

**CITICODE LTD.**

(Incorporated in the Republic of Singapore)  
(Company Registration Number 200404283C)

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**RESPONSE TO SGX QUERIES IN RELATION TO THE  
HALF YEARLY RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020**

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The Board of Directors (the “**Board**”) of Citicode Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 21 September 2020 relating to the Company’s announcement released on 14 August 2020, and wish to provide following response to the Company’s results announcement for the financial period ended 30 June 2020 (the “**1H2020 Results Announcement**”).

**SGX-ST’S QUERY 1**

*Page 3 of 1H2020 Results Announcement: Negative working capital*

*Provide reasonable explanations for the negative working capital of S\$61,000. Explain how the Company is able to meet its short-term obligations as and when they fall due. Quantify and substantiate with data.*

**COMPANY’S RESPONSE ON QUERY 1**

The negative working capital was due mainly to accrued operating expenses, including professional fees which remained outstanding as at 30 June 2020 and were expected to fall due within 12 months from 30 June 2020. As disclosed in Note 13 of the Results Announcement, the Company had disclosed in the Annual Report 2019 that the Executive Chairman and CEO, Mr. Teh Wing Kwan (“**TWK**”), had given a financial undertaking to support the Group and the Company’s working capital needs. TWK has been providing interest-free loans to the Company to meet the Company’s working capital needs. During the period under review, TWK provided financial assistance to the Company in the form of an interest free loan of S\$150,000 in aggregate. It was further disclosed in Note 13 that it is expected that TWK will continue to provide financial support to the Company. The financial support from TWK will enable the Company to meet its short-term obligations as and when they fall due.

**SGX-ST’S QUERY 2**

*Page 9 of 1H2020 Results Announcement: Review of Financial Performance (1H2020 vs 1H2019)*

*“Revenue for 1H2020 fell by S\$3.08 million to S\$0.20 million as we cancelled most of our trading sales orders at our discretion as a result of renewed market uncertainty, commodities price volatility and major supply chain disruptions due to the Covid-19 Pandemic.” Disclose these trading sales partners and elaborate on the reasons for and how the Company was able to cancel its trading sales order? What were these sales orders relating to and how much did they amount to? Are there any legal implications or costs in these terminations? Do they relate to interested or related parties? Please elaborate if so.*

## **COMPANY'S RESPONSE ON QUERY 2**

In December 2019, we started our discussions and negotiations with two new customers who are traders and distributors for an estimated total orders forecast over 6 months ending 30 June 2020 ("1H2020"). These parties are China-based customers, namely Shuang Hong Trading Limited and Hengsen Trading Limited in Southwest region of China (the "New PRC Customers"). None of the New PRC Customers are interested or related parties. Based on these discussions, the indicative orders from the New PRC Customers as at 10 January 2020 were approximately 940 tonnes of copper for 6 months ending 30 June 2020 at an average estimated selling price of approximately US\$6,100 per tonne or US\$5.73 million in aggregate (the "1H20 Copper Orders") with approximately 40% (or 380 tonnes) and 60% (or 560 tonnes) of the 1H20 Copper Orders were supposed to be delivered by March 2020 and June 2020, respectively.

In February 2020, all the New PRC customers responded that that they had to delay orders as scheduled possibly by at least 1 to 2 months depending on the timing for reopening of production facilities and economic activities in China due to the lockdown of major cities in China, travel restrictions and supply chain disruptions as a result of the Covid-19 pandemic. In March 2020, copper price fell sharply as a result of the expected demand collapse in fear of prolonged pandemic. Both parties thus initiated negotiations and mutually agreed to cancel all the 1H20 Copper Orders amidst continued concerns over lockdown of nations, collapse in demand and further fall in prices. The cancellation of 1H20 Copper Orders has no legal implications or costs on both parties as these were mutually-agreed commercial decisions given the unprecedented risks arose from the Covid-19 pandemic as explained in the above.

As a result, we did not derive any revenues from our trading business for the 6 months ended 30 June 2020. For the avoidance of doubt, we did not have any purchases from suppliers as well during the period under review.

## **SGX-ST'S QUERY 3**

*Page 9 of 1H2020 Results Announcement: Review of Financial Performance (1H2020 vs 1H2019)*

*"As disclosed in the Performance Guidance Note on 7 August 2020, our trading business incurred hedging losses during the period under review given the changing exposure in the commodities market, particularly copper price fell by close to 20% in the month of March 2020 as the markets for metal commodities were extremely volatile." What were these hedges for? Please quantify the underlying amounts hedged and explain how these hedging losses were incurred. State the amount of hedging losses incurred. Are there any other hedges that have not expired? If yes, please provide details and quantify their impact.*

## **COMPANY'S RESPONSE ON QUERY 3**

As a trader, we were subject to risk of unfavourable prices fluctuations between receipts of customers' orders and delivery of suppliers' goods which we would normally hedge. The hedging was meant to hedge against the risk of copper price increase which would mean higher purchase price being paid to our suppliers while our selling prices with customers were fixed on receipts of their orders. (i.e in the event that the quoted market price for copper increases, we could buy at lower contract prices under the hedged position, take delivery of goods while preserving our margins but if the quoted market price for copper falls, then we would have to close off our hedged position at higher contract price and would incur hedging losses.)

During the period under review, we entered into hedging contracts to buy up to 900 tonnes of copper (based on approximately 95% of 1H20 Copper Orders of US\$5.73 million from the New PRC Customers) at a certain specified contract price ("Contract Price") under the hedging position. During the first quarter of this year, copper price fell by more than US\$1,300 per tonne as at 31 March 2020 (the "March Copper Price Fall"). Although there was no delivery of any 1H20 Copper Orders due to cancellation of sales orders on mutual agreement (as explained above), we still had to close off part of the hedging positions in March 2020 at the Contract Price and incurred hedging losses as quoted market price is lower than the Contract Price. For the 6 months ended 30 June 2020, our hedging loss was approximately US\$0.31 million or S\$0.44 million in

equivalent (as disclosed in Note 1.1 of the 1H2020 Results Announcement) or US\$344 hedging loss per tonne on average which was lower compared to the March Copper Price Fall as copper price recovered gradually between May 2020 to June 2020 during which we closed off all the outstanding hedging positions.

There are no outstanding hedging position as of now.

**SGX-ST'S QUERY 4**

*Page 9 of 1H2020 Results Announcement: Review of Financial Performance (1H2020 vs 1H2019)*

*"We made a discretionary decision to cancel out the corresponding future contracts without taking physical delivery of goods on worries that the coronavirus pandemic would have an unprecedented impact on the global commodity markets and would expose ourselves to increasingly higher risks across the supply chain amidst slowing global economic activities." Elaborate on how the Company was able to have discretion to cancel out future contracts without taking physical delivery of goods. Who were the counterparties to these future contracts and what were the quantities of the underlying commodities? What were the costs and liabilities incurred by the Company in relation to cancelling these future contracts and what are the implications of such cancellations?*

**COMPANY'S RESPONSE ON QUERY 4**

For the reasons as stated in the above Reply 2, both parties initiated negotiations and mutually agreed to cancel all the 1H20 Copper Orders in March 2020, including their future orders for April 2020 to June 2020 as at 31 March 2020 (the "Future Contracts"). As explained in the above, the New PRC Customers responded in February 2020 that they might delay in taking orders delivery by at least 1 to 2 months before the orders cancellation on mutual agreement in March 2020 and thus, we did not place any orders with our suppliers during February 2020 to March 2020. As such, we had no obligations to take physical delivery of goods from our suppliers. As disclosed in the Reply 2 above, the New PRC Customers are the customers for the Future Contracts, which was approximately 60% (or 560 tonnes) of the 1H20 Copper Orders. The cancellation of 1H20 Copper Orders (including the Future Contracts therein), has no legal implications or costs on both parties as these were mutually-agreed commercial decisions given the unprecedented risks arose from the Covid-19 pandemic as explained in the above.

**SGX-ST'S QUERY 5**

Page 13 of 1H2020 Results Announcement: Interested Person Transactions

Disclose the information in accordance with Listing Rule 907

**COMPANY'S RESPONSE ON QUERY 5**

<b><u>Name of interested person</u></b>	<b><u>Nature of relationship</u></b>	<b><u>Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)</u></b>	<b><u>Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)</u></b>
Teh Wing Kwan	Substantial shareholder, Executive Chairman and CEO of the Company	Nature of Transaction: Working Capital Loan of S\$150,000  Aggregate value of all interested person transactions: NIL (as the Working Capital Loan is interest free and as per Listing Rule 909(3), in the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing.)	Not applicable. As disclosed in note 13 of the 1H2020 Results Announcement, the Group did not obtain a general mandate from its shareholders for IPTs. The Group did not obtain such a mandate as the Working Capital Loan extended by Teh Wing Kwan to the Company is interest free and as per Listing Rule 909(3) - the aggregate value of such interested person transactions is NIL

BY ORDER OF THE BOARD

Teh Wing Kwan  
Executive Chairman and  
Chief Executive Officer  
23 September 2020