

Cleantech Building Materials plc

UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

Cleantech Building Materials plc

CHAIRMAN'S STATEMENT

2019 has been a breakthrough year for Cleantech Building Materials plc ("Company" or "CBM") and its strategy to build an Accoya® wood factory in China:

On 9 July 2019, CBM's subsidiary company Diamond Wood China Limited ("DW") signed a legally binding Investment Framework Agreement with Nantong Acetic Acid Company ("NTAAC") to provide circa US\$50m in equity and debt financing for the first Accoya® wood factory in China. DW will be the majority shareholder in the joint venture and will additionally receive a substantial royalty on profits. NTAAC is amongst China's top speciality chemical companies, serving global clients in the US and Europe. The company is listed on the Shanghai Stock Exchange.

On 10 July 2019, we announced the signing of a subscription agreement with a family office for €15m euros ("Investor"). These funds will be used to finance the Group's share of the equity financing for the joint venture with NTAAC.

In November 2019, the Bank of Jiangsu provided DW and NTAAC with a signed MOU committing to provide €22m euros of debt financing. In China, such a signed commitment document is unusual, and attests to the strength of the Accoya® wood factory project, and the long relationship between NTAAC and Bank of Jiangsu.

On 12 December 2019, the Administration Committee of Jiangsu Rudong Yangkou Port Economic Development Zone provided DW and NTAAC with a signed commitment letter identifying the plot of land reserved for the Diamond Wood Accoya® wood factory.

During the course of 2019 we continued to invest in the development of our marketing and sales operations in China and the ASEAN countries, which resulted in new offtake agreements being added to the growing list of manufacturers and wholesalers in the region committing to purchase significant volumes of Accoya® wood from the Group. These agreements, and the ongoing business with our existing base of distribution partners, attest to a strong and increasing demand for Accoya® wood in the region.

It is the Board's view that there is sufficient demand in China and the ASEAN territories to warrant the construction of our own Accoya® wood factory. DW previously purchased the exclusive licence to sell and produce Accoya® wood in those regions from Accsys' subsidiary Titan Wood Limited ("TW") for circa €20m euros.

The recent 2019 agreement with NTAAC, and the subscription agreement signed by CBM with the Investor, are the foundations for the build out of DW's strategy to manufacture and sell its own Accoya® wood. DW's wholesalers and manufacturers are demanding such a stable and cost-competitive source of Accoya® wood.

At this time, the Covid-19 outbreak has not impacted our timetable, as we have been able to progress discussions and planning for the joint venture. However, if there is a prolonged travel ban, then there will inevitably be some delays, and we will work to keep any such delays to a minimum. The Worldwide spread of Covid-19 is clearly very concerning and will have an impact on the World Economy. Our business is focussed on China and at the time of writing the rate of infection in China is falling. Our team and our partners NTACC have worked well remotely and we have not experienced any delays. At this time we do not expect restrictions to combat the Covid-19 virus in China to impact our timetable for moving forward with NTACC. We are an English company, with a majority of the Board based in the UK. As our CEO and CFO are based in Shanghai, our meetings are held remotely and accordingly the impact of the disruption to normal business caused by measures to combat the Covid-19 virus will have no impact on how the Board of the Company manages its business.

Simon Allocca joined the Board this year. Simon's many years as a senior banker have added to the Board's skill sets and he has made an immediate contribution.

The Group reported a loss of €4,490,000 for the 12 months ended 31 December 2019 (2018: €4,661,000), which reflects the fact that the Group has borne the cost of its infrastructure and staff.

I would like to take this opportunity to again express my sincere gratitude to my fellow Directors and staff for their hard work and commitment over the past year.

I look forward to providing you with further updates at our next Annual General Meeting.

Strategy and Objectives

The Group's primary strategic objectives for 2020 are to:

1. To engage a leading engineering, procurement and construction firm to lead the construction of an Accoya® wood manufacturing facility in China.
2. Together with the Group's chemical industry joint venture partner, NTAAC, to ensure that the Accoya® wood manufacturing facility is constructed on time and on budget, and operated efficiently.

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3. To grow sales of Accoya® wood to regional wholesalers.
4. To build relationships with large-volume wood product manufacturers through testing and trials in anticipation of Accoya® wood being produced in the Group's own factory.
5. To develop the Group's marketing and sales initiatives to further expand market channels and offtake agreements in the Chinese and ASEAN markets.

Financial Review of the Business

The Group's revenues for the 12 months ended 31 December 2019 remained steady at €927,000 (2018: €703,000) and consisted mainly of Accoya® wood sales to customers in Thailand, Vietnam, Singapore, Indonesia and Malaysia.

The Group realised a net loss of €4,490,000 for the year to 31 December 2019 (2018: €4,661,000). As at 31 December 2019, the Group had cash and cash equivalents of €283,000 (2018: €8,000) as well as an available facility of approximately €2.5m ("Loan Facility"), and an equity commitment to finance the Joint Venture of an additional €15m euros. The Company has significantly reduced its outstanding debts during 2019, and now has net current liabilities of €588,000 (2018: €1,531,000).

We did not see any increase in the amount of Accoya® wood we received this year and as a consequence of this shortage, DW's channel partners have been unable to tender large-volume construction projects, and our manufacturing customers have had to delay their market launch plans. This inability to serve the growing demand in the region has been a frustrating development for all concerned.

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

Paul Richards
Chairman
26 March 2020

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UNAUDITED CONSOLIDATED INCOME STATEMENT

	Year to 31 December 2019 €'000	Year to 31 December 2018 €'000
Revenue	927	703
Cost of inventories	(853)	(653)
	<hr/>	<hr/>
Gross profit	74	50
Other revenue	-	5
Share based payment	(270)	(385)
General and administrative expenses	(3,455)	(3,428)
	<hr/>	<hr/>
Loss from operations	(3,651)	(3,758)
Finance costs	(839)	(903)
	<hr/>	<hr/>
Loss before taxation	(4,490)	(4,661)
Income tax	-	-
	<hr/>	<hr/>
Loss for the year	(4,490)	(4,661)
	<hr/>	<hr/>
Allocation of loss for the year		
Shareholders of the company	(4,425)	(4,585)
Non-controlling interest	(65)	(76)
	<hr/>	<hr/>
Loss for the year	(4,490)	(4,661)
	<hr/>	<hr/>
Loss per share	(€0.085)	(€0.128)
	<hr/>	<hr/>

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UNAUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Year to 31 December 2019 €'000	Year to 31 December 2018 €'000
Loss for the year	(4,490)	(4,661)
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of parent company	102	(8)
Other comprehensive income for the year, net of tax	102	(8)
Total comprehensive loss for the year, net of tax	(4,388)	(4,669)
Attributable to shareholders of the Company	(4,323)	(4,593)
Attributable to the non-controlling interest	(65)	(76)
	(4,388)	(4,669)

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UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2019 €'000	31 December 2018 €'000
Non-current assets		
Intangible asset	12,363	13,503
Property, plant and equipment	-	-
	<hr/> 12,363	<hr/> 13,503
Current assets		
Trade and other receivables	311	202
Cash and cash equivalents	283	8
	<hr/> 594	<hr/> 210
Current liabilities		
Trade and other payables and accruals	1,182	1,741
	<hr/> 1,182	<hr/> 1,741
Net current liabilities	<hr/> (588)	<hr/> (1,531)
Total assets less current liabilities	11,775	11,972
Non-current liabilities		
Convertible loan liability	250	8,820
Licence fee payable	545	545
	<hr/> 795	<hr/> 9,365
Net assets	<hr/> <hr/> 10,980	<hr/> <hr/> 2,607
Equity attributable to shareholders of the Company		
Share capital	7,818	4,426
Share premium	10,289	1,074
Share based payment reserve	2,415	2,145
Merger reserve	35,713	35,713
Exchange reserves	2,105	2,003
Retained losses	(47,432)	(43,008)
	<hr/> 10,908	<hr/> 2,353
Non-controlling interest	72	254
	<hr/> 72	<hr/> 254
Total equity	<hr/> <hr/> 10,980	<hr/> <hr/> 2,607

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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
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2018	4,426	1,074	1,760	35,713	2,011	(38,423)	6,561	318	6,879
Share-based payment for the year	-	-	385	-	-	-	385	-	385
Other movements in Non-controlling interest – capital contribution	-	-	385	-	-	-	385	-	385
Loss for the year	-	-	-	-	-	(4,585)	(4,585)	(76)	(4,661)
Other comprehensive income									
Exchange differences on translation of parent company	-	-	-	-	(8)	-	(8)	-	(8)
Total other comprehensive loss	-	-	-	-	(8)	-	(8)	-	(8)
Total comprehensive loss for the year	-	-	-	-	(8)	(4,585)	(4,593)	(76)	(4,669)
At 31 December 2018	4,426	1,074	2,145	35,713	2,003	(43,008)	2,353	254	2,607
Loan conversion to shares	3,366	8,954	-	-	-	-	12,320	-	12,320
Share issue	26	261	-	-	-	-	287	-	287
Share-based payment for the year	-	-	270	-	-	-	270	-	270
Total transactions with shareholders	3,392	9,215	270	-	-	-	12,877	-	12,877
Other movements in Non-controlling interest – capital contribution	-	-	-	-	-	-	-	(117)	(117)
Loss for the year	-	-	-	-	-	(4,425)	(4,425)	(65)	(4,490)
Other comprehensive income									
Exchange differences on translation of parent company	-	-	-	-	102	-	102	-	102
Total other comprehensive loss	-	-	-	-	102	-	-	-	102
Total comprehensive loss for the year	-	-	-	-	102	(4,424)	(4,322)	(182)	(4,505)
At 31 December 2019	7,818	10,289	2,415	35,713	2,105	47,432	10,908	72	10,980

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UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Year to 31 December 2019 €'000	Year to 31 December 2018 €'000
Operating activities		
Loss before taxation	(4,490)	(4,661)
Adjustments for:		
Finance costs	826	903
Share based payments	270	385
Fees satisfied by share issue	25	
Depreciation and amortisation	1,140	1,141
Operating loss before changes in working capital	(2,229)	(2,232)
(Increase)/decrease in trade and other receivables	(108)	107
(Decrease)/increase in trade and other payables	(559)	98
Cash used in operations	(2,896)	(2,027)
Tax paid	-	-
Net cash used in operating activities	(2,896)	(2,027)
Investing activities		
Purchase of property, plant and equipment	-	-
Net cash generated from investing activities	-	-
Financing activities		
Proceeds from issue of shares	262	-
Net proceeds of interest-bearing borrowings	2,924	1,911
Net cash generated from financing activities	3,186	1,911
Net increase in cash and cash equivalents	290	(116)
Cash and cash equivalents at beginning of year	8	120
Effect of foreign exchange differences	(15)	4
Cash and cash equivalents at end of year	283	8

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NOTES TO THE UNAUDITED FINANCIAL INFORMATION

1. REPORTING ENTITY

Cleantech Building Materials plc is a public limited liability company ("Company") which is quoted on the Nasdaq First North Growth Market, 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 consolidated financial information comprises Cleantech Building Materials plc and its subsidiaries ("Group").

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 December 2019.

The unaudited consolidated financial statements have been prepared under the historical cost convention and are presented in Euros rounded to the nearest thousand except where indicated otherwise. The Euro has been chosen as the presentation currency of the Group because the Group is quoted in Euro on the Nasdaq First North Growth Market, Denmark in Copenhagen.. In addition, the Euro represents a stable and strong currency and the Eurozone a significant potential source of funding in the future.

Going concern

The Group's current business is the importing and marketing of Accoya® wood, which the Group has done since 2008. The Group has sufficient financing available to operate this existing import business on a going concern basis. The Group's Directors are of a view that there is an investment opportunity for the Group to build and operate its own Accoya® wood factory in China. By virtue of the Investment Framework Agreement signed with Nantong Acetic Acid Chemical Company Ltd ("NTAAC"), and the subscription agreement entered into between the Company and the Investor, the Directors believe there is now sufficient funding available to build the first Accoya® wood factory in China.

The execution of the business plan is inherently uncertain. The business plan is dependent on the standard milestones in such a project, including the approval of the joint venture by local government officials, and the successful construction and operation of a manufacturing plant.

Despite the uncertainty as to the outcome of the business plan, the Directors are confident that the Group will be able to obtain sufficient funds and to execute the Group's business plan to fully realise the carrying amount of the non-current assets.

The Directors have considered the future liquidity of the Group in light of the net loss of €4,490,000 (2018: loss of €4,661,000) during the current year and the net current liabilities as at 31 December 2019 of €588,000 (2018: €1,531,000) and the material uncertainty regarding the Group's ability to execute the Group's business plan.

The Directors have reviewed the Group's cash flow projections prepared by management covering a year of twelve months from the date of the approval of the consolidated financial statements. Management's projections make key assumptions with regard to (i) the anticipated cash flows from the Group's operations, (ii) availability of future funding from the Loan Facility, and (iii) the financing from the Investor, NTAAC and Bank of Jiangsu. Based on these cash flow projections, the Group will have sufficient financial resources in the coming twelve months from the date of approval of these financial statements to meet its financial obligations as and when they fall due.

Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 consolidated financial statements.

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3. 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 €4,490,000 (2018: €4,661,000) and the weighted average number of 52,628,841 ordinary shares (2018: 36,498,707 ordinary shares) in issue during the year.

b) Diluted loss per share

In accordance with IAS 33 "Earnings per share", where an entity has reported a loss for the year, the share options are not dilutive.

4. SHARE CAPITAL

	Number of shares	€'000
Issued and fully paid		
1 January 2018	36,498,707	4,426
Issued	-	-
31 December 2018	36,498,707	4,426
Issued May 2019	24,236,583	2,741
Issued December 2019	230,720	27
Issued December 2019	5,330,726	624
At 31 December 2019	<u>66,296,736</u>	<u>7,818</u>

The number of shares in issue at 31 December 2019 was 66,296,736 with a par value of £0.10 giving a quoted capitalisation of £6,629,674. Conversion to Euro is at the historical rate.