Cleantech Building Materials plc

INTERIM UNAUDITED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2019

Registered Number: 09357256 (England and Wales)

CONTENTS OF THE FINANCIAL STATEMENTS

INTERIM MANAGEMENT REPORT

Strategy and Objectives

The CBM Group's primary strategic objectives for 2019 are:

1. To secure the land, permitting and financing required to commence the construction of its own Accoya® wood manufacturing facility in China to enable the commercial production of its own Accoya® wood.

2. To increase sales of Accoya® wood imported from Europe both to new and existing wholesalers, and directly to wood manufacturers.

3. To build commercial relationships with large-volume Chinese wood manufacturers in anticipation of significant Accoya® wood capacity increase in the Chinese and ASEAN markets once the Group has commenced its commercial production of Accoya® wood.

The Group has made significant progress towards achieving these objectives during the six months ended 30 June 2019. We refer the reader to the significant developments in the Events After the Reporting Date section below.

Financial Review of the Business

The Group's revenues for the six months ended 30 June 2019 amounted to €545,000 (six months ended 30 June 2018: €385,000). The revenues were limited by the constrained supply of Accoya® wood. There continues to be strong demand for Accoya® wood from the Group's distributors.

The Group realised a net loss of €2,234,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: €2,169,000). The net loss for the current period was mainly due to salaries and professional costs, and a lower than expected contribution margin from sales.

As at 30 June 2019, the Group had cash and cash equivalents of €25,000 (30 June 2018: €58,000), €Nil (30 June 2018: €Nil) in interest bearing borrowings from independent third parties and net current liabilities of €2,020,000 (30 June 2018: €1,377,000). The Company increased its existing loan facility by a further €1 million during February 2019 and €1.5 million during May 2019, bringing the total available facility to €3.9 million at 30 June 2019. This financing provides sufficient working capital to continue the expansion of the Group's marketing and sales activities in China and the ASEAN markets, and to progress the financing and build plans for its own Accoya® wood factory in China. The Group continues to closely manage its cash position to ensure that any costs of financing are mitigated as fully as possible.

The Group has been investing to increase its marketing and sales activities and has successfully appointed seven wholesalers and distributors of Accoya® wood in the China and ASEAN regions. These agreements include escalating volume purchase commitments over a three-year period in exchange for market segment exclusivity. All of these Offtake Distribution agreements are extendable beyond 2020, conditional on sales performance. The Group foresees a growing order book from 2019 onwards; but in the short term remains reliant on Titan Wood's supply of Accoya® wood until the Group has completed the construction of its own Accoya® wood factory.

Once the Group is producing its own Accoya® wood, the CBM Board believes the financial performance of the Group will be radically transformed.

Events After the Reporting Date

Joint venture with Nantong Acetic Acid Chemical Company Ltd.

On 9 July 2019 an investment agreement was signed to build the first Accoya® wood factory in China. The agreement provides for a joint venture to be formed between CBM's subsidiary, Diamond Wood China Limited ("**Diamond Wood**") and Nantong Acetic Acid Chemical Company Ltd ("**NTAAC**") an international Chinese chemical group. The joint venture will construct an Accoya® wood factory with an initial capacity of 160,000 m^3 and an ultimate target capacity of 480,000 m^3. The initial financing is for circa US$ 50,000,000.

Representatives from CBM and NTAAC have been in discussion for over 12 months to conduct a feasibility study for an Accoya® wood factory in China and to work through the engineering, government permissions and contractual details of the project.

On 10 July 2019 a subscription agreement was signed with a private family office (the "Investor") for €15,000,000 (the "**Subscription Agreement**"). The Investor will purchase shares in CBM at €1.25 per share and the company will use these funds to finance its share of the joint venture Accoya® wood factory project.

ON BEHALF OF THE BOARD

A P Richards
Chairman
29 August 2019

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Six months to 30 June 2019 €'000	Six months to 30 June 2018 €'000
Revenue		545	385
Cost of inventories		(503)	(359)
Gross profit		42	26
Other revenue		-	5
General and administrative expenses		(1,741)	(1,838)
Loss from operations		(1,699)	(1,807)
Finance costs		(535)	(362)
Loss before taxation		(2,234)	(2,169)
Income tax		-	-
Loss for the period		(2,234)	(2,169)
Allocation of loss for the period			
Shareholders of the Company		(2,199)	(2,130)
Non-controlling interest		(35)	(39)
Loss for the period		(2,234)	(2,169)
Earnings per share (basic and diluted)	4	(€0.05)	(€0.06)

UNAUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months to 30 June 2019 €'000	Six months to 30 June 2018 €'000
Loss for the period	(2,234)	(2,169)
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	33	(281)
Other comprehensive income for the period, net of tax	33	(281)
Total comprehensive loss for the period, net of tax	(2,201)	(2,450)
Attributable to shareholders of the Company	(2,166)	(2,411)
Attributable to the non-controlling interest	(35)	(39)
	(2,201)	(2,450)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2019 €'000	30 June 2018 €'000
Non-current assets			
Intangible asset	2 (a)	12,933	14,073
		12,933	14,073
Current assets			
Trade and other receivables		244	241
Cash and cash equivalents		25	58
		269	299
Current liabilities			
Trade and other payables and accruals		(1,337)	(1,676)
Interest-bearing borrowings		(952)	-
		(2,289)	(1,676)
Net current liabilities		(2,020)	(1,377)
Total assets less current liabilities		10,913	12,696
Non-current liabilities			
Interest-bearing borrowings		-	(7,262)
Licence fee payable	2 (b)	(545)	(545)
		(545)	(7,807)
Net assets		10,368	4,889
Equity attributable to shareholders of the Company			
Share capital	3	7,167	4,426
Share premium		8,431	1,074
Share based payment reserve		2,241	1,969
Merger reserve		35,713	35,713
Exchange reserves		1,920	1,974
Retained losses		(45,207)	(40,553)
Shareholders of the Company		10,265	4,603
Non-controlling interest		103	286
Total equity		10,368	4,889

The financial information on pages 4 to 8 were authorised for issue by the Board of Directors on 29 August 2019 and were signed on its behalf by:

A P Richards
Chairman
Company number: 09357256

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Share based payments	Merger reserve	Exchange reserve	Retained losses	Total attributable to shareholders of parent	Non-controlling interest	Total equity
At 1 January 2018	4,426	1,074	1,760	35,713	2,011	(38,423)	6,561	318	6,879
Transactions with owners:									
Share based payment for the period	-	-	209	-	-	-	209	-	209
Other movements in Non-controlling interest - capital contribution	-	-	-	-	-	-	-	7	7
Loss for the period	-	-	-	-	-	(2,130)	(2,130)	(39)	(2,169)
Other comprehensive income									
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	(37)	-	(37)	-	(37)
Total other comprehensive income	-	-	-	-	(37)	-	(37)	-	(37)
Total comprehensive loss for the period	-	-	-	-	(37)	(2,130)	(2,167)	(39)	(2,206)
At 30 June 2018	4,426	1,074	1,969	35,713	1,974	(40,553)	4,603	286	4,889
Transactions with owners:									
Share based payment for the period	-	-	176	-	-	-	176	-	176
Other movements in Non-controlling interest - capital contribution	-	-	-	-	-	-	-	5	5
Loss for the period	-	-	-	-	-	(2,455)	(2,455)	(37)	(2,492)
Other comprehensive income									
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	29	-	29	-	29
Total other comprehensive income	-	-	-	-	29	-	29	-	29
Total comprehensive loss for the period	-	-	-	-	29	(2,455)	(2,426)	-	(2,426)
At 31 December 2018	4,426	1,074	2,145	35,713	2,003	(43,008)	2,353	254	2,607

	Share capital	Share premium	Share based payments	Merger reserve	Exchange reserve	Retained losses	Total attributable to shareholders of parent	Non-controlling interest	Total equity
At 1 January 2019	4,426	1,074	2,145	35,713	2,003	(43,008)	2,353	254	2,607
Transactions with owners:									
Loan conversion	2,741	7,357	-	-	-	-	10,098	-	10,098
Share based payment for the period	-	-	96	-	-	-	96	-	96
Other movements in Non-controlling interest - capital contribution	-	-	-	-	-	-	-	(116)	(116)
Loss for the period	-	-	-	-	-	(2,199)	(2,199)	(35)	(2,234)
Other comprehensive income									
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	(83)	-	(83)	-	(83)
Total other comprehensive income	-	-	-	-	(83)	-	(83)	-	(83)
Total comprehensive loss for the period	-	-	-	-	(83)	(2,199)	(2,282)	(35)	(2,317)
At 30 June 2019	7,167	8,431	2,241	35,713	1,920	(45,207)	10,265	103	10,368

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	30 June 2019 €'000	30 June 2018 €'000
Operating activities		
Loss before taxation	(2,234)	(2,169)
Adjustments for:		
Finance costs	535	362
Share based payment	96	209
Depreciation	-	1
Amortisation of intangibles	570	570
Operating loss before changes in working capital	(1,033)	(1,027)
(Decrease)/increase in trade and other receivables	(42)	68
(Increase)/decrease in trade and other payables	(403)	33
Net cash used in operating activities	(1,478)	(926)
Financing activities		
Proceeds of interest-bearing borrowings	-	1,256
Share conversion	2,230	-
Finance costs	(535)	(362)
Net cash generated from financing activities	1,695	894
Net increase/(decrease) in cash and cash equivalents	217	(32)
Effect of foreign exchange differences	(200)	(30)
Cash and cash equivalents at beginning of period	8	120
Cash and cash equivalents at end of period	25	58

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial information for the 6 months ended 30 June 2019 comprises Cleantech Building Materials plc (“**CBM**” or the “**Company**”) and its subsidiaries (the “**CBM Group**” or the “**Group**”).

1. BASIS OF PREPARATION

CBM is a public limited liability company which is quoted on the Nasdaq First North, Copenhagen and is incorporated and domiciled in the UK. The address of the registered office is 7, Trebeck Street, London, W1J 7LU and the registered number of the company is 09357256.

The principal activities of the Group are the sale of specialist wood products, technology licensing, sourcing and procurement, business development and investment holding.

The interim financial information has been prepared in accordance with the basis of the accounting policies set out in the annual report and accounts for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted for use by the European Union. The interim financial information is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006.

The same accounting policies, presentation and methods of computation have been followed in this unaudited interim financial information as those which were applied in the preparation of the Group's annual statements for the year ended 31 December 2018, upon which the auditors issued an unqualified opinion and which have been delivered to the registrar of companies.

The interim financial information has been drawn up using accounting policies and presentation expected to be adopted in the Group's full financial statements for the year ending 31 December 2019. Any new standards that will be adopted in full for the first time in the year-end financial statements did not have a material impact on this interim financial information.

Going concern

On 9 July 2019 an investment agreement was signed to build the first Accoya® wood factory in China. The agreement provides for a joint venture to be formed between CBM’s subsidiary, Diamond Wood and NTAAC. The joint venture will construct an Accoya® wood factory with an initial capacity of 160,000 m^3 and an ultimate target capacity of 480,000 m^3. The initial financing is for circa US$ 50,000,000.

On 10 July 2019 the Subscription Agreement was signed with a private family office (the “Investor”) for €15,000,000. The Investor will purchase shares in CBM at €1.25 per share and the company will use these funds to finance its share of the Joint Venture Accoya® wood factory project.

The Group has significant working capital financing available to it through the loan facility provided by a related party, and additionally, the Subscription Agreement provides additional working capital for the group.

Accordingly, the directors have concluded that no impairment is required against the non-current assets. However, the availability of additional funds and the execution of the Group’s business plan are inherently uncertain due to the usual requirements of meeting key milestones in the Accoya® wood factory project.

The directors have considered the future liquidity of the Group given the net loss of €2,234,000 (six months ended 30 June 2018: €2,169,000) during the current period and the net current liabilities as at 30 June 2019 of €2,020,000 (30 June 2018: €1,377,000).

The directors have reviewed the Group’s cash flow projections prepared by management covering a period of twelve months from the date of the approval of the interim financial information. Based on these cash flow projections, the Group will have sufficient financial resources in the twelve months to 31 August 2020 to meet its financial obligations as and when they fall due. Management’s projections make key assumptions with regard to (i) the anticipated cash flows from the Group’s operations and (ii) the availability of future funding from the loan facility and (iii) the availability of future funding through the Subscription Agreement after the reporting date.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these potential adjustments has not been reflected in the interim financial information.

The interim financial information for the six months ended 30 June 2019 was approved by the Board on 29 August 2019.

2. INTANGIBLE ASSET AND LICENCE FEE PAYABLE

a) Intangible asset

Intellectual Property Rights	30 June 2019	30 June 2018
	€'000	€'000
Cost		
As at 30 June 2019 and 30 June 2018	19,383	19,383
Less: Accumulated amortisation		
Beginning of the period	5,880	4,740
Amortisation	570	570
End of the period	6,450	5,310
Net book value		
As at 30 June 2019 and 30 June 2018	12,933	14,073

On 12 August 2010, Diamond Wood and Titan Wood entered into the Technology Licence Agreement in order to replace previous licence agreements signed in prior years (the "**Licence Agreement**").

The key terms of the Licence Agreement are summarised as follows:

Grant of rights

Titan Wood granted Diamond Wood the rights to use patent and technical information (the "**Intellectual Property Rights**") as follows:

i) an exclusive licence to use the Intellectual Property Rights in the PRC, including the Special Administrative Regions and Taiwan plus the member states of the Association of South East Asian Countries (ASEAN) (the "**Territory**").

ii) an exclusive licence to use the Intellectual Property Rights in the Territory to manufacture a maximum capacity of 750,000 m^3 of Accoya® wood annually until the expiry of the Term of the Licence; and an exclusive licence to market, distribute and sell Accoya® wood until 1 July 2030 for the ASEAN markets, so long as at 1 July 2020, Diamond Wood is operating an Accoya® wood production facility capable of producing more than 114,172 m^3 of estimated capacity, and actively promoting the distribution and sale of Accoya® wood.

iii) a right of first refusal to enter into exclusive licensing arrangements for Tricoya Wood Elements technology in the PRC.

The Company may sub-licence the Intellectual Property Rights to its subsidiaries or any affiliate of the Company without obtaining consent from Titan Wood.

Provision of technology assistance services

Titan Wood Technology B.V. ("**TWTBV**") agrees to provide advice and services to support the Group to construct facilities and commission the licenced capacity. Service fees are charged by TWTBV to the Group at a per diem charge per person, plus all associated expenses. No such services were provided by TWTBV during the period (six months ended 30 June 2018: none).

2. INTANGIBLE ASSET AND LICENCE FEE PAYABLE (continued)

b) Licence fee payable

The Group has a licence fee payable as follows:

	Present value of the minimum fee payable	Total minimum fee payable
	€'000	**€'000**
As at 30 June 2019 and 30 June 2018		
Repayable		
- over one year but not exceeding two years	545	571
	545	571

As at 30 June 2019, the licence fee payable was €545,000, which will be settled nine months after the plant construction commences according to the Licence Agreement. According to the Licence Agreement, Diamond Wood shall also pay Titan Wood a royalty fee ("**Royalty Fee**") of €25 per m^3 of Accoya® wood sold for the first 20 years following commissioning of the respective production project and thereafter, an amount equal to 25% of the royalty payable during the last year of payments. As plant construction has not yet commenced as at 30 June 2019, the repayment term of licence fee payable is not yet effective and no such royalty fee is due.

3. SHARE CAPITAL

	Number of shares	€'000
Issued and fully paid		
At 1 January 2019	36,498,707	4,426
Issued during the period – loan conversion	24,236,583	2,741
At 30 June 2019	60,735,290	7,167

On 3 May 2019 the company reached an agreement with its loan provider to convert €10,098,576 of outstanding debt into 24,236,583 new Ordinary shares of £0.10 each in the company. In accordance with the provisions of the loan agreement the shares are to be issued to a number of parties such that no single party will hold 5% or more of the company's issued share capital.

4. LOSS PER SHARE

a) Basic loss per share
The calculation of basic loss per share is based on the loss attributable to owners of the Group of approximately €2,199,000 (six months ended 30 June 2018: €2,130,000) and the weighted average number of 44,532,933 ordinary shares (six months ended 30 June 2018: 36,498,707 ordinary shares) in issue during the period.

b) Diluted loss per share
In accordance with IAS 33 "Earnings per share", where an entity has reported a loss for the period, the shares are not diluted.

5. Events After the Reporting Date

Joint venture with Nantong Acetic Acid Chemical Company Ltd.

On 9 July 2019 an investment agreement was signed to build the first Accoya® wood factory in China. The agreement provides for a joint venture to be formed between CBM's subsidiary, Diamond Wood and NTAAC. The joint venture will construct an Accoya® wood factory with an initial capacity of 160,000 m^3 and an ultimate target capacity of 480,000 m^3. The initial financing is for circa US$ 50,000,000.

Representatives from CBM and NTAAC have been in discussion for over 12 months to conduct a feasibility study for an Accoya® wood factory in China and to work through the engineering, government permissions and contractual details of the project.

On 10 July 2019 a Subscription Agreement was signed with a private family office (the "Investor") for €15,000,000. The Investor will purchase shares in CBM at €1.25 per share and the company will use these funds to finance its share of the Joint Venture Accoya® wood factory project