

Cleantech Building Materials plc

INTERIM UNAUDITED FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2020

Registered Number: 09357256 (England and Wales)

CONTENTS OF THE FINANCIAL STATEMENTS

	PAGE
Interim Management Report	2
Unaudited consolidated Income Statement and Statement of Comprehensive Income	3
Unaudited consolidated Statement of Financial Position	4
Unaudited consolidated Statement of Changes in Equity	5
Unaudited consolidated Statement of Cash Flows	7
Notes to the consolidated Financial Statements	8 - 10

INTERIM MANAGEMENT REPORT

Strategy and Objectives

The CBM Group's primary strategic objectives for 2020 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 progress towards achieving these objectives during the six months ended 30 June 2020.

Financial Review of the Business

The Group's revenues for the six months ended 30 June 2020 amounted to €447,000 (six months ended 30 June 2019: €545,000). The revenues were limited by the disruption of construction projects in China and the ASEAN regions due to the Covid pandemic. By the end of the second financial quarter, there were signals that demand was returning to its pre-Covid levels from the Group's distributors.

The Group realised a net loss of €1,639,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: €2,234,000). The net loss for the current period was mainly due to salaries and professional costs but strict cost control has limited the extent of the loss.

As at 30 June 2020, the Group had cash and cash equivalents of €40,000 (30 June 2019: €25,000) as well as an available facility of approximately €2.97m ("Loan Facility"), and net current liabilities of €839,000 (30 June 2019: €2,020,000). The Group's financing arrangements now provide 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 2020 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.

The Group continues to work closely with our Chinese JV partner, NTAAC, to progress the construction of the first Accoya® wood factory in Asia. The Covid-related travel restrictions between China and Europe have caused some delays, but the overall project is advancing. Since the full year accounts issued in April 2020, the Group and NTAAC have concluded detailed debt contract terms with Bank of Jiangsu for the provision of circa €26m euros in fixed asset mortgage and working capital financing for the joint venture.

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

No material matters to report.

ON BEHALF OF THE BOARD

A P Richards
Chairman
28 August 2020

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Six months to 30 June 2020 €'000	Six months to 30 June 2019 €'000
	Notes		
Revenue		447	545
Cost of inventories		(414)	(503)
Gross profit		33	42
General and administrative expenses		(1,549)	(1,741)
Loss from operations		(1,516)	(1,699)
Finance costs		(123)	(535)
Loss before taxation		(1,639)	(2,234)
Income tax		-	-
Loss for the period		(1,639)	(2,234)
Allocation of loss for the period			
Shareholders of the Company		(1,611)	(2,199)
Non-controlling interest		(28)	(35)
Loss for the period		(1,639)	(2,234)
Earnings per share (basic and diluted)	4	(€0.02)	(€0.05)

UNAUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		Six months to 30 June 2020 €'000	Six months to 30 June 2019 €'000
Loss for the period		(1,639)	(2,234)
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		(375)	33
Other comprehensive income for the period, net of tax		(375)	33
Total comprehensive loss for the period, net of tax		(2,014)	(2,201)
Attributable to shareholders of the Company		(1,985)	(2,166)
Attributable to the non-controlling interest		(29)	(35)
		(2,014)	(2,201)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 €'000	30 June 2019 €'000
	Notes		
Non-current assets			
Intangible asset	2 (a)	11,793	12,933
		11,793	12,933
Current assets			
Trade and other receivables		632	244
Cash and cash equivalents		40	25
		672	269
Current liabilities			
Trade and other payables and accruals		(1,511)	(1,337)
Interest-bearing borrowings		-	(952)
		(1,511)	(2,289)
Net current liabilities		(839)	(2,020)
Total assets less current liabilities		10,954	10,913
Non-current liabilities			
Interest-bearing borrowings		(446)	-
Licence fee payable	2 (b)	(545)	(545)
		(991)	(545)
Net assets		9,963	10,368
Equity attributable to shareholders of the Company			
Share capital	3	8,053	7,167
Share premium		10,807	8,431
Share based payment reserve		2,659	2,241
Merger reserve		35,713	35,713
Exchange reserves		1,730	1,920
Retained losses		(49,042)	(45,207)
		9,920	10,265
Shareholders of the Company		9,920	10,265
Non-controlling interest		43	103
		9,963	10,368
Total equity		9,963	10,368

The financial information on pages 4 to 10 were authorised for issue by the Board of Directors on 28 August 2020 and were signed on its behalf by:

A P Richards
Chairman
 Company number: 09357256

Cleantech Building Materials PLC

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 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
Transactions with owners:									
Loan conversion shares	625	1,597	-	-	-	-	2,222	-	2,222
Share based payment for the period	-	-	174	-	-	-	174	-	174
Share issue	26	261	-	-	-	-	287	-	287
Other movements in Non-controlling interest - capital contribution	-	-	-	-	-	-	-	(1)	(1)
Loss for the period	-	-	-	-	-	(2,225)	(2,225)	(30)	(2,255)
Other comprehensive income:									
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	185	-	185	-	185
Total other comprehensive income	-	-	-	-	185	-	185	-	185
Total comprehensive loss for the period	-	-	-	-	185	(2,225)	(2,040)	(30)	(2,070)
At 31 December 2019	7,818	10,289	2,415	35,713	2,105	(47,432)	10,908	72	10,980

Cleantech Building Materials PLC

	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 2020	7,818	10,289	2,415	35,713	2,105	(47,432)	10,908	72	10,980
Transactions with owners:									
Share issue	116	200	-	-	-	-	316	-	316
Loan conversion	119	318	-	-	-	-	437	-	437
Share based payment for the period	-	-	244	-	-	-	244	-	244
Other movements in Non-controlling interest - capital contribution	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,610)	(1,610)	(29)	(1,639)
Other comprehensive income									
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	(375)	-	(375)	-	(375)
Total other comprehensive income	-	-	-	-	(375)	-	(375)	-	(375)
Total comprehensive loss for the period	-	-	-	-	(375)	(1,610)	(1,985)	(29)	(2,014)
At 30 June 2020	8,053	10,807	2,659	35,713	1,730	(49,042)	9,920	43	9,963

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	30 June 2020 €'000	30 June 2019 €'000
Operating activities		
Loss before taxation	(1,639)	(2,234)
Adjustments for:		
Finance costs	123	535
Share based payment	244	96
Amortisation of intangibles	570	570
	<hr/>	<hr/>
Operating loss before changes in working capital	(702)	(1,033)
(Decrease)/increase in trade and other receivables	(320)	(42)
(Increase)/decrease in trade and other payables	440	(403)
	<hr/>	<hr/>
Net cash used in operating activities	(582)	(1,478)
	<hr/>	<hr/>
Financing activities		
Proceeds of interest-bearing borrowings	521	-
Share issue	316	2,230
Finance costs	(123)	(535)
	<hr/>	<hr/>
Net cash generated from financing activities	714	1,695
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	132	217
Effect of foreign exchange differences	(375)	(200)
Cash and cash equivalents at beginning of period	283	8
	<hr/>	<hr/>
Cash and cash equivalents at end of period	40	25
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial information for the 6 months ended 30 June 2020 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 2019, 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 2019, 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 2020. 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. Diamond Wood will have a majority share of the joint venture. The joint venture will construct an Accoya® wood factory with an initial capacity of 160,000 m³ and an ultimate target capacity of 480,000 m³. 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 third party with a minority shareholding in the Group of under 3%, and additionally, the Subscription Agreement referred to above 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 €1,639,000 (six months ended 30 June 2019: €2,234,000) during the current period and the net current liabilities as at 30 June 2020 of €839,000 (30 June 2019: €2,020,000).

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 2021 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 2020 was approved by the Board on 28 August 2020.

2. INTANGIBLE ASSET AND LICENCE FEE PAYABLE

a) Intangible asset

	30 June 2020	30 June 2019
	€'000	€'000
Intellectual Property Rights		
Cost		
As at 30 June 2020 and 30 June 2019	19,383	19,383
Less: Accumulated amortisation		
Beginning of the period	7,020	5,880
Amortisation	570	570
End of the period	<u>7,590</u>	<u>6,450</u>
Net book value		
As at 30 June 2020 and 30 June 2019	<u>11,793</u>	<u>12,933</u>

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:

DW has acquired the rights to manufacture, market, distribute and sell Accoya® wood into China and the ASEAN countries. These rights continue for as long as TW's patents are valid related to the acetylation of wood.

In China, this right is exclusive for as long as TW's patents related to the acetylation of wood are valid, or the know how remains confidential. Patents generally expire 20 years after their application or priority date. The most recent patent was applied for by TW in 2015, so the soonest date exclusivity in China might end would be 2035. However, TW continues to generate new patents, and the exclusivity date may be extended for many more years when new patent applications falling under the Licence Agreement are filed.

In the ASEAN markets, the exclusivity of this right expires in July 2020; but DW still retains the right to manufacture, market, distribute and sell Accoya® wood into the ASEAN countries until 2035, or beyond.

	China Market	ASEAN Markets
Accoya® wood Rights		
- Manufacture		
- Market, Distribute and Sell		
Exclusivity Term Continues until:	Exclusive right while Accoya® wood patents are valid or know how is confidential (year 2035 +).	Exclusive right until 1 July 2030 provided that DW has an EPC contract to produce over 114,000 m ³ of Accoya® wood before 1 July 2020. Otherwise exclusivity expires on 1 July 2020, but DW still retains the right to manufacture, market, distribute and sell Accoya® wood into the ASEAN countries while Accoya® wood patents are valid, or know how is confidential (year 2035 +).

Additional key terms of the Licence Agreement terms are:

- i) a right of first refusal to enter into exclusive licensing arrangements for Tricoya Wood Elements technology in the PRC.
- ii) DW may sub-licence the Intellectual Property Rights to its subsidiaries or any affiliate of the Company without obtaining consent from TW.
- iii) Titan Wood Technology B.V. ("TWTBV") will provide advice and technical 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. During the year, TWTBV began to provide

services to the Group in preparation for the construction of the Accoya® wood factory in Jiangsu Province, China (2019: none).

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 2019: none).

b) Licence fee payable

The Group has a licence fee payable as follows:

	Present value of the minimum fee payable €'000	Total minimum fee payable €'000
As at 30 June 2020 and 30 June 2019		
Repayable		
- over one year but not exceeding two years	545	545
	545	545

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 m³ 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 2020, 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 2020	66,296,736	7,818
Issued during the period – option exercise	1,021,850	116
Issued during the period – loan conversion	1,047,574	119
At 30 June 2020	68,366,160	8,053

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 €1,610,000 (six months ended 30 June 2019: €2,199,000) and the weighted average number of 67,240,484 ordinary shares (six months ended 30 June 2019: 44,532,933 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 potential ordinary shares held under option are anti-dilutive.

5. Events after the reporting date

No material matters to report.