to categorize the relevant documentation required in order to make the inter-party obligations effective.

FIELD WAREHOUSING

INTRODUCTION

Field Warehousing is essentially a method whereby a borrower's trading assets or inventory is used as security at the borrower's own premises for a loan or financing. It is a security instrument which enables the borrower to deliver to the Bank legally valid documents of title, and to grant a possessory pledge over goods stored in the borrower's own plant, mill, refinery or warehouse via the legal principle of Bailment.

ACE GLOBAL documentation (Field Warehousing Agreement) clearly establishes the link between a pledge over goods by the Bank, the acceptance of goods by ACE GLOBAL on behalf of the Bank as bailee of the goods, and the creation and perfection of a valid security under the financing facility for and on behalf of the Bank.

Therefore in such structured trade and commodity finance transactions, there is an inextricable connection between the issuance of the Warehouse receipt by ACE GLOBAL and disbursement by the Bank of the financing facility to the borrower. ACE GLOBAL acts exclusively as the agent of and on the instructions of the Bank and accordingly ensures that the Bank's pledge over goods is maintained without excuse or delay.



BENEFITS OF FIELD WAREHOUSING

ADVANTAGES TO THE LENDER

From the lender's point-of-view, the legal title in the goods is unquestioned if the field warehouse is properly established and maintained on its behalf and possession of the Goods is maintained in the hands of an independent third party.

As a pledgee the lender is a secured creditor pursuant to the financing documents and is in constructive possession of the goods placed as security and listed on ACE GLOBAL's Warehouse Receipts. A lender secures its interest in the goods and perfects the pledge through ACE GLOBAL via:

- Constructive possession of pledged goods;
- Accurate reporting and accounting by ACE GLOBAL of all movements and balances;
- Deliveries to the borrower and releases being made only in accordance with the lender's instruction;
- ACE GLOBAL ensures accurate reporting over the condition of the goods described in the Warehouse Receipts; and
- Lender as the holder of the Warehouse Receipts is protected against professional negligence and fraud under ACE GLOBAL's comprehensive professional indemnity insurance.

ADVANTAGES TO THE BORROWER

From the borrower's perspective, facilities can be provided for the convenient deposit and withdrawal of goods for processing or sale, a condition which may be essential to the proper conduct of the business.

The establishment of a field warehouse may be the least costly method of enabling a business to obtain credit and to carry on productive operations that would otherwise be impossible to do. Field warehouse operations may also be set up to effect savings in storage rates or to avoid costs of transporting goods to a public terminal warehouse.

BANK PROCEDURES FOR LENDING AGAINST WAREHOUSE RECEIPTS

In any loan application that is considered by the Bank, there are a number of pre-loan considerations which must be taken into account by the Bank prior to agreeing to grant a credit facility to its client. Know Your Client's Client (KYCC) due diligence has to be conducted and certain decisions have to be taken such as:

- The maximum amount of credit to be made available against ACE GLOBAL's Warehouse Receipts;
- The percentage of the advance to be made against the value of the collateral.
- The pricing system in valuing the collateral (i.e. Borrowers cost, sales price less percentage, etc.)
- The frequency with which reporting on the borrowing base would be required and the nature of the documentation to be presented by ACE GLOBAL on a periodic basis.
- The release mechanism prior to the goods being released by ACE GLOBAL to the borrower / relevant off taker.



KEY STEPS - CONSTRUCTING A VALID FIELD WAREHOUSE

CUSTODY, POSSESSION AND CONTROL

In order, for ACE GLOBAL to create a valid Field Warehouse at the premises of the borrower, it is essential that ACE GLOBAL constructs a legally *independent* warehouse *within* the borrower's premises. The validity of the bailment of the goods into the custody and possession of ACE GLOBAL, and the independence of ACE GLOBAL's operations at the storage premises is subject to:

- ACE GLOBAL leasing/ sub leasing the storage area in which the collateral is to be stored by the borrower and managed by ACE GLOBAL – this creates a legal dominion over the premises and enables the exclusion of unauthorized persons.
- 2. ACE GLOBAL posting conspicuous and prominent signs giving the public notice that the storage premises are operated and controlled by ACE GLOBAL.
- ACE GLOBAL adding its own lock and key to the storage premises and/or double locking the
 premises in order to have complete control over warehouse and specially the movement of
 goods constituting the collateral, in and out of the warehouse.

ACE GLOBAL must ensure that it is granted unequivocal, exclusive, continuous and notorious possession over the storage facilities. To satisfy the test of possession, one must show control plus the intent to exclude others. Notorious possession is evidenced by placing numerous signs and continuous and exclusive possession is evidenced by the fact that ACE GLOBAL has one of its employees agents or representatives on duty at all times when the premises are unlocked. Hence, to satisfy the test of possession, one must show control plus the intent to exclude others.

WAREHOUSE INSPECTION AND APPRAISAL

ACE GLOBAL conducts its own internal inspection procedures and prepares a due diligence checklist before accepting a warehouse for providing its services. A detailed Inspection of the warehouse is conducted to ascertain that the warehouse is feasible in all respects for conducting the Field Warehousing services.

SUITABILITY OF STORAGE FACILITIES - RECORDAL OF PREVAILING CONDITIONS

Storage Facilities must be equipped to provide for proper care of the inventory and for preservation of its quality.

• Common dangers, such as those from fire might arise from the structure of the building, condition of electrical wiring, inadequacy of fire control apparatus, poor housekeeping, the



neighborhood, remoteness of local fire department, proximity to incinerators, etc. If such dangers exist they should be recognized and brought to the attention of the Bank and the borrower immediately in and noted in the inspection report.

- Some goods require temperature regulation, humidity, aeration or equipment where required must be adequate and reliable.
- Floor loading is a consideration with heavy goods and wooden floors.
- Water damage is another potential problem, whether from leaking roofs, condensation, or flooding.

Anything which can be reasonably observed to be detrimental to the care or preservation of inventory should be notified to the Bank and corrected by the borrower immediately and in any event prior to the location being approved for storage and field warehousing.

Locking - Ability to exclude others

Under Field Warehousing Arrangements there is an obligation on ACE GLOBAL to control the storage, movement and release of the Goods as per the Bank's instructions.

- It is essential that ACE GLOBAL be able to control release of the Goods and accordingly, ACE GLOBAL must be provided with the right to install its locks on entrances to areas where inventory subject to the Bank's interest is stored, and to lock the entrances or institute whatever other control measures (such as double locking) as are necessary to prevent the movement of inventory when a ACE GLOBAL employee is not on duty or if in the opinion of ACE GLOBAL, further releases of inventory would constitute a violation of the Bank's instructions.
- The locks used may be padlocks furnished by ACE GLOBAL, or any other style of lock which is compatible with the ACE GLOBAL systems on ground. Keys must be kept in the possession of ACE GLOBAL employees only and the storage facilities must be conspicuously sign posted.
- Where required, there must be alternative control measures available to prevent the unauthorized release of the inventory.
- If the inventory can only be controlled by excluding the borrower's, or employees and the borrower requires access to the inventory in order to process the goods or otherwise deal in them up to an agreed minimum release quantity without formal Bank instructions, ACE



GLOBAL should not undertake to stop the deliveries/ releases provided the Bank has so agreed.

DETAILS OF STORAGE FACILITY

Under Field Warehousing, the inventory collateral or pledged goods are placed at premises which either belong to the borrower or have been leased by it, and there is accordingly either a lease or sub lease granted by the borrower to ACE GLOBAL directly.

LEASE / SUB-LEASE

A lease or sub lease is a condition precedent to commencing the Field Warehousing operations. If the warehouse is owned by the borrower who becomes the depositor of the goods, (which more than often is the case under field warehousing), ACE GLOBAL obtains a direct lease over the premises owned by the borrower, being owner of the warehouse. Where the warehouse is taken on lease by the borrower, ACE GLOBAL ensures that the head lease allows for a sublease to be lawfully granted to it by the borrower and then enters into such a sub-lease. In addition, a Landlord Waiver and Consent Agreement is signed with the landlord in parallel to the sub lease document in order to confirm the landlord's approval and consent to the underlying operations. Where the head lease prohibits or restricts the grant of a sublease, then it is advised to amend the head lease and to obtain the express and unconditional assent of the landlord.

NOTE: It is important to note that the nature of the lease or sub lease will vary depending on the nature of the goods / products e.g dry, liquid, frozen, open storage etc and that it can be granted over the entire premises or only a part thereof, provided that the section under control and custody of ACE GLOBAL is clearly defined and identified in a floor plan.

LETTER OF INDEMNITY

As the actual operations may entail a number of third parties involved such as agents of the borrower, transporters, processors, sub-contractors etc, and because more often than not, the borrower is required to maintain continued access to the goods in the warehouse, albeit under the supervision of ACE GLOBAL, a letter of indemnity as issued by the borrower to ACE GLOBAL is essential and must be obtained..

PROFESSIONAL INDEMNITY INSURANCE

ACE GLOBAL's Professional Indemnity Insurance is one of the best available in the industry, which indemnifies the insured against legal liability, costs or expenses arising out of ACE GLOBAL's operation including all ACE GLOBAL offices and agents worldwide. This covers our client against professional liability for negligence and/ or fraud up to USD 200 Million per occurrence.



CARGO / MARINE / FOG/ FOQ INSURANCE

ACE GLOBAL ensures in the interests of the Bank that adequate Cargo insurance, being a condition precedent to commencing operations (unless otherwise waived by the Bank) has been obtained by the Borrower.

This forms the backbone of the compensation structure under the tripartite Field Warehousing agreement. Hence the Borrower is required at its own cost and expense to obtain with an approved insurance company, insurance for the Goods during storage in the Premises as well as for the goods-in-transit. The insurance is preferably to be in accordance with the Institute Cargo Clauses (All Risks) and in respect of standard risks under fire and burglary policies, riots and/or strikes and/or civil commotion and/or terrorism and/or malicious damage, and all other related risks including misappropriation.

Additionally, ACE GLOBAL in light of its excellent relationships with several international insurance providers, may be engaged for the procurement of appropriate insurance for the Goods against all risks for either one or several of the following segments of operations:

- Pre-shipment including storage and transit
- Marine coverage (vessel overage premium to be considered when applicable)
- Post shipment including storage and transit
- Full Outturn Guarantee (FOG) and Full Outturn Quality (FOQ)

IMPORTANT DEFINITIONS

"Pledge"- is the act of depositing property of some sort with a lender with the intention that it be held by the lender as collateral to insure repayment of the loan. When a borrower furnishes the lender collateral to strengthen a loan and provide security for its obligations under the financing extended by the lender, the borrower, it is said to have pledged the collateral to the lender. In that:

- The person depositing the property with the lender, (the borrower) is referred to as the pledgor, while the person in whose favor the pledge is executed is called the pledgee (the lender).
- ii. There can be no pledge without obligation. The pledge is the agreement which relates a certain deposit property to a certain obligation, as a result of which that property becomes collateral to that obligation.
- iii. In order to render the pledge effective and to perfect the lien thereunder, the borrower must place the goods into the constructive possession of the lender, whether directly or where agreed, with an independent third party (such as a collateral controller acting on behalf of the Bank) under and pursuant to the legal principles of Bailment.

"Lien" - The right to retain possession of a property until all charges against it are paid.



- 1. "Possessory Lien" When one person holds the possession of another's property and has to perform services upon it for which he is entitled to remuneration, the said person automatically obtains- by the general principles of law- the right to retain possession of the property until all charges against it are paid. This right is known as a lien.
 - i. The lien does not give the creditor any rights other than that of retaining possession until the charges have been paid, (unless specifically provided by the agreement).
- ii. However, some countries do provide a provision to creditors, or lienor, the right to sell property after a reasonable period in order to get funds with which to pay off the amount owed by the owner of the goods
- 2. "Bank Pledgee's lien"— The pledge creates the collateral relationship between the deposit goods and the loan by creating lien upon the goods in favor of the lender. A Bank-Pledgee's lien differs from a regular lien in that when a property has been pledged specifically for the purpose of securing an obligation the creditor has the legal right, upon default of the debtor, to sell the property in order to obtain funds with which to retire the debt.
- 3. "Warehouseman's lien/ Collateral Controller's lien" The warehouseman/ collateral controller is automatically given a lien upon goods stored under a non-negotiable receipt for all lawful charges for the storage and preservation of the goods; and for the sale of the goods where default has been made in satisfying the warehouseman's lien. Until his lien is satisfied the warehouseman/ collateral controller may refuse to deliver the goods. If he releases the goods he loses his lien upon them. The lien is limited to the charges arising in connection with the goods covered by a particular receipt

"Bailment" - The transfer of the possession of Goods by the owner (bailor) to another (the bailee) which shall thereafter maintain notorious, continuous and exclusive possession of all the Goods, for particular purposes such as hiring, financing, pledge of goods, and the delivery of Goods for carriage, safe custody or repair.

- Notorious possession is evidenced by numerous conspicuous signs placed by ACE GLOBAL DEPOSITORY at the storage premises.; Continuous and exclusive possession is assured by the fact that ACE GLOBAL DEPOSITORY has one of its employees or agents or representatives on duty at all times when the premises are unlocked and that anyone permitted to enter the premises does so only at the will of ACE GLOBAL DEPOSITORY or with its consent.
- The foregoing steps accomplish an effective change in the possession of the goods and premises. Thereafter, warehouse receipts may be issued at the borrower's premises in respect of Goods stored therein and the constructive possession of the Goods is maintained by ACE GLOBAL DEPOSITORY for and on behalf of the lender / Bank throughout the duration of the financing and till the goods are required to be released.



"Depositor" and/or "Borrower" - The company which deposits the commodity purchased from its own funds or through financing provided by the bank.

"Goods and/or Products" - Goods which are or shall be deposited upon execution hereof in the Storage Facilities, and which the Borrower has pledged in favour of the Bank;

"Field Warehouse" is essentially a bespoke collateral control structure created on the borrower's premises where the borrower has his own premises being used for storage/ processing and wants to keep the inventory or store goods being financed on his own premises. The inventory serving as collateral is physically segregated from the borrower's other inventory and is strictly supervised by a third party collateral controller appointed exclusively by the Bank in order to take possession and control, and to manage the collateral (either existing inventory or a new consignment) within the borrower's premises.

"Field Warehousing" – This refers to a scheme which essentially began as a device to enable the owner of a stock of shifting Goods to pledge it as collateral for a loan. If properly conducted, it gives effect to a valid Bailment and a creates a resulting security interest in favour of the Warehouse Receipt holder (the Bank), in the inventory/ Goods which have been deposited into the warehouse which is owned or controlled by the Depositor, and provides effective third party control and enables close regulation of the amount of the Goods which are to be made available to the Depositor for subsequent use or sale. In order for a field warehouse and the lien created thereby to be recognized as valid, the possession of the Collateral Controller must be "open, exclusive, notorious and unequivocal". All of the ACE GLOBAL DEPOSITORY operating procedures must comply with this standard;

"Warehouse Receipt" - A non-negotiable warehouse certificate issued by ACE GLOBAL DEPOSITORY pursuant to a relevant Collateral Control Agreement and signed by an authorised official thereof and co-signed by the storer of the warehouse constituting the Storage Facility where applicable and required, and given by notice to the Bank, which certifies:

- i) the receipt into storage of a Consignment of the Goods in good order which specifies the Goods, together with the [quality where agreed to be applicable], quantity and weight thereof; and
- ii) the details of the supplier and the Storage Facilities into which the Goods have been accepted; and
- the manner of storage of the Goods (such as in bales, drums, bags or in bulk); and confirmation that the Goods will be delivered on demand upon receipt of written release instructions from the Bank.

Depending on the transaction, the Warehouse Receipt will be adapted to fit the transaction specifics, especially for In Situ and equivalent export (if a processor is involved), and will show relevant validity and margins taken.



"Final Release" - The last release issued by the Bank, which will bring the balance Warehouse Receipt weight minus cumulated releases to nil;

"Misappropriation" - Unauthorised, fraudulent or dishonest appropriation or use, or unexpected or unforeseen or unexplained loss of the Goods under collateral management / Field Warehousing and /or monitoring and/or storage supervision by ACE GLOBAL DEPOSITORY and shall, inter alia, include the risk association with fraud, defalcation, misapplication, embezzlement, fraudulent transfer of ownership from the insured interest and dispossession thereof, except that which solely results from a governmental intervention.

"Full Outturn Guarantee / FOG" - The insurance coverage extended to differences and shortages in quantities of any Goods under specific terms and conditions.

"Full Outturn Quality / FOQ" - The insurance coverage extended to defects and differences in quality parameters and/or specifications in any Goods under specific terms and conditions.

"In Situ" - Stocks which were not constituted under supervision of the Collateral Controller and are therefore already existing in the approved Storage Facility at the time the Collateral Controller deployed its staff to commence the operations;

"Net Weight" - The weight (in metric tons or in any other applicable weighing standard) of a Consignment determined in terms of the Class and Grading Rules;

"Shortage and/or Defect" - Any Goods weight discrepancy and/or any defects or differences in the quality and/or specifications of the Goods which occurs between Intake and Dispatch, measured during the term of the relevant Agreement;



LEGAL DOCUMENTATION

The ACE GLOBAL Field Warehousing services have been presented to a number of Banks and an analysis of the question and queries raised indicates that the principal concern of Banks relates to the amount of paper work with which the Bank may become involved.

The following paragraphs illustrate the minimum required documentation in order to implement the tripartite arrangement and perfect the Bank's security over the financed goods under Field Warehousing.

FACILITY AGREEMENT AND PLEDGE DOCUMENTATION

The Agreement is entered into by the Bank with the Borrower and where required ACE GLOBAL can assist in the review and preparation of such agreements at the request of the Bank.

Note: With Field Warehousing a floating charge is not required, neither is any form of registration, apart from that required for the pledge agreement depending on each jurisdiction.

FIELD WAREHOUSING AND STORAGE AGREEMENT

The Agreement is entered into by ACE GLOBAL (or a local affiliate or associate thereof) with the Bank and the Borrower.

LEASE / SUB LEASE AND LANDLORD WAIVER AND CONSENT AGREEMENT

To be executed in ACE GLOBAL standard form.

LETTER OF INDEMNITY

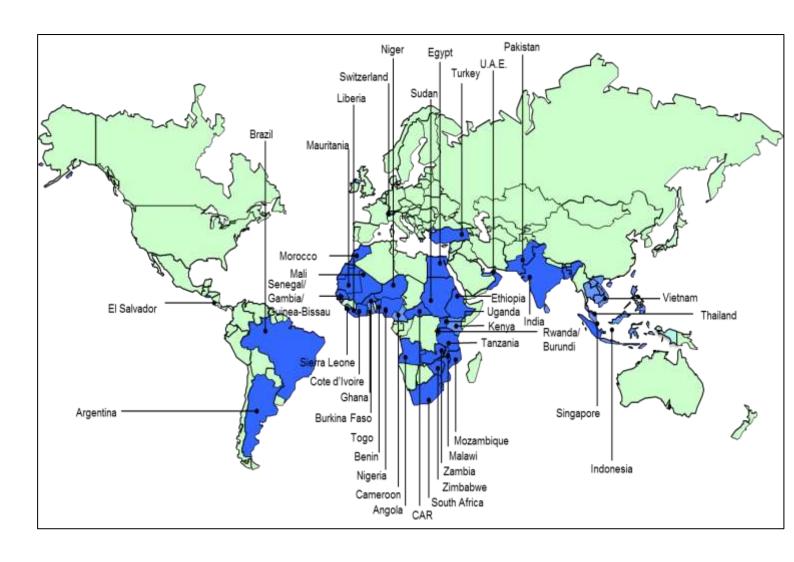
To be executed in ACE GLOBAL standard form.

RELEASE / DELIVERY ORDER

The Delivery Order is issued by the Bank to ACE GLOBAL. The terms of this letter may vary as Bank sees fit, but essentially this contains authority permitting ACE GLOBAL to deliver up to a specified maximum amount periodically (weekly for example). The Bank can either treat this as an open line of credit, or can reduce its initial advance by the authority, so that it is in a position of being pre-paid for all deliveries. Alternatively the Bank may specify that no goods are to be released unless pursuant to a release order issued in respect of a particular Warehouse Receipt.



ACE GLOBAL DEPOSITORY COVERAGE



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