ROY CERAMICS SE

ANNUAL REPORT 2017

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

No appreciable profits were generated from the sale of ceramic sanitary ware in the course of 2017. The net loss in 2017 of EUR 14.594 million as a result of the closure of the company in Beijing and the sale of the operational subsidiary in China to White Horse Holdings Limited ("White Horse") in September 2015 was for the most part attributable to the scheduled depreciation of EUR 11.550 million of the movable property, plant and equipment, which was transported to the USA, Germany and Thailand as planned.

The consideration of USD 80 million to be received from White Horse, without taking the interest and offsetting of fees and land taxes into account, resulted from the sale of the operational subsidiaries in 2015. White Horse has now settled all of the claims from the sale in 2015. Our next step will be working on re-establishing production in the field of ceramic sanitary ware as quickly as possible. In view of the long-term planning of a plant in the USA and the associated risks and imponderables, ROY is considering building a plant at short notice in Europe or taking one over and only building the plant in the USA later, after renovation of the machinery intended for this.

Part of the sales proceeds will be used for the development of a new production location for smart toilet seats. The long-term planned location of the new plant in the USA will probably be Houston, Texas. A detailed feasibility study is now underway and the possibility of developing ceramic sanitary ware production at short notice in Europe, especially in Germany, is being evaluated. The final decisions will be taken as soon as a proper financial analysis and feasibility study has been completed for both ceramic sanitary ware projects. In the meantime, there is little business activity in the ceramic sanitary ware field. The first turnover is expected as soon as the OEM producer in Thailand has built up the corresponding capacities according to our guidelines.

We were able to realise the first rental income in the growing real estate business area with the purchase of the "Kirby Interchange" in Houston in August 2017. We are now focusing on developing these properties and the Kirby Interchange with the purchase of other properties. The goal is to develop the real estate area as a stable source of income for the ROY Group. In addition, we are working at full speed on other promising real estate projects in the field of project development, focusing on Houston/Texas and Los Angeles/California.

I would like to thank all of our shareholders for their support.

Kind regards,

Siu Fung Siegfried Lee
CEO of Roy Ceramics SE

REPORT OF THE ADMINISTRATIVE BOARD

The Board was kept continuously informed of major events in 2017 between regular meetings and telephone conferences.

Due to the size of the Administrative Board and the single-level management structure of the company, no additional committees existed. No separate efficiency audit was conducted in relation to the Board, as process improvements are regularly considered and implemented.

The annual financial statements of ROY Ceramics SE as of 31 December 2017 were drawn up together with the consolidated financial statements as at 31 December 2017, including the management report by the managing directors and were audited by ECOVIS Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Munich, and given an unqualified opinion.

The management report and the audit report were available to all members of the Board.

The auditor took part in the annual report meeting on 27 April 2018 and reported all relevant findings and results for financial year 2017.

The Administrative Board examined the annual financial statements, the consolidated financial statements, the management report and the net loss for the year in the course of 2017 without raising objections after inspection. The Board has assessed and approved the annual financial statements and the consolidated financial statements.

The Managing Directors proposed that the loss be carried forward to new account. The Administrative Board endorsed this proposal of the Managing Directors.

Munich, 27 April 2018

Siu Fung Siegfried Lee
Chair of the Administrative Board

SUMMARISED MANAGEMENT REPORT OF ROY CERAMICS SE AND THE ROY CERAMICS SE GROUP FOR THE FINANCIAL YEAR FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

1. GROUP PROFILE

1.1 General information

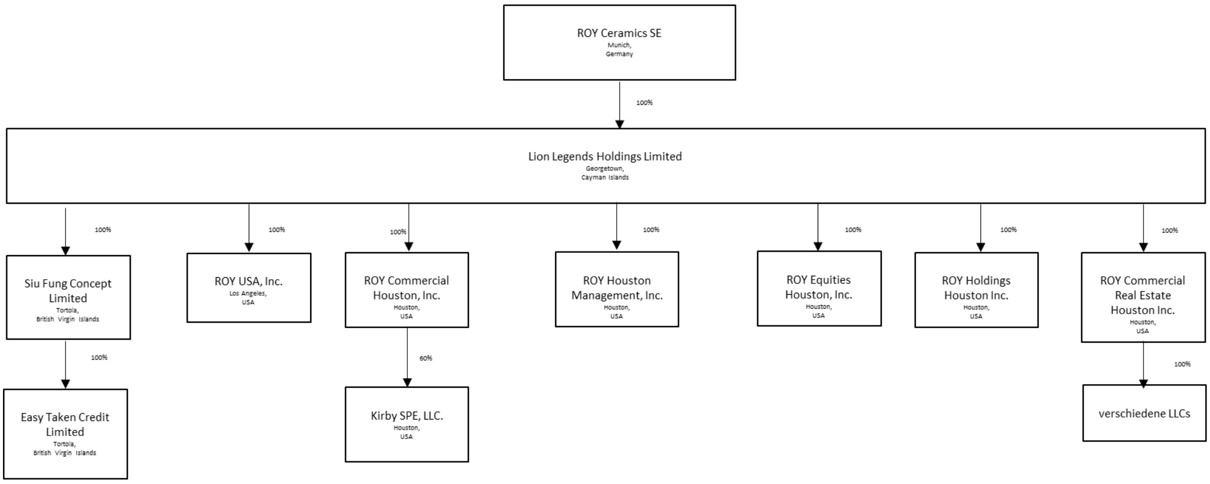
ROY Ceramics SE, Munich (hereinafter referred to as the "Company" or "ROY") is the parent company of the Group. The Company is a European joint stock company founded on 8 May 2014 and entered in the Munich Trade Register (HRB 211752) with its registered administrative office (business address) at Gießener Straße 42, 35410 Hungen. The registered administrative office was moved from Munich to Frankfurt am Main on 6 March 2015. The registered administrative office was moved from Frankfurt am Main to Hungen, Germany, in 2016.

On 30 April 2015, the shares of ROY Ceramics SE were listed on the Prime Standard of the Frankfurt exchange (Germany) for the first time and simultaneously on the unregulated market (third segment) of the Vienna exchange (Austria). The shares are traded under the Security Identification Number RYSE88 and ISIN DE000RYSE888.

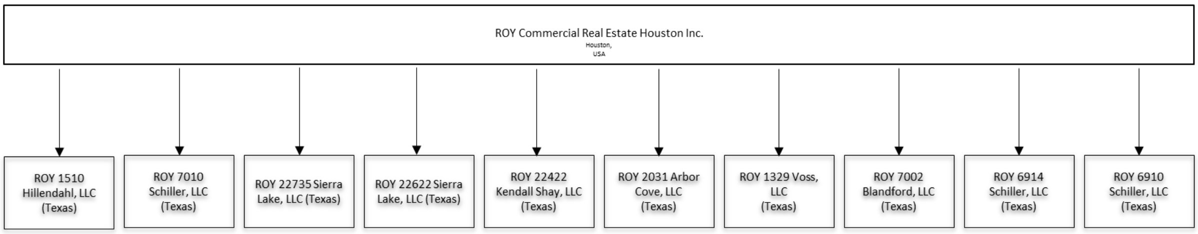
The business purpose of the Company and its subsidiaries (jointly referred to as the "Group") up to 30 September 2015 consisted primarily of the production and sale of sanitary equipment and accessories made of ceramics. The Company acts as an investment holding company. The main activity of its subsidiaries and the participation and voting rights of the Company are presented in Section 33 of the Notes. The business purpose of ROY Ceramics SE was expanded with the resolution of 2 October 2017 and real estate established as an additional field of business. The real estate division is under development and the primary objective is real estate transactions in the USA.

1.2 Group structure

The Group structure changed in 2017. Largely as a result of the real estate transactions carried out and planned in the USA, new companies were established in Houston. The ROY Group plans to establish a separate company for each new real estate transaction. Apart from the establishment of new companies, the subsidiary ROY USA Inc. of Siu Fung Concept Ltd (BVI) was transferred to the parent company Lion Legends Holdings on 1 July 2017. The Group structure on 31.12.2017 was as follows:



The LLCs stated under ROY Commercial Real Estate Houston Inc. in the USA are as follows. The LLCs each hold one property, which is to be developed or sold without delay. The property LLCs are described in detail in Section 34.



1.3 Business model

Until the closure of the plant in Beijing due to the sale of the operating subsidiaries of the Group in China to White Horse, which took place in September 2015, ROY Ceramics SE produced a complete range of sanitary ware and bathroom furnishings for use in mid- to high-priced premises. ROY Ceramics SE delivered high-quality and aesthetically appealing sanitary ware products within the People’s Republic of China. Following the receipt of the complete payment from White Horse, ROY aims once again to become a leading provider of bathroom furnishings for the Asian and international markets, especially the USA and Europe. ROY intends to establish itself in the newly developed market of smart toilet seats in Europe and the USA. This will occur primarily in cooperation with renowned Asian manufacturers, who will provide corresponding technical know-how in this field. ROY has outsourced production of its standard brand ceramic products to an OEM manufacturer in Thailand. As a first step, production of urinals was commissioned, and former ceramic engineers of ROY in the former plant in China were dispatched as part of a project by ROY to the plant in Thailand to expand the product range. In addition, ROY is planning to develop its own production in the long term in the ceramic sanitary ware sector. Apart from the long-term planned production in the USA, the possibility of being able to realise a ceramics ware plant in Germany at short notice is being examined.

Along with the sector of high quality ceramic sanitary ware, ROY is establishing itself as a real estate company, focusing on activities in the USA and in the field of project development and investment. In future, the real estate business area is to make a stable and significant contribution to the Company's success.

1.4 Strategy

In the field of ceramic sanitary ware, ROY now plans to introduce or strengthen the brand ROY, following its effective launch in the Chinese market, as well as in the new international markets in the USA, ASEAN countries and Europe. Cf. Section 3.2 regarding the risks.

In 2018, ROY is planning to take part in important trade fairs in Europe and the USA and to strengthen the ROY brand as a ceramic sanitary ware manufacturer and real estate company to develop additional future customer groups.

The company's internal ceramic sanitary ware design team of ROY, currently located at ROY USA, Inc. in the USA, is concentrating primarily on the implementation of new design concepts in functional products with the assistance of the ROY engineering team. The second focus is on developing and supplementing the design of the universal drain adapter for ROY WCs, which meets both European as well as US industry standards. Development of the ROY universal drain adapter took three years and has the potential to supply important international markets.

With the payment received from White Horse, production and distribution will be resumed with the following priorities:

- extension of the agreement in Thailand regarding the OEM production of ROY brand products and activation of distribution activities in the USA, Europe and the ASEAN area;

- planning smart seat ceramic sanitary ware production of our own in Europe and in the long term in the USA, the latter after the necessary preparation of the machines for production in the USA has occurred; currently, we assume a lead time of at least two years after conclusion of a contract for renovation of the required machines;

- identification of a suitable location for a new flagship exhibition room for the integrated bathroom solutions of ROY in cooperation with the architectural firm Steve Leung Designers Limited or another renowned designer. This is intended to address the upper market segment.

In the real estate business division, ROY plans to establish itself as a reliable and expert partner in all areas of real estate business, especially in project development, as an investor and revitaliser, focusing on the USA. To strengthen the project work, a contract has already been concluded with "YTWO Affirmative" with which ROY can draw on professional support in the fields of project advice, planning, monitoring and procurement. Furthermore, ROY strives to realise all real estate projects with professional and established partners. Houston, Texas is the main focus of the real estate activities, but ROY is examining continuous, highly promising projects in the whole USA and outside the USA. These will concentrate on the areas of offices, single-family and multi-family building projects.

One portion of the financing of the previous and future real estate projects will in part be financed by the payments made by White Horse. ROY plans to develop additional sources of financing for the real estate projects and is also examining making real estate projects of ROY available to investors under the EB-5 Investors Program established in the USA. In addition, ROY plans to develop long-term partnerships with financing partners.

1.5 Controlling system

The aim of ROY Ceramics Group is to grow sustainably and do business successfully. To facilitate this, an internal controlling system is used by those responsible in the Group for the coordination and control of the companies. This system is based on a multitude of mechanisms and key figures, such as EBT and a risk management policy, which maps sector-specific processes and makes them measurable. Overall, ROY has identified seven risk categories: credit risk, market risk, liquidity risk, operational risks, business risks, reputational risks and other risks. These risks are monitored continuously and analysed on the basis of their likelihood to occur and potential damage. However, since the suspension of operational activity, a comprehensive controlling system has not been used, but rather essentially a case-by-case internal controlling system. Essentially, this comprises the real estate project Kirby Interchange and Easy Taken Credit as well as the payments of White Horse in 2017. The Administrative Board and managing directors regularly examine the requirements for the internal controlling system and risk management. With the corresponding resumption of operational business, especially in the field of ceramics and expansion of the real estate business, this will be reorganised and adjusted correspondingly to the two business segments.

1.6 Executive bodies, management and founders

The Administrative Board of the company currently has the following members:

Name	Member since
Siu Fung Siegfried Lee (Chair)	27 August 2015
Surasak Lelalertsuphakun (Deputy Chair)	18 September 2014
Matthias Herrmann	2 October 2017
Christian Alexander Peter	2 October 2017
Siwen Mao	2 October 2017
Sujida Lelalertsuphakun Lee	2 October 2017
Jiao Wen	2 October 2017 to 28 December 2017
Yuen Shan Kimmy Tse	27 August 2015 to 04 January 2018
Chi Tien Steve Leung	27 August 2015 to 9 May 2017

Surasak Lelalertsuphakun is the son of Siu Fung Siegfried Lee and Sujida Lelalertsuphakun Lee is the daughter of Siu Fung Siegfried Lee.

The following persons were appointed managing directors with effect from 2 March 2017:

Sikun Jiang – Technical Director – resigned 4 August 2017
Lei Yang – Design Director

Sikun Jiang has been a member of the Group since 2001 and was previously responsible for engineering matters in Beijing. Mr Sikun Jiang resigned from the Company for private reasons on 4 August 2017.

Lei Yang is the wife of Mr Siu Fung Siegfried Lee. She has been a member of the Group since 2002 and became Design Director in 2004.

The following persons were appointed managing directors with effect from 11 May 2017:

Matthias Herrmann – Chief Financial Officer

Matthias Herrmann joined the Group as Finance Director in April 2017 and was appointed managing director in May.

The following persons were appointed managing directors with effect from 18 August 2017:

Jiao Wen – Chief Operating Officer – resigned on 28 December 2017
Suriya Toaramrut – Technical Director

Jiao Wen joined the Group as COO and was chiefly responsible for development of the activities in Houston and the purchase of the real estate project “Kirby Interchange” in Houston.

Suriya Toaramrut as Technical Director supervised the activities and implementation of the manufacture of ROY brand ceramics by the OEM manufacturer in Thailand and the planned development of distribution activities in Asia.

With effect from 1 April 2018 Robert Huyck was appointed as managing director by the administrative board. Mr. Huyck will support the development of the ROY Group as Chief Operating Officer.

2. ECONOMIC REPORT

2.1 Economic development

The figures of the Group are presented below on the basis of IFRS and the figures of ROY Ceramics SE, based on the HGB (German Commercial Code).

2.1.1 General economic development

Global economic growth in 2017 is expected to be 3.6% according to the global economic outlook of the International Monetary Fund. (IMF). Compared to 2016, growth has markedly improved from 3.1%.

According to "tradingeconomics.com", the Chinese government expected the Chinese economy to grow by 6.9% in 2017 and as a result have the slowest economic growth in 26 years. This indicated weaker dynamism, but a hard landing in economic growth was not yet evident, especially since economic growth in 2017 as in previous years was clearly above the official target of 6.5%.

The construction boom of recent years in China slowed down initially in 2017, especially due to government measures to help the real estate market cool down somewhat. Signs of this are a decline in the construction of new buildings, premium resort hotels and large construction projects. The demand for high-quality ceramic sanitary ware has declined accordingly, while additional new competitors are capturing the market. This development was expected and had a major influence on the decisions by the Company's Board of Administration to sell the operating subsidiaries to White Horse in 2015 and to make the Group accessible to other international markets. In the USA, economic growth in 2017 was 2.3%, which was clearly above the previous year's figure of 1.5%. At the same time, the oil price vital for the Houston economic region began to stabilize in 2017. This development is also evident in improving incomes and the resulting construction activity and recovery of rental prices in the greater Houston area.

In the field of ceramic sanitary ware, the increased economic growth in previous markets had no effect on the business development of the ROY Group, since this business segment is currently inactive. The improved economic conditions had no influence on the development of the ROY Group in the new real estate field of business, since in 2017 only one large transaction had been completed in the third quarter, and relevant positive contributions are only expected in subsequent years.

The new markets in which ROY will do business in future, especially the USA, Europe and the ASEAN countries, were characterised by stable growth in 2017 and promise future sales growth for ROY after a successful relocation of production. In the view of the ROY Group, the election of Donald Trump in 2016 as US President will have a positive effect on the long-term development of our locations in the USA.

2.2 Earnings, financial and asset position

The following discussion and analysis of the earnings, financial and asset position of ROY by the management refers to the consolidated financial statements drawn up according to IFRS of the ROY Group or the individual financial statements of ROY Ceramics SE according to the German commercial law foundations for the financial years ending on 31 December 2017 and

31 December 2016.

The financial data in the following tables are for the most part stated in thousand euros (kEUR) and have been commercially rounded to a thousand euros. The percentages included in the text and tables below have likewise been commercially rounded to one decimal place. Consequently, the total of the figures stated in the text and in the tables may not result in the precise totals stated and the total of the percentages may not necessarily amount to 100%.

Comparisons between the results for 2017 and 2016 and important financial performance indicators are not especially meaningful due to the closure of the ROY plant and suspension of distribution since the third quarter of 2015. The real estate business division was established in 2017. This business division includes the Kirby Interchange, several construction sites in Houston and the purchase and sale of the real estate in Hong Kong. Overall, business development turned out to be unfavourable under the given circumstances, since the payments of White Horse did not occur at short notice as expected by June 2017, but only in the fourth quarter of 2017 and as a result, the planned projects could only be tackled with a delay. This circumstance had unfavourable consequences on all results in the Group.

The results of ROY Ceramics SE itself are not discussed in detail, since the company has not yet carried out any trading activities and only functions as a holding company for the Group.

2.2.1 Earnings position

Contrary to the forecast from the previous year, the income statement of the individual financial statements of ROY Ceramics SE showed a profit of kEUR 11,850 compared to a loss in the previous year of kEUR 444. The profit in the financial year was primarily due to a dividend payment of the subsidiary LLH from its capital reserves to the parent company, amounting to kEUR 12,291. The loss in the previous year was chiefly attributable to costs in connection with the public listing and business activities of the company in Germany (general administrative costs).

The following table includes information from the consolidated financial statements of ROY for the financial years ending on 31 December 2017 and 31 December 2016.

Selected information from the statement of comprehensive income of the Group:

kEUR	Financial year to 31.12.2017	Financial year to 31.12.2016	Change in %
Sales revenue	**990**	**17**	**5,724**
Cost of sales revenue	70	6	1,067
Gross earnings	**920**	**11**	**8,264**
Earnings from the sale of investment property	157	0	n/a
Loss from the disposal of fixed assets	0	4,922	-100
Distribution costs	0	1	-100
Administrative costs	15,484	22,447	-31
Other income	44	0	n/a

Operating earnings/EBIT	**-14,363**	**-27,359**	**-48**
Financial income	110	2,204	-95
Financial expenses	554	38	1.358
Earnings before taxes	**-14,807**	**-25,193**	**-41**
Deferred taxes	-218	0	**n/a**
Income taxes	4	1	300
Net earnings in the reporting period	**-14,594**	**-25,194**	**-42**
Gross profit margin in %	*n/a*	*n/a*	*n/a*
EBIT margin in %	*n/a*	*n/a*	*n/a*
Net profit margin in %	*n/a*	*n/a*	*n/a*

pp = percentage points

n/a= Since the Group did not have any operating business in 2017, the key performance indicators of gross margin, EBIT margin and net profit margin do not have any explanatory value or meaningfulness. Therefore, we have not reported them for this year.

2.2.2 Sales revenue

In 2017, it was only possible to realise minor net rental income from the Kirby Interchange and two other leased properties in Houston, which are located on the purchased properties and are being leased until demolition, as well as one leased property in California.

ROY Ceramics SE, the parent company in Germany, has not had any sales revenues in 2016. Sales revenues in 2017 resulting from consulting services provided to the Group.

2.2.3 Gross profit and gross profit margin

The following table shows a breakdown of the gross profit and gross profit margin for the financial years to 31 December 2017 and 31 December 2016.

kEUR	2017	2016
Gross earnings	920	11
Gross profit margin	n/a	n/a

Since the Group only had very restricted business operations in 2017, the key figure "gross profit margin" is not meaningful. Therefore, we have not reported it for this year.

2.2.4 Financial income

The financial income of the Group fell from kEUR 2,204 in financial year 2016 to kEUR 110 in financial year 2017. The financial income from receivables consisted mainly of interest owed by White Horse until 30 June 2016. Payment of this outstanding interest receivable was received in 2017.

2.2.5 Administrative costs

The administrative costs of the Group primarily include wages and salaries as well as ancillary wage and salary costs for managing directors, other management and administrative personnel, travel and entertainment expenses for management and managing directors, depreciation expenses for assets except for losses from the disposal of fixed assets, amortization of prepaid rental costs for the plant site, benefit expenses, repairs and maintenance expenses, rental costs, office expenses, transport expenses and impairments of trade receivables and other receivables.

The administrative costs in the 2017 financial year amounted to kEUR 15,484 compared to kEUR 22,447 in the 2016 financial year. The decline in the 2017 financial year compared to the previous year was chiefly due to the special depreciation performed in 2016 and the disposal of machinery (2016: 3.802 kEUR). In 2017, the scheduled depreciation was kEUR 11,550 (2016: kEUR 8,145), mainly due to currency effects and scheduled depreciation on new real estate and fixed assets. In addition, no fees and property tax was paid for previous financial years to the local authority in Beijing in 2016 (kEUR 8,344). The paid fees and property taxes in 2017 (264k EUR) paid in the USA were mainly due to the purchase of Kirby Interchange property.

2.2.6 Income tax expenses (Group)

According to the laws of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income taxes in the Cayman Islands or the British Virgin Islands.

kEUR	**2017**	**2016**
Current taxes		
Income tax in the USA	0	1
Income tax in Germany	0	0
Income tax in Hong Kong	4	0
Deferred taxes	-218	0

During the financial year or at the end of the year under review, the Group had deferred tax liabilities in the USA amounting to kEUR 142 (2016: 5 kEUR) by contrast deferred tax liabilities of 444 kEUR (2016: 106 kEUR).

ROY Ceramics SE does not pay any taxes in Germany on account of the previously incurred losses.

2.3 Balance Sheet of ROY (Group)

kEUR	31. Dec 2017	31 Dec. 2016
Assets		
Total non-current assets	77,848	69,302
Total current assets	45,839	70,084
Total assets	**123,687**	**139,386**
Equity and liabilities		
Total equity	109,673	135,670
Total liabilities	12,895	3,716
Total equity and liabilities	**123,687**	**139,386**

2.3.1 Non-current assets

The non-current assets chiefly involved property, plant and equipment in Germany, Thailand and the USA, real estate in the USA and a real estate transaction during the year in Hong Kong.

The increase in non-current assets in the 2017 financial year compared to the 2016 financial year was chiefly due to the investment made in Kirby Interchange and the purchase of properties in the USA.

Segment-related investment information

In connection with the sale of the Chinese operational subsidiaries to White Horse on 30 September 2015, the movable property, plant and equipment previously used in the Beijing plant was transferred to LLH. This machinery is shown in the balance sheet at its residual book value, which was the result of an independent and professional valuation carried out by Nova Appraisals Limited.

Since 2016, the property, plant and equipment previously used in the Beijing factory has been depreciated on the basis of a new estimate amounting to 10% depreciation annually, which corresponds to a residual usage period of ten years. This is a more realistic usage period of the property, plant and equipment.

On 31 December 2017, several pieces of real estate of the Group were in the USA. One piece of real estate is pledged as collateral for the promissory note liabilities of the Group and is encumbered with a land charge. The other pieces of real estate serve as income properties.

2.3.2 Current assets

Cash and cash equivalents

On 31 December 2017, the bank balance amounted to kEUR 25,690 (2016: kEUR 792) in US dollars (USD). Thereof, kEUR 22,272 of the bank balances are denominated in US Dollar and kEUR 3,303 are denominated in Euro. The remaining balances were mainly in Hong Kong dollars (HKD). Bank balances bear interest at variable rates based on the respective interest rate for bank balances that can be terminated on demand. The bank balances were at creditworthy banks at which in the past there have been no indications of a potential default risk.

Trade receivables and other receivables

The trade receivables and other receivables for the most part comprise a claim vis-a-vis the trustee for the credit balance of the ROY Group in China, which is being held in reserve for the purchase of construction material at the end of the year for planned projects in the USA.

2.3.3 Current liabilities

Trade payables and other liabilities

Trade payables primarily include liabilities from external advisory services or liabilities to external service providers. Other liabilities include liabilities for wages and salaries and social benefits, benefit payments and other tax liabilities.

2.3.4 Non-current liabilities

Non-current liabilities primarily include a bank loan of USD 15 million (EUR 12,4 million), that was taken out to finance the purchase of the Kirby property.

2.4 Balance sheet of ROY Ceramics SE (individual financial statements according to HGB)

kEUR	**31 Dec. 2017**	**31 Dec. 2016**
Assets		
Total non-current assets	12,993	12,990
Total current assets	15,836	91
Total assets	28,829	13,090
Equity and debt		
Total equity	28,477	11,628
Total debt	352	1,462
Total equity and debt	28,829	13,090

The non-current assets in both years primarily involved shares in Lion Legend Holdings Ltd (LLH).

The current assets primarily involve cash.

The change in equity is primarily attributable to the loss of the previous financial year.

ROY Ceramics SE carried out an increase in share capital of kEUR 4,999 in 2017. This increase in share capital was carried out without a prospectus. The subscribed capital was increased by the amount of kEUR 4,999.

The debt consists mainly of provisions, trade payables and liabilities to Lion Legend Holdings Ltd. As in the previous year, all of the liabilities have a term of up to one year.

2.5 Abridged cash flow statement of the ROY Group

kEUR	31 Dec. 2017	31 Dec. 2016
Cash flow from business activity prior to a change in current assets	-2,815	-9,524
Net cash outflow from ongoing business activity	-7,012	-1,076
Net cash inflow on account of investment activity	15,599	1,943
Net cash outflow from financing activity	16,849	-38
Net increase (decrease) in cash and cash equivalents	**25,435**	**829**
Currency conversion effects	-712	56
Cash and cash equivalents at the beginning of the period	967	82
Cash and cash equivalents at the end of the period	**25,690**	**967**

The Group's liquidity position suffered a short-term negative impact from the sale of its main subsidiaries to White Horse. The liquidity position improved markedly upon receipt of the consideration due from White Horse plus interest amounting to 6% p.a. by 30 June 2016. In 2017, the Group was in a position to meet all of its payment obligations in full at all times.

In 2017 payments in the amount of USD 72,351,000 were received. An amount of USD 20,000,000 is currently still held in trust in an account of a Lee's Pharmacy client in China. Lee's Pharmacy is a publicly listed company in Hong Kong, which is run by family members of Mr. Siu Fung Siegfried Lee and was originally founded by Mr. Lee. This amount is reserved for procuring construction material and equipment on favourable terms in China for the planned real estate projects.

As at 31 December 2017, the cash flow statement on the individual financial statement of ROY had negative cash flow from normal business activity, which arose primarily from the administrative costs for the listing on the Frankfurt stock exchange and other general administrative costs. Furthermore, an investment was made in a new image of the Group website: www.roykeramik.de.

2.6 Other factors relevant to results

2.6.1 Research and development

New product series are constantly being developed during normal business activity. Applications have been submitted for various patents in the PRC, including for the universal drain adapter for WCs from ROY and production processes developed inside the company. In future, ROY will submit additional patents for new developments.

Continuation of the development work is also planned after resumption of ceramic sanitary ware business operations with our own production.

2.6.2 Production locations

All of the processes and the entire technological know-how of the production location in Beijing is to be integrated in a new production location, which in the long term is to be established in the USA and in the medium term in Europe (cf. Section 2.6.4.4).

2.6.3 Marketing and distribution of ROY products

ROY's Chinese business was sold to White Horse on 30 September 2015. Since then, ROY has been cooperating intensively with an OEM manufacturer in Thailand on the development of production. ROY supports achieving the high-quality standards for our products with know-how and employees onsite. ROY will reactivate the distribution network that it had previously developed in the PR China upon conclusion of this process and correspondingly adequate production reliability. In addition, it will begin to develop a distribution network in the USA and expand its existing contacts in Europe.

2.6.4 Intellectual property

2.6.4.1 Brands

In the view of the Company, the "ROY" brand is an important factor in its successful business activity in the PRC and a condition for its future success in international markets. For this reason, ROY has to continue to reinforce brand awareness. To protect the "ROY" brand, the Company has already had the trademarks listed below registered and intends to have them registered as trademarks in other countries too.

Trademark	Area	Holder	Protective period until
ROY (Logo)	European internal market, registration as trademark under the number: 009,727,793	Kingbridge	28 February 2021
ROY (Logo)	German trademark, registry number: 30 2012 020 829, Classes 11, 19, 21	Kingbridge	31. March 2022

Agreements were reached with the sale of the operational companies to White Horse to transfer these trademarks of Kingbridge as part of the sale process temporarily to White Horse and to transfer them back at the latest by 30 June 2017 to LLH and consequently to the ROY Group. Return of the brand rights by transfer of the Kingsbridge company occurred in May 2017 to Ms Jiao Wen. Up to 28 December 2017, Ms Wen was the Managing Director of ROY Ceramics SE. The trademarks will be transferred from Miss Wen to ROY Ceramics SE.

2.6.4.2 Patents

Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. (SFC) applied for a patent on 23 January 2014 (patent name: "A kind of a toilet") for a universal toilet adapter. The patent was approved on 5 November 2014. The patented adapter permits the installation of a toilet that can be designed both with a floor as well as a wall drain by using various PVC pipes. The toilet installation with a floor drain can be designed according to Chinese standards with a pipe connection of 305 mm and 400 mm diameter or by another non-standard connection pipe using differently sized PVC pipes. The connection pipe of toilets with a floor drain can be converted to a connection for toilets with a wall drain. Therefore, the toilets can be installed both with vertical as well as horizontal drain pipes.

The information on the SFC patent can be summarised as follows:

Patent holder	Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd.
Patent name	A kind of toilet
Inventor	Siu Fung Siegfried Lee, Sikun Jiang
Patent number	ZL 2014 2 0044813.6
Area	PRC
Date of patent application	23 January 2014
Date of patent approval	5 November 2014
Protective period until	23 January 2034

Agreements were reached with White Horse to transfer these trademarks from Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. to LLH by 30 June 2017. The retransfer to Ms Wen occurred in May 2017 and Ms Wen will transfer this patent to ROY Ceramics SE.

2.6.4.3 Domains

www.roykeramik.de

The above-mentioned domain name has been registered for ROY Ceramics SE. The purchase of additional domain names will be considered in the event of the development of additional markets.

2.6.4.4 Production process

The intellectual property relating to the production process involves a secret formula and a secret process, which are carefully kept secret by ROY, but which are without legal protection. This technology has been developed in-house over several years. The products of ROY can be marketed internationally with it, which makes up a significant part of the expansion plans of ROY. Toto is the only competitor of ROY whose toilets have a similar design. As part of the agreement with White Horse, the ROY brand and intellectual know-how were transferred back to ROY in May 2017, by transfer to Ms Wen, former managing director of ROY Ceramics SE.

2.6.5 Employees

On 31 December 2017, the ROY Group had a total of three employees apart from the managing directors of the Company.

The plan is to hire additional employees for the next phase of development at ROY.

The ROY Ceramics SE parent company had no employees in 2017 as in the previous year.

2.6.6 Experienced management team

The Chief Executive Officer (CEO) of the Company, Siu Fung Siegfried Lee, is extremely experienced and has been active in the market for ceramic sanitary ware for over 30 years.

The goal is to bring most of the key employees who were previously employed in the Company into the new company; this depends on the respective possibility of moving to the USA or elsewhere and obtaining corresponding work and residence permits.

2.6.7 Company locations, property, plant and equipment, inventories

2.6.7.1 Production locations

The production locations of ROY on the plant site in Beijing were owned and operationally managed by Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. The plant site was on a 150,000 m2 industrial estate outside the centre of Beijing; the address is: 5 Huagong Road, Zhaoyang District, Beijing, PRC.

SFC received the land usage rights for the next 50 years (28 June to 27 June 2043).

The land usage rights, together with the operational subsidiaries, were sold to White Horse with effect on 30 September 2015.

In the long term, development of a new production location in Houston is planned. Furthermore, it is planned to examine the feasibility of a production location in Germany, which is to occur before the development of production in the USA.

2.6.7.2 Equipment and machinery

All movable property, plant and equipment remained with ROY as part of the agreement with

White Horse.

The recognised and independent valuation experts of Nova Appraisals Limited, Hong Kong, carried out an onsite inspection on the plant site of SFC in Beijing in 2016. Nova Appraisals Limited estimated the fair value of the movable property, plant and equipment remaining with ROY Group pursuant to the international valuation standards published by the International Valuation Standards Committee (IVSC) on 31 December 2017 at an amount of HKD 458,571,000 (approx. EUR 48.9 million).

2.5.7.3 Real estate

As at 31 March 2017, Siu Fung Concept Limited, which is a wholly-owned and fully consolidated subsidiary of the ROY Group, acquired an apartment within the framework of the Imperial Cullinan construction project in Hong Kong for a purchase price of HKD 28,691,761 (approx. EUR 3.5 million). This property was sold on 8 November 2017 for HKD 37,800,000 (approx. EUR 4.1 million). After property tax a profit of kEUR 157 had been realized from this transaction.

On 17 August 2017, ROY Ceramics SE acquired real estate in Houston via the subsidiary ROY Commercial Houston, Inc. The acquired property includes a rentable area of 27,264 m^2 on a land area of 58,801 m^2 in total. The occupancy is currently approx. 76% with a weighted residual term of the current rental contracts of 2.97 years and predominant use as office space. The vacant commercial areas are to be leased for the most part and to a small extent occupied by local ROY companies as office space. The real estate is not far from the Texas Medical Center and within walking distance of the NRG Stadium and the NRG Astrodome and is directly connected to Highway 288 and to Interstate 610. ROY Ceramics SE paid a purchase price of USD 24.8 million, which, apart from equity amounting to USD 9.3 million, is to be financed by a loan of USD 15,5 million. Directly after acquisition of the real estate, measures were taken to further improve the attractiveness of the property. For the most part, the measures involve painting work, installation of an additional lift and upgrading of vacant rental areas. The costs of the measures are budgeted at kUSD 780 and are within the plan of the expected maintenance measures upon the purchase of the property. The monthly gross rental income before costs was approximately kUSD 205 in the period September to December.

Apart from activities in the commercial and multi-family real estate sector, ROY Ceramics SE has committed itself to the development of a single-family home portfolio through its direct subsidiaries in Houston. Several project companies were established and equipped with properties for this purpose in the period June - October 2017. It is planned to develop the real estate in the near future with properties and offer them to interested investors and people, especially from the Asian area, after the development has been completed with superior properties.

Apart from the real estate projects in Houston/Texas, the ROY Group has become involved in another real estate project at the registered office of ROY USA, Inc. in Los Angeles/California. The project in Jurupa Valley has a total investment volume of USD 61.8 million and it is planned to erect 97 single-family homes and 118 multi-family homes on a property of approx. 10 hectares, distributed over several construction phases and a period of three years. ROY has taken part in the project with an investment of USD 5 million and in return will receive a majority share of 55% in the project company.

2.5.7.3 Leases

ROY has leased premises in the USA for its activities. Since 1 April 2017, ROY USA, Inc. has been leasing premises in Pasadena, California, for a monthly rent amounting to USD 1,841, until 31 March 2019. In addition, another lease agreement has existed since 14 March 2017 with a term until 14 March 2027 with a monthly rent of USD 7,003.

Premises costing USD 1,545 per month are under lease in Houston/Texas by ROY Houston Management, Inc.

ROY Ceramics SE has a lease for an office in Hungen for an annual flat-rate rent of EUR 1,500 and an office with service in Frankfurt for EUR 339 per month. The contract can be terminated on a quarterly basis. In addition, ROY Ceramics SE is renting a warehouse in Selb/Bavaria, for storing the machinery and equipment, that is planned to be renovated. The monthly rent is amounting to EUR 4,200. The rental contract matures on 31 May 2019 and has an automatic renewal element if the contract is not terminated three months prior.

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

The following statements in regard to the future course of ROY's business and on the underlying assumptions judged to be important for its future course of business in regard to the economic performance of the market and industry are based on estimates that ROY considers realistic according to the currently available information. Nonetheless, there is a certain degree of uncertainty and an inevitable risk that the forecast developments will not actually occur in terms of direction or expected scope.

3.1 Forecast

3.1.1 Future economic environment

3.1.1.1 World economy

Due to new, greater orientation around international markets, the probable development of the world economy is increasingly important for the ROY Group. Currently, there are good growth prospects for the world economy. For example, according to calculations of the IFW (Kiel Institute for the World Economy), global production will increase by approximately 3.9% in 2018. An increase in world trade of 4.0% is expected for 2018.

Overall, this positive development is evident in every region in the world. The advanced economies are continuing to pursue an expansive monetary policy coupled with a relatively loose financial policy. This produces growth, but also potential uncertainty in the markets regarding normalisation of monetary policy. The recovery in the emerging markets is proceeding while growth in China is gradually slowing, and the enormous degree of indebtedness at the same time constitutes a risk for the world economy.

Under these premises, a relocation of production and sales markets was only logical. The US economy is continuing to grow steadily and in worldwide comparison somewhat more strongly. GDP growth of approximately 2.5% is expected for 2018 (by comparison: in the Eurozone for

2018: 2.3%). Growth in Europe is also expected to be 2% in the following year too. These positive economic prospects confirmed the decision taken by the managing directors in 2015 to sell the operating units in China and strive to relocate production.

3.1.2 Future business environment

The medium-term outlook indicates continued slower growth in China of 6.4% in 2018 with a further slowdown in growth rates. This gradual cooling of economic development in China will also engulf the rest of the Asian region in 2018. Economic growth is expected to fall to 5.1% in 2018 in the rest of the Asian region. This development will be supported by stronger exports, greater political stability and increased investments. Development in the ceramic ware sector in the PR China will probably turn out weaker in 2018, since a slowdown is noticeable in major projects in real estate development.

To a certain extent, this justifies the decision of the managing directors to sell the operating subsidiaries in China to White Horse in 2015 and position the Group in other international markets in the ASEAN region and the USA.

Despite the already mentioned, generally positive expectations regarding the world economy, ROY is convinced that the foreign markets, especially the USA under the presidency of Donald Trump, present good business opportunities, permitting the growth of the Group. And the targeted relocation of production has improved the presence of ROY in foreign markets compared to previous years.

3.1.3 Future development of ROY

The following information provides an overview of the most recent developments of the Group and the future strategies of ROY.

3.1.3.1 Reactivation of the ROY brand

ROY plans to take part in leading trade fairs in Europe and the USA in 2018/2019 and to strengthen the ROY brand in an even larger customer group in the USA and ASEAN markets.

3.1.3.2 Plant in Beijing

The dismantling of all of the machinery in Beijing took place in 2017. Most of the machinery was shipped to Houston/Texas, USA. Another part of the machinery was also transported to Germany for renovation. After renovation, in the long term a production in the USA will be developed, while in the medium term a production in Europe is planned. In order to support the development of outsourced ceramic sanitary ware production for ROY at an OEM manufacturer in Thailand some machinery was shipped to Thailand. To date, no final agreement on the renovation of the machinery could be reached with a company in Germany, since the offers received so far have been inadequate and ROY is also currently investigating the option of production in Germany. The machinery already located in Germany only had to be overhauled to a much lesser extent, since the machinery had originally been purchased in Germany and as a result corresponded to European standards.

3.1.3.3 Forecast for ROY Ceramics SE and the ROY Group.

ROY had to suspend business operations after the sale of its subsidiaries in China. Therefore, until the next development phase is initiated, ROY will only have a small workforce.

The first sales revenues in the field of ceramic sanitary ware are expected in 2018. We do not expect these sales to cover the regular costs in 2018 in the USA, Hong Kong and Germany, especially the general administrative costs. In 2018 as a whole, we expect a slightly lower net loss than in 2017, which will be primarily attributable to the operational overhead, but which will be counteracted by the increasing rental income from the real estate in the USA. The next step in restructuring the ceramic sanitary ware segment of the ROY Group will occur once the feasibility study regarding a plant in Germany has been completed and a contract for the renovation of the machinery for the construction of a plant planned in the long term in the USA has been completed. We do not expect any further sales revenues until the OEM plant in Thailand has produced sufficient high-quality ceramic ware according to our quality requirements in order also to be able serve the distribution channels which will be created.

In the real estate segment, ROY generates rental income from the Kirby Interchange property, which is paid to the local subsidiary ROY Commercial Real Estate Houston, Inc. every month, and two other leased properties in Houston which generate rental income for ROY Commercial Real Estate Houston, Inc. ROY expects the monthly rental income in 2018 to increase with the increase in leasing efforts. Furthermore, high lead costs are expected for the other real estate projects being developed, which will have a correspondingly negative effect on the result of the ROY Group in 2018.

We plan a loss for ROY Ceramics SE in 2018 similar to that in 2016, since the profit in 2017 came about through a one-off effect due to the dividend payment. In addition, largely due to lead costs for projects, we expect further costs, but with the expectation of slightly positive income in the subsequent years. Furthermore, we are also planning for an overall loss for the ROY Group in the coming financial year 2018, which will be defined in particular by the costs as part of the resumption and expansion of operating activities in the ceramic sanitary ware segment and new real estate projects.

3.2 Report on opportunities and risks

The business activity, net assets, financial and earnings position of ROY Ceramics SE could be influenced significantly and disadvantageously upon the occurrence of one or more of these risks. Additional risks and uncertainties at ROY that the Company is currently unaware of or whose extent it is judging incorrectly at the moment may also have a negative impact on the business of ROY Ceramics SE and the business activity, the net assets and the financial and earnings position of the Company. At the same time, the selection and the content of the risk factors is based on assumptions that could prove to be incorrect in hindsight.

The planned construction or purchase of a new plant that is to occur immediately after conclusion of the feasibility study, will provide ROY with a great new opportunity to penetrate the US and European market in particular with high-quality ceramic sanitary ware from Germany and later the USA. The opportunities and risks in the segment of the real estate activities should be evaluated from the point of view of liquidity, risk distribution, security, transparency, manageability and return in particular.

3.2.1 Market risks

The risk management of the ROY Group occurs in a clearly defined and coordinated process. All relevant levels of the ROY Group are monitored continuously. ROY is currently not aware of any risks threatening its existence. The main risks identified for the ROY Group are stated below with the likelihood of occurrence.

3.2.1.1 Risk in the case of production in an OEM plant

There is the risk that ROY will have to terminate the agreement with the OEM plant in Thailand for the manufacture of ROY brand products if the products do not meet the normal high quality level expected by our customers. At the same time, production must occur efficiently and cost-effectively and in sufficient unit numbers.

It is assumed that the partner that was found operates a suitable OEM plant and the production of high-quality ROY sanitary ceramic ware can occur. In addition, ROY has despatched a ceramic ware engineer to the OEM plant to Thailand, and the local managing director of ROY Ceramics SE visits the plant at regular intervals to find out about the development. The likelihood of the occurrence of a substantial risk for ROY is regarded as slight.

3.2.1.2 Risk in real estate projects

There is a risk that ROY enters into obligations that only turn out to be economically unsustainable in retrospect. In addition, there is the risk that liquidity pledges, project development work, construction work, static and economic agreements are not performed in a timely manner by partners, commissioned building trades or other third parties or not to the extent agreed and this has correspondingly negative effects on ROY. This risk also includes the risk of the selection of a poor location for new projects and a lack of attractiveness for leasing and sale.

ROY assumes that the due diligence of ROY in selecting the partners can be regarded as complete and adequate. ROY cooperates with renowned construction companies and real estate project partners. In addition, ROY has entered into the cooperative measures required, such as with YTWO and hires external expert knowledge as required and has analyses and expert opinions drawn up before a purchase or development. ROY assesses the likelihood of the occurrence of an existential risk for the ROY Group on the basis of the processes and analyses carried out before a decision is taken, not as slight, but manageable.

3.2.1.3 Risk in the construction of a new modern production plant in the USA or Europe

There is the risk that the construction of a highly modern, new production plant in the USA does not come about as quickly and cost-effectively as expected. A detailed business analysis will be commissioned in the USA before ROY commits capital to this project. Due to the size of the project, ROY is currently working on an pre-investment analysis to develop a smaller production facility in Germany. The goal is to develop flexible production in Europe. This production facility can be implemented faster and will involve a smaller capital commitment overall than comparable production in the USA. The goal is to keep the ROY brand alive in the market. The likelihood of the occurrence of a substantial risk for ROY is regarded as slight.

3.2.1.4 Highly competitive market

The Company is of the opinion that intensive competition prevails in the market for sanitary ware. Numerous domestic and international brands struggle for market share in all world markets by means of, among other things, product design, product diversity, product quality, price and brand loyalty. It cannot be ruled out that competitors place their brands on the same level as ROY and also advance in the same segments. Moreover, many manufacturers of sanitary ware have already achieved a similar, if not greater, brand and market awareness and already secured market shares or are in the process of securing these, because they currently have greater financial resources than ROY and consequently have better conditions in marketing, distribution, etc.

There is the risk that ROY will be unable to prevail against existing or new competitors in future, will have to surrender market share already conquered or does not acquire any new market share. Since ROY is currently not active operationally in the ceramic sanitary market and the segment has only just begun to be re-established, this risk is currently estimated to be very slight.

4.2.1.5 Dependence on major customers and projects

In 2014, about 18% of the sales revenues were generated with the ten biggest customers of ROY in the PRC. Therefore, the dependence on major customers in terms of sales stability and preservation of market share is very high. Following the closure of ROY’s production plant in Beijing in the third quarter of 2015, the established customers of ROY now buy sanitary ware from other manufacturers. There is a risk that ROY's access to previous major customers and also new major customers will be impaired due to the strong competition. Since ROY is currently not active operationally in the sanitary market, this risk is currently estimated to be very slight.

3.2.1.6 Fluctuating trends and customer preferences

The ceramic products of ROY for bathrooms are oriented particularly to customers who prefer high-quality and luxurious baths. ROY for the most serves high-quality office buildings and business/government buildings, real estate developers, real estate management companies, retail businesses, hotels, architects and design studios. The success of ROY depends in part on the capacity of the Group to keep up to date with design trends and technical developments in this market. The ability to react in good time to new trends and detect new trends at any early stage is just as important. Consequently, ROY is constantly bringing out new designs to expand its customer base in order to increase sales revenues and enhance its attractiveness.

Employees are deployed in the design and development department of ROY especially to follow market trends and develop new designs for bathroom products for the ROY brand. In the current situation of ROY, the design and development department has been closed, but the know-how and contact to former employees and external service providers remains, and it is assumed that upon entry into the growth phase, these resources can be reactivated. The launch and development of each new product line is associated with the expenditure of considerable time and resources. Irrespective of this, there is no guarantee that ROY will always be in a position to react effectively and positively to changing customer preferences and to develop product designs that are attractive for the intended market. There can likewise be no certainty that a new product line launched by ROY in future will be commercially realisable or successful. If ROY is unable to adjust to the needs of the market and the taste and preferences of customers and always design and sell high-quality, commercially-realisable products, the demand for products of the ROY brand could decrease. This could have significant negative effects on the asset, financial and income position of ROY. Since ROY is currently not active in the ceramic sanitary segment, this risk is currently estimated to be slight.

3.2.1.7 Risks regarding the development and promotion of the brand

The ROY brand is an important factor in the continuing success of ROY in the market for high-quality and luxurious bathroom fittings. ROY is of the opinion that the brand image and brand awareness constitute important factors for the purchasing decisions of customers. ROY's marketing is focused on acquiring and retaining customers in the target groups that ROY appeals to. This in particular includes the outfitters of premium residential, office, commercial and government buildings, construction companies, real estate management companies, retail branches, hotels, architects and design studios.

Future sales of ROY products will in part depend on the extent to which ROY's efforts to boost the brand familiarity and recognition of its products are effective and how well ROY succeeds in protecting the ROY brand against third party use or forgeries. The latter could damage the respect associated with the brand and the company value.

There is a risk that ROY will not succeed in boosting the familiarity of the ROY brand in the manner intended. The reasons for this could be insufficient availability due to the selection of an unsuitable OEM partner or the development of its own plant, negative headlines, negative perceptions of the ROY brand or a negative image of the brand in the PR China. Another reason could be if ROY does not succeed in promoting, protecting and preserving its image as a manufacturer of high-quality ceramic ware. The brand familiarity associated with the brand and the associated good will could even decrease. This could result in a loss of customer trust and a lack of sales. Since ROY is currently not active operationally in the sanitary market, this risk is currently estimated to be very slight.

3.2.1.8 Risks due to intensive competition in ROY’s market

The business activity of ROY is subject to intensive competition. Consequently, there is a risk of losing market share due to the performance of the Group or due to the performance of its competitors. The market for sanitary ware and ceramic products in China is subject to extremely tough competition and in the view of the Company, ever more new competitors are being added. Therefore, there is a risk that the current or new competitors of ROY will overtake ROY in particular areas and as a result, ROY could lose the corresponding market segments. In this case, the profit margin of the Group would fall, though the precise decline would depend on the particular market segment and number of competitors. This would influence the business activity, profitability and cash flows of ROY detrimentally. The planned re-entry to the market under the ROY brand could be hindered or delayed by market entry barriers that have now been introduced. Since ROY is currently not active operationally in the sanitary market, this risk is currently estimated to be very slight.

3.2.1.9 Risks of personnel fluctuations

The future success of ROY depends heavily on the continuing performance of the management and other key employees. Should one or more members of the management or key employees be unable or unwilling to retain their current position, ROY may be unable to keep or replace them, since there is a very high demand in particular for experienced personnel and the search for employees with corresponding abilities can be very time- and cost-intensive.

Moreover, there is a risk that a member of the management or important employees switch to a competitor of ROY or establishes a competitor company, which could lead to a loss of know-how, customers, more employees in key positions and employees. ROY is determined to retain the central management team for the next development phase of ROY in the USA and on the ASEAN market and in Germany.

3.2.1.10 Unprotected intellectual property rights

Since the design and manufacture and ROY products are associated with numerous production formulas and production technologies, their protection is extremely important for the success of ROY and its competitive position.

Up to the current time, there has been no protection for the technology, the manufacturing formulas and know-how of ROY. Consequently, there is the risk of third parties copying these technologies, production formulas and know-how or other know-how used by ROY, and ROY has no effective legal means of preventing this. In these cases, ROY would be unable to legally enforce permanent injunctions or damages for the breaches mentioned.

Moreover, it cannot be ruled out that technologies and production formulas and other know-how of ROY infringe the rights of third parties, which could lead to suits for permanent injunctions and/or damages on the part of these third parties against ROY.

3.2.2 Opportunity report

3.2.2.1 Development of new markets

In the field of ceramic sanitary ware, opportunities have arisen; through the planned relocation of production to the United States and Germany, the opportunity has arisen for the ROY Group to develop new markets. The management of ROY assumes the label "Made in USA or Made in Germany" will result in clearly enhanced acceptance of the products of ROY on the entire Asian and American continents (Asia, South America, USA, Canada) and in Europe as sales markets. The proximity to these new customer groups is another location advantage that can be exploited. Moreover, opportunities arise through the focus on high-margin ceramic ware and shower WCs, which to date still play an under-represented role in western markets.

In addition, opportunities arise from the real estate business segment. On the whole, though location is decisive, real estate provides stable rental income and growth opportunities at localities with development potential. ROY regards the current focus of the activities on real estate in Houston/Texas to be very good. After a decline in recent years, Houston is once again experiencing a revival as real estate market, which was characterised largely by the trend towards the recovery of oil prices in 2017. The development of Houston, with the creation of attractive and well-paid jobs by companies in the medical sector and oil industry once again increasing, is regarded as a continuing trend with the corresponding rental increase and sales potential for ROY projects expected.

In addition, the combination of real estate projects and the potential future equipping of the projects with ROY's own ceramic sanitary ware items is regarded as a positive effect for the marketing strategy as well and additional income potential.

4.2.2.2 Efficient structures

The sale of both intermediate holdings to White Horse reduced the scope of the Group in the short term and shifted the operational risk from China to the USA or Europe. Strategies can be implemented faster and with less effort as a result of having less coordination work and shorter decision-making paths. Communication is much simpler and faster. The organisational and regulatory effort at the individual Group levels has also been clearly reduced. As a result, ROY will in future be able to implement the demands of the market or forward-looking strategies faster and better.

3.2.2.3 Financing

In the context of the planned development of the ROY Group, the sums received from White Horse for opportunities will be used for promising real estate projects in the USA. Furthermore, the internal liquidity sources of the Group can be expanded as required by increases in share capital and/or additional external financing. The implementation of the first projects in the USA has enhanced ROY's financing reputation among the local financing partners and easier access to financing resources is expected.

4. DESCRIPTION OF THE MAJOR FEATURES OF THE INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM REGARDING THE GROUP ACCOUNTING PROCESS (§ 315 no. 4 HGB)

ROY uses an internal controlling system and risk management system, which lays down appropriate structures and processes for the accounting and composition of the financial reports, measured according to the current size and complexity. These systems are intended to guarantee timely, uniform and accurate accounting for all business processes and transactions and in addition ensure the observance of legal provisions and the standards of accounting and financial reporting.

Due to the manageable organisational structures, these systems are currently characterised by the interplay between management and the Administrative Board.

The consolidated financial statements have to a large extent been drawn up by an external German service provider and are based chiefly on the documents submitted by the subsidiaries involved. The accounting department of ROY and an external German service provider are responsible for the consolidation, particular adjustments to the Group's guidelines and monitoring of the schedule and procedures. System-based controls are monitored by the personnel and supplemented by manual inspections. In view of the size of the Company, there is currently no internal audit.

The complexity and scope of the accounting will increase due to the planned relocation of production to the USA or Europe in a plant of our own. Therefore, the managing directors plan a corresponding expansion of the controlling and risk management system at the appropriate time.

5. COMPENSATION SYSTEM

5.1 Compensation of the managing directors

In the year under review, the managing directors of ROY Ceramics SE were:

Siu Fung Siegfried Lee, Chief Executive Officer, Hong Kong

Matthias Herrmann, Chief Financing Officer, Hamburg since May 2017

Suriya Toaramrut, Technical Director, Bangkok since August 2017

Lei Yang, Design Director, Los Angeles

The following have resigned

Sikun Jiang, Technical Director – 2 March to 4 August 2017

Jiao Wen, Chief Operating Officer - from 18 August 2017 to 28 December 2017

On 31 December 2017, Siu Fung Siegfried Lee was managing director and also Chair of the Administrative Board of ROY Ceramics SE. Siu Fung Siegfried Lee has been named managing director for an indeterminate period. Since Siu Siegfried Lee is both managing director as well as member of the Administrative Board, he can only be relieved of his office for good cause.

Siu Fung Siegfried Lee received a fixed compensation for his activity as managing director of kEUR 327 (2,880 THKD) in 2017 (2016: 0 kEUR) as well as benefits in kind of kEUR 98 (2016: kEUR 0). Mr Lee does not receive any compensation for his activity as Chair of the Administrative Board.

The managing director Mr Herrmann received fixed compensation of kEUR 79 in 2017 (2016: 0 kEUR). Mr Herrmann does not receive any compensation for his activity on the Administrative Board. D&O insurance was taken out for Mr Herrmann.

The managing directors Mr Toaramrut and Ms Wen do not receive any payment in this capacity.

Apart from Ms Lei Yang, the managing directors officiating on 31 December 2017 are neither partners in the company, nor do they possess options to acquire an interest in the company.

Lei Yang was named a managing director on 2 March 2017. Lei Yang possesses 30% of the shares in Hi Scene Industrial Limited, which holds 75.47% of the shares of the company.

To date, share option agreements on the basis of the "Share option programme 2017" decided at the shareholders' meeting 2017 have not been reached with any member of the management.

6.2 Payment of members of the Administrative Board

The Administrative Board of the company currently has the following members:

Name	Member since
Siu Fung Siegfried Lee (Chair)	27 August 2015
Surasak Lelalertsuphakun (Deputy Chair)	18 September 2014
Chi Tien Steve Leung	27 August 2015 to 12 May 2017
Yuen Shan Kimmy Tse	27 August 2015 to 4 January 2018
Matthias Herrmann	2 October 2017
Siwen Mao	2 October 2017
Christian Alexander Peter	2 October 2017
Sujida Lelalertsuphakun Lee	2 October 2017
Jiao Wen	2 October 2017 to 28 December 2017

Each member of the Administrative Board is entitled to an annual payment of EUR 18,000.00, the Chair to an annual payment of EUR 24,000.00 and the Deputy Chair to an annual payment of EUR 20,000.00. These payments occur in each case within a week of the Annual General Meeting approving the actions of the Administrative Board. Members of the Administrative Board who were only members for a part of the year are entitled to a twelfth of the annual payment for each month of their membership. If a member of the Administrative Board is simultaneously active as a managing director, they do not receive any payment for the activity as a member of the Administrative Board.

In 2016 and 207 no payments to member of the Administrative Board were made. Accruals in the amount of kEUR 56 are booked at ROY Ceramics SE level.

Following the transfer of 64.77% of the shares in the Group of Shine Eagle Trust to Hi Scene Industrial Limited, no member of the Administrative Board has any direct or indirect share ownership in the Group.

Surasak Lelalertsuphakun is a managing director the majority shareholder Hi Scene Industrial

Limited. Sujida Lelalertsuphakun Lee holds 70% of the shares in Hi Scene Industrial Limited, which holds 75.47% of the shares of the Company.

The shares of the majority shareholder Hi Scene Industrial Limited are held by Mr Lee's wife and daughter and thereby indirectly imputable to Mr Lee as CEO and Chair of the Administrative Board.

Yuen Shan Kimmy Tse resigned as a member of the Administrative Board on 4 January 2018.

Jiao Wen resigned from her position as managing director and member of the Administrative Board on 28 December 2017.

6. INFORMATION PURSUANT TO §289a PARAGRAPH 1 AND § 315a PARAGRAPH 1 HGB AND NOTES

6.1 Composition of the subscribed capital

The subscribed capital stock of the Company is EUR 18,109,000. It is divided into 18,109,000 bearer shares with a nominal value of EUR 1.00. All shares are paid in full. Each share grants the bearer a right to vote at the shareholders' meeting.

6.2 Voting rights or transfer of restrictions regarding transfer of shares

Each share of ROY Ceramics SE grants the right to one vote. Pursuant to the Articles of Association of the Company, there are no restrictions relating to the voting rights or transfer of shares beyond the general provisions of the German Stock Corporation Act (AktG).

6.3 Direct or indirect capital interests of over 10%.

The statutory voting right notifications that the Company received from shareholders with a significant direct or indirect interest in the Company can be found in the Notes to the consolidated financial statements.

6.4 Bearers of shares with special rights that bestow powers of control

ROY has not yet issued any shares with special rights that bestow powers of control.

6.5 Voting right control if employees have a capital interest

The Company has no employee participation programme and consequently no voting right controls exist.

6.6 Statutory regulations and provisions of the Articles of Association on the nomination and recall of managing directors and the Administrative Board and on the amendment of the Articles of Association

The managing directors are appointed by the Administrative Board. Pursuant to § 13 no.1 of the Articles of Association of ROY Ceramics SE, it can appoint several managing directors. The managing directors conduct the business of the Company and represent it vis-a-vis third parties. If only one managing director is appointed, he represents the Company on his own. If there are several managing directors, the Company is represented by two managing directors jointly or by one managing director with an authorised signatory. The Administrative Board can determine, as done with Mr Lee, that individual managing directors are authorised for sole representation of the Company. The Administrative Board can recall managing directors by a resolution at any time. Pursuant to § 13 no. 2 of the Articles of Association of ROY Ceramics SE, a managing director who is simultaneously a member of the Administrative Board can be recalled, but only if the reasons are stated.

Members of the Administrative Board are elected at the shareholders' meeting. Pursuant to § 9 no. 1 of the Articles of Association of ROY Ceramics SE, the Administrative Board consists of eight members. The Administrative Board elects a chair and deputy from its members.

The declarations of the Administrative Board are made by its Chair or, if he is unavailable, by the Deputy Chair. The Administrative Board manages the Company, determines the basic guidelines of business policy and monitors the implementation of the measures planned by it. Therefore, the rights of the Administrative Board are comparable to the rights of the managing directors and supervisory board of a German stock corporation or a European company with a two-tier management structure.

The Chair of the Administrative Board of ROY Ceramics SE convenes a regular meeting at least every three months. The Administrative Board adopts its resolutions at its meetings. A quorum exists if all members are involved in reaching the decisions. Members of the Administrative Board who are not present at the meeting can take part in the vote if they have their written vote submitted by a member who is present.

The Administrative Board convenes shareholders' meeting, prepares the implementation of the resolutions of the shareholders, appoints the managing directors, is in charge of the accounting and must introduce a control system to recognise developments threatening the existence of the Company as early as possible, appoints an auditor annually, reviews the approval of the annual financial statements and gives notification - if applicable - of the loss of half of the share capital and of insolvency.

Members of the Administrative Board are entitled to take part in the shareholders' meeting and contribute to amendments to the Articles of Association. In addition, they are entitled to issue new shares in connection with increases in share capital as part of the approved capital.

6.7 Powers of managing directors regarding the possibility to issue or buy back shares

According to § 6 no. 1 of the Articles of Association of ROY Ceramics SE, the Administrative Board is entitled to increase the share capital of the Company by the single or multiple issue of new bearer shares in return for cash or non-cash payments by up to EUR 9,054,500. The new shares would have a claim to a dividend (authorised capital 2017) as of the financial year of the Company in which they were issued. The authorised capital 2015/I was rescinded.

Furthermore, the Administrative Board is authorised to rule out the statutory subscription right of the shareholders in the following cases:

- in the case of fractional amounts;
- in the case of increases in share capital in return for non-cash payments, especially in the form of companies and company interests, claims or other assets;
- in the event of cooperation with another company if the cooperation serves the

business purpose of the Company and the company with which cooperation occurs demands acquiring an interest;

- in the event of the issue of employee shares, also for the employees and management of affiliated companies, pursuant to the interest of the Company, especially in the interest of an obligation vis-a-vis the Company and as an incentive;

- if necessary, to establish a subscription right in relation to new shares issued by the Company or its subsidiaries for holders of option certificates and convertible bonds to the amount to which they have a claim from the option certificates after exercising their conversion options;

- in the event of an increase in the registered share capital against cash deposits provided the share of the new shares to the registered share capital at the time of the registration of this authorised capital in the Commercial Register does not exceed a total of 10% of the registered share capital of the Company or at the time of the issue of the new shares exceeds 10% in total of the registered share capital and in this respect the issue price of the new shares is not significantly below the stock market price.

In 2017, the capital of the Company was conditionally increased pursuant to § 6a of the Articles of Association by a total of kEUR 1,811. This capital increase will only be carried out if the subscription rights are issued in accordance with the simultaneously adopted stock option programme 2017 (conditional capital 2017). This has not taken place to date.

The conditional capital (2015/I) was rescinded in 2017.

Another conditional increase in share capital pursuant to § 6b of the Articles of Association relates to an amount of kEUR 5,244. This conditional capital increase is intended to provide new bearer shares to the holders or creditors of convertible bonds, options and/or income bonds and/or profit participation rights, which were issued on account of the authorisation from the same date (conditional capital 2015/II). The issuance of one or more of the aforesaid instruments has not taken place to date.

6.8 Significant agreements that take effect in the event of a change in control as a result of a takeover offer

ROY Ceramics SE has no significant agreements that take effect in the event of a change in control as a result of a takeover offer.

6.9 Compensation agreements with management and employees

There are no compensation agreements with the management or employees that take effect in the event of a change of control as a result of a takeover offer.

7. DEPENDENT COMPANY REPORT

All of the legal transactions and measures disclosed in the Dependent Company Report on 31 December 2017 that were known to the managing director at the time were concluded exclusively for the benefit of ROY Ceramics SE, in particular to strengthen the financial situation of the Company.

8. CORPORATE GOVERNANCE STATEMENT

The corporate governance statement according to § 289f HGB and § 315d HGB for ROY Ceramics SE was issued and has been published on the company homepage at http://www.roykeramik.de/erklaerung-zur-unternehmensfuehrung-gemaess-%C2%A7-289a-hgb/

The Compliance Declaration according to § 161 AktG with the German Corporate Governance Code was issued and has been published on the company homepage at http://www.roykeramik.de/entsprechenserklaerung/.

The managing directors of ROY Ceramics SE manage the Company and the Group on their own responsibility. In doing so, they are bound to observe the company's interests and must act in the interests of the Company. Moreover, they oriented themselves around the project of the effective increase of the corporate value. As an international company, ROY Ceramics SE is aware of its responsibility to operate as a company in harmony with legal, social and ethical concerns.

The target for the female ratio in the Administrative Board had been reached by the end of June 2017, and ROY Group has set itself the target not to fall below the target of 30% women on the Administrative Board in the next five years.

Munich, 27 April 2018

ROY Ceramics SE

Managing Directors

SIU FUNG SIEGFRIED LEE	MATTHIAS HERRMANN	ROBERT HUYCK
CEO	CFO	COO

LEI YANG	SURIYA TOARAMRUT
Design Director	Technical Director

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

ROY Ceramics SE, Munich

CONSOLIDATED BALANCE SHEET

ASSETS	Note	31/12/2017 in kEUR	31/12/2016 in kEUR
I. Current assets			
1. Cash and cash equivalents	20	25,690	967
2. Trade and other receivables	19	20,149	69,041
3. Inventories	18	0	76
Total current assets		45,839	70,084
II. Non-current assets			
1. Goodwill		110	125
2. Investment properties	27	23,871	0
3. Property, plant and equipment	16	51,516	68,670
4. Non-current assets	26	612	401
5. Deferred tax assets	17	440	106
6. Amounts owed by a managing director	22	1,300	0
Total non-current assets		77,848	69,302
Total assets		123,687	139,386

LIABILITIES AND EQUITY	Note	31/12/2017 in kEUR	31/12/2016 in kEUR
I. Current liabilities			
1. Trade and other payables	21	1,119	593
2. Amounts owed to a managing director	22	0	2,718
Total current liabilities		1,119	3,311
II. Non-current liabilities			
1. Financial liabilities	25	12.753	400
2. Deferred tax liability	17	142	5
Total non-current liabilities		12.895	405
III. Equity			
1. Subscribed capital	23	18,109	13,110
2. Reserves	24	91,564	122,560
Non-controlling interests		0	0
Total equity		109,673	135,670
Total liabilities and equity		123,687	139,386

ROY Ceramics SE, Munich

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE 2017 FINANCIAL YEAR

	Note	2017 in kEUR	2016 in kEUR
1. Revenue	8	990	17
2. Cost of sales		70	6
3. Gross profit		920	11
4. Other operating income		44	0
5. Loss on the disposal of subsidiaries/fixed assets	10	0	4,922
6. Income on sale from Investment properties		157	0
7. Distribution costs		0	1
8. Administrative expenses	11	15,484	22,447
9. Operating result		**-14,363**	**-27,359**
10. Financial income	9	110	2,204
11. Financial expenses	14	554	38
12. Result before taxes		**-14,807**	**-25,193**
13. Income tax expense	15	214	1
14. Loss		**-14,594**	**-25,194**
Result to be reclassified to the income statement in the subsequent period:			
15. Exchange differences on currency translation		-16,403	6,075
16. Other comprehensive result		**-16,403**	**6,075**
17. Total comprehensive result		**-30,997**	**-19,119**
18. Total earnings, attributable to:			
19. Owners of the Company		-30,997	-19,119
20. Non-controlling interests		0	0
21. Loss, attributable to:			
22. Owners of the Company		-14,594	-25,194
23. Non-controlling interests			0

		2017 in EUR	2016 in EUR
Earnings per share			
Weighted average:	23	-0.94	-1.92

ROY Ceramics SE, Munich

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017

	Subscribed capital in kEUR	Capital reserves* in kEUR	Translation reserve in kEUR	Statutory reserve in kEUR	Profit carried forward in kEUR	Total in kEUR	Non-controlling interests in kEUR	Total in kEUR
Note	23	24	24	24	24			
Balance as at: 1 January 2016	13,110	78,527	24,919	0	38,233	154,789	0	154,789
Currency translation difference	0	0	6,075	0	0	6,075	0	6,075
Profit/Loss	0	0	0	0	-25,194	-25,194	0	-25,194
Total comprehensive result	0	0	6,075	0	-25,194	-19,119	0	-19,119
Balance as at: 31 December 2016	13,110	78,527	30,994	0	13,040	135,670	0	135,670
Balance as at: 1 January 2017	13,110	78,527	30,994	0	13,040	135,670	0	135,670
Currency translation difference	0	0	-16,403	0	0	-16,403	0	-16,403
Profit/Loss	0	0	0	0	-14,594	-14,594	0	-14,594
Total comprehensive result	0	0	-16,403	0	-14,594	-30.997	0	-30.997
Addition to statutory reserve	0	0	0	508	-508	0	0	0
Capital increase	4,999	0	0	0	0	0	0	4,999
Balance as at: 31 December 2017	**18,109**	**78,527**	**14,591**	**508**	**-2,062**	**109,673**	**0**	**109,673**

* The amount of EUR 78,327 thousand included in the capital reserve results from the reverse acquisition, including contributions in kind from the 2014 financial year.

ROY Ceramics SE, Munich

CONSOLIDATED CASH FLOW STATEMENT

For the year from 1 January to 31 December 2017

	Note	2017 in kEUR	2016 in kEUR
Operating activities			
Result before taxes		-14,807	-25,193
Adjusted by			
Interest income / interest expenses	9	444	-2,166
Loss/Gain on disposal of property, plant and equipment and investment property		-150	4,922
Depreciation		11,550	8,202
Impairment loss on property, plant and equipment	15	0	3,802
Other non-cash consultancy fees		148	908
Operating cash flow before changes in current assets		**-2,815**	**-9,525**
Decrease / (increase) in inventories		76	3
Decrease / (increase) in trade and other receivables		-726	8,126
(Decrease) / increase in liabilities / receivable to / from a director		-4,018	90
(Decrease) / increase in trade payables, other payables and financial liabilities		475	231
Cash flow from operating activities		**-7,008**	**-1,075**
Income tax paid		-4	-1
Net cash flow from operating activities		**-7,012**	**-1,076**
Investment activities			
Interest received	9	110	48
Cash outflow from purchase of investment properties	27	-28,699	0
Cash outflow from purchase of property, plant and equipment		-2,902	0
Cash inflow from disposal of subsidiaries in previous years	10	43,104	1,895
Cash inflow from sale of investment properties		3,986	0
Net cash inflows from investment activities		**15,599**	1,943
Financing activities			
Interest paid	14	-554	-38
Cash inflow from equity owner of parent company		4,999	0
Cash inflow from debt financing		12,404	0
Net cash flow from financing activities		**16,849**	-38
Net increase/(decrease) in cash and cash equivalents		**25,435**	829
Currency translation effects		-712	56
Cash and cash equivalents at beginning of period		967	82
Cash and cash equivalents at the end of the period	20	**25,690**	967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

ROY Ceramics SE (hereinafter referred to as the "Company") is the parent company of the Group. The Company is a European joint stock company founded on 8 May 2014 and entered in the commercial register in Munich (HRB 211752), Germany, with its registered office (business address) at Gießener Strasse 42, 35410 Hungen, Germany. The company originally had its registered office in Prinzregentenstrasse 48, 80538 Munich. In 2015, it first relocated to Frankfurt am Main and in 2016, it moved to Hungen. The Shine Eagle Trust Reg., Balzers, Liechtenstein was the sole shareholder at the time the company was founded.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") include manufacturing and selling of ceramic sanitary hardware and accessories and buying and selling of real estate, as well as property development and property investing activities. The Company acts as an investment holding company. The principal activities of its subsidiaries, as well as the participating interests and voting rights of the Company are described in Note 34.

On 30 April 2015, the shares in ROY Ceramics SE were listed in the Prime Standard on the Frankfurt Stock Exchange (Germany) for the first time and, simultaneously, on the unregulated market (third segment) of the Vienna Stock Exchange (Austria). The shares are traded under the Security Identification Number RYSE88 and ISIN DE000RYSE888.

On 30 August 2016 all the shares in the Company owned by The Shine Eagle Trust Reg. were transferred to Hi Scene Industrial Limited, Tortola, British Virgin Islands, a private company incorporated in the British Virgin Islands owned and controlled by the members of the family of the CEO and Chairman of the Board of Directors Siu Fung Siegfried Lee. For more details please refer to Note 32.

The consolidated financial statements are presented in thousands of euros (kEUR). The functional currency of the Group in 2017 was the Hong Kong Dollar (HKD).

The exchange rates applied in the consolidated financial statements are as follows:

- EUR/HKD 8.8045 for 2017 profit or loss and comprehensive income items and EUR/HKD 9.372 for 2017 balance sheet items.

- EUR/HKD 8.59 for 2016 profit or loss and comprehensive income items and EUR/HKD 8.18 for 2016 balance sheet items.

The numbers in the tables were calculated exactly and summed up. The presentation is rounded. This can result in rounding differences in the summation.

The consolidated financial statements will be approved by the Managing Directors for release to the Board of Directors on 27 April 2018. On 27 April 2018, the Board of Directors will release the financial statements for publication.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in conformity with international financial reporting standards and international accounting standards and interpretations (hereinafter collectively referred to as "IFRS") issued by the International Accounting Standards Board (hereinafter referred to as "IASB") and the IFRS Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), as adopted by the European Union (hereinafter referred to as "EU IFRS"). The consolidated financial statements comply with the requirements of Article 315a of the German Commercial Code (HGB) regarding the preparation of consolidated financial statements in accordance with IFRS, as adopted by the EU.

The Company has also adhered to the additional provisions applicable to the preparation of the consolidated financial statements under HGB.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. Unless otherwise stated below, these policies have been applied consistently to all the presented financial years.

The preparation of consolidated financial statements requires managing directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities. In addition, the managing directors are also required to use their judgement in the process of applying accounting policies. Although these estimates and assumptions reflect the Company's good faith beliefs regarding events and actions, actual results could differ materially from these estimates. On this basis, the managing directors of the Company are responsible for the preparation of the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (HEREINAFTER REFERRED TO AS "IFRS")

Over the past years, the International Accounting Standards Board (IASB) has made various changes to existing IFRS and published new IFRS and interpretations of the IFRS Interpretations Committee (IFRS IC). As part of an annual procedure, the IASB publishes amendments to existing standards. The primary goal is to eliminate inconsistencies and to clarify the wording.

a) First-time adoption of new and revised IFRS in the 2017 financial year:

In the 2017 financial year, the Group has adopted the following new and revised IFRS and interpretations:

Amendments to IAS 7:	Cash-flow statement - disclosure initiative
Amendments to IAS 12:	Income taxes - recognition of active, deferred tax assets on unrealised losses

The adoption of the new and revised IFRS and interpretations in the financial year under review had no material impact on the financial results of the Group and the positions for the current and previous financial years or the disclosures contained in the consolidated financial statements.

(b) New and revised IFRS published but not yet adopted

In addition to the aforementioned mandatory IFRS, the IASB has published other amended IAS and IFRS. However, the adoption of these is only mandatory at a later date. Voluntary early adoption is expressly permitted or recommended under these standards. ROY Ceramics SE does not make use of this option and does not apply these new standards ahead of schedule:

The following standards have already been adopted into European law:

IFRS 9:	Financial Instruments[1]
IFRS 15:	Revenue from Contracts with Customers[1]
Clarifications to IFRS 15:	Revenue from Contracts with Customers[1]
IFRS 16:	Leases[2]
Amendment to IFRS 4:	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[4]

Standards not yet adopted into European law:

Amendment to IFRS 2:	Classification and Measurement of Share-based Payment Transactions[1]
Amendment to IAS 28:	Long-term Interests in Associates and Joint Ventures[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendment to IFRS 9:	Prepayment Features with Negative Compensation
IFRS 17:	Insurance Contracts[5]
Annual Improvements to IFRSs 2014-2016 Cycle	2014-2016 Cycle[6]
Annual Improvements to IFRSs 2015-2017 Cycle	2015-2017 Cycle[7]
IFRIC Interpretation 22	Transactions in Foreign Currencies and Prepayments[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]

[1] Effective for periods beginning on or after 1 January 2018, with early adoption permitted - expected to be adopted by the EU.
[2] Effective for periods beginning on or after 1 January 2018, with early adoption permitted – expected to be adopted by the EU.
[3] Effective for periods beginning on or after 1 January 2019, with early adoption permitted – expected to be adopted by the EU.
[4] Effective for periods beginning on or after an unspecified, yet to be announced date. In December 2015, the IASB postponed the effective date of the amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" indefinitely pending the outcome of its research project on the equity method of accounting.
[5] Effective for periods beginning on or after 1 January 2018 or on or after 1 January 2021 with an exemption: The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: the temporary exemption from applying IFRS 9 and the overlay approach. The temporary exemption allows certain companies to defer the initial application of IFRS 9 until 1 January 2021 (i.e. until the effective date of IFRS 17). The overlay approach offers companies, which have adopted IFRS 9 from 1 January 2018 the option to adopt IFRS 4 early.
[6] The amendments to IFRS 1 and IAS 28 are effective for periods beginning on or after 1 January 2018, the amendments to IFRS 12 are effective for periods beginning on or after 1 January 2017
[7] Effective for periods beginning on or after 1 January 2019

The managing directors of the Company believe that the adoption of FRS 9 will have a material impact on the reported financial assets and financial liabilities in the future. With respect to the effect on Group, it is currently not possible to give a reliable estimate of these effects on the Group as the resumption of operating activities will lead to considerable changes in financial assets and financial liabilities in the 2018 financial year.

The managing directors of the Company believe that the adoption of IFRS 15 will have a material impact on the information in the notes to financial statements to be published in the future. However, the Company's managing directors do not believe that the adoption of these amendments to IFRS 15 will have a material impact on the date or income for the reporting period.

The Directors of the Company are currently assessing the implications of the adoption of IFRS 16. The existing operating leases under IAS 17 are expected to require additional accounting treatment of assets and liabilities under IFRS 16 and a consequent reduction in the equity ratio. As at 31 December 2017, the scope of the affected operating leases in the Group was still

relatively insignificant (see Note 31 Lease commitments). As a result of the resumption of operating activities and, in particular, the expansion of real estate activities, this can change significantly by the time IFRS 16 is adopted for the first time. The Company as the lessor does not anticipate any material changes at this time.
The managing directors believe that the adoption of the other new and revised IFRS will have a material impact on the Company's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (EU). The Company has complied with all pronouncements of the International Accounting Standards Board (IASB), the adoption of which is mandatory in the EU.

The consolidated financial statements are prepared on a historical cost basis except for certain financial and equity instruments that have been measured at fair value, as explained in the accounting policies set out below.

Historical cost is based on the fair value of the consideration given in exchange for assets.

The income statement was prepared using the internationally accepted cost of sales method.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs within the meaning of IFRS 13 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability

The principal accounting policies are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee,
- is exposed, or has rights, to variable returns from its involvement with the investee and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power,including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

<u>Changes in the Group's ownership interests in existing subsidiaries</u> Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amounts of the share of net

assets acquired or disposed of and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method other than those resulting in a business combination involving only common control entities, which fall outside the scope of IFRS 3. The Group uses accounting for business combinations for these business combinations under common control.

Accounting for business combinations under common control
A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Acquired subsidies that have met the criteria for pooling of interest are accounted for using accounting policies for business combinations. Under the business combinations method of accounting, the results of subsidiaries are presented as if the combination had been in effect throughout the entire financial year.

The assets and liabilities consolidated are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. No amount is recognised in respect of goodwill and excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets and liabilities and contingent liabilities over cost at the time of the common control business combination to the extent of the continuation of the controlling party and parties' interests.

When the business combinations method of accounting is used, the cost of investment in the Company's books is recorded at the nominal value of the shares issued. The difference between the carrying value of the investment and the nominal value of the shares of the subsidiaries is included in the capital reserve. The results of the combined subsidiaries are recorded for the financial year as a whole.

(c) Investments in associates

Companies in which ROY has the ability to exercise significant influence over their operating and financial policies (generally through direct or indirect ownership of 20 % to 50 % of the voting rights) are initially recognised in the consolidated financial statements at cost and subsequently accounted for using the equity method.

The results of the associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are stated at cost less any impairment losses. The cost is adjusted to reflect the fair values of equity instruments issued by the Company in exchange for the investment and any direct attributable costs of investment.

(d) Property, plant and equipment

Property, plant and equipment and buildings held for use in the production or supply of goods, or for administrative purposes (other than properties under construction - see notes below), are stated in the consolidated statement of financial position at cost or fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost or fair value of assets (other than properties under construction) less their expected residual value over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties under construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policies. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(f) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash and short-term deposits within three months of maturity when placed.

(g) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

Financial assets
The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, prepayments, amount due from a director, due from a related company as well as long-term loans) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policies on the impairment of financial assets below).

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty,
- Breach of contract, such as default or delinquency in interest or principal payments,
- It becoming probable that the borrower will enter bankruptcy or financial reorganisation, or

- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities carried at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liabilities are held for trading on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument. Financial liabilities Financial liabilities including trade and other payables, income tax payables and amounts owed to a managing director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, the Group's obligation are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

(h) Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as income.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, reduced by discounts and sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risk and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits asset is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

For all financial instruments measured at amortised cost and interest-bearing financial assets available for sale, interest income is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is recognised in the income statement as part of financial income.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. (l) Foreign currencies In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items and the retranslation of monetary items are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, they are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. EUR) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under translation reserves.

(k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

The Group as lessor

Rental income from operating leases of investment properties is recognised on a straight-line basis over the term of the relevant lease and, due to its operational nature, recognised under revenue.

(l) Leasehold land and buildings

When a lease includes both land and buildings elements, the Group assesses the classification of each element as a finance lease or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(m) Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's tax liability is calculated using tax rates that are applicable or are expected to be applicable for the period under review.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable the taxable will be available against which those deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investment and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised for all deductible differences, carry forward of unused tax credits and unused tax losses of taxable income are recognised in the amount it is reasonable that taxable losses can be used against taxable income in the future, with exception to deffered taxes, if it is likely that within a reasonable time horizon no taxable income will be available, that could be off-set by unused tax losses.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

(o) Related parties

A person or a close member of that person's family is related to a reporting entity if that person a)

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

or b)

An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
(iii) Both entities are joint ventures of the same third party
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
(vi) The entity is controlled or jointly controlled by a person identified in a).
(vii) A person identified in a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(p) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at amortised cost. The fair value is stated separately in the notes. The fair value of investment property reflects the market conditions at the reporting date. The fair value is determined based on an annual valuation made by an accredited external independent valuer. An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. The difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss in the period in which the property is derecognised. Real estate is only transferred from or to the investment property portfolio if there is a change in use. If a previously owner-occupied property is transferred to the investment property portfolio, this property will be carried using the method described in the Section "Property, plant and equipment" until the date of change in use.

(q) Fair value measurement

The Company measures financial instruments, e.g. derivatives, and non-financial assets, e.g. investment properties, at fair value as at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

• in the principal market for the asset or liability; or
• in the absence of a principal market, in the most advantageous market for the asset or liability. The entity must have access to the principal (or most advantageous) market at the measurement date.

The Company measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
• Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
• Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

So far, the Company has not formed a separate valuation committee because the real estate segment is still in the development stage and the management continues to make all decisions jointly, including whether to engage external valuers or whether to forego the appraisal, depending on the timing of the investment.

External valuers are involved for valuation of significant assets, such as properties and financial assets available for sale, and significant liabilities, such as contingent consideration. The decision as to whether to engage external valuers is made every year by management, after consulting the Board of Directors.

Selection criteria include market knowledge, reputation, independence and adherence to professional standards. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per ROY Groups accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The valuation committee, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the valuation committee and the external valuers present the valuation results to the Board of Directors and the auditors of the Group. This includes a discussion of the major assumptions used in the valuations.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Group's accounting policies, which are described in Note 4, requires the managing directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on experience and other factors that are considered to be relevant. The actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Exercising discretion in the application of the Company's accounting policies

There are no critical judgements, apart from those involving estimations (see below), that the managing directors of the Company have made in the process of applying the Group's accounting policies.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectations differ from the original estimates, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

In addition, an impairment test was carried out in 2017 for certain items of property, plant and equipment at the former Beijing facility. The result was that no additional impairment had to be recognised in 2017 (in 2016: kEUR 3,802) in the carrying amount of property, plant and equipment as at 31 December 2017. Please also refer to Note 16.

Estimated impairment loss on trade and other receivables

The Group estimates impairment losses on trade and other receivables resulting from the inability of customers to make the required payments and when there is objective evidence that the Group will not be able to collect the full amount due. These estimates were based on the payment history, customers' credit-worthiness, past write-down experience and default or delays in payments. If the financial position of customers deteriorates, the actual write-down can be higher than the earlier value adjustments. As at 31 December 2017, the carrying amount of the trade and other receivables less provision for impairment losses amounted to kEUR 19,783 and kEUR 978, respectively (2016: kEUR 68,857 and kEUR 585).

6. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year. Please also see the relevant remarks in the combined management report.

The capital structure of the Group consists of net debt, including cash and cash equivalents as well as the equity attributable to the owners of the Company, comprising issued capital and reserves.

in EUR 000s	**2017**	**2016**
Net cash (consisting entirely of "positive cash")	25,690	967
Equity attributable to owners of the Company	109,800	135,670

The managing directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or repayment of existing debts.

7. FINANCIAL INSTRUMENTS

	As at 31/12/2017		As at 31/12/2016	
in EUR 000s	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables (including trade and other receivables as well as non-current assets)	22,061	22,061	69,442	69,442
Total	**22,061**	**22,061**	**69,442**	**69,442**
Financial liabilities				
Liabilities recognised at amortised cost (including trade payables and other liabilities, liabilities from promissory notes without classification of costs and other tax liabilities, as well as amounts owed to a member of the Board of Directors)	12,942	12,942	3,198	3,198
Total	**12,942**	**12,942**	**3,198**	**3,198**

Financial risk management objectives and strategies

In the course of business, the Company is exposed to a foreign currency risk, interest rate risk, credit risk and liquidity risk. These risks are mitigated by the Group's financial management policies and procedures described below.

Foreign currency risk

Other than certain bank balances and deposits, most of the Group's financial instruments such as trade and other receivables are denominated in USD, which is pegged against HKD to keep the currency artificially stable. The Group's operating activities in China ceased as of 30 September 2015. Accordingly, there is only a small foreign currency risk from operating activities. There is, however, exposure to foreign currency risk in the preparation of the consolidated financial statements, which are prepared in euros. The exchange differences on translation are dealt with separately in the consolidated statement of comprehensive income.

Foreign currency sensitivity analysis

The following tables demonstrate the sensitivity to a reasonably possible change in HKD (2016: HKD) against the EUR as the reporting currency as at the end of the reporting period, with all other variables held constant.

in EUR 000s	2017	2016
Impact on profit after tax HKD (2016: HKD) / EUR		
- 10 % increase	-1,415	-2,519
- 10 % decrease	1,415	2,519

The sensitivity of the equity is presented in the table below:

in EUR 000s	2017	2016
Impact on equity HKD (2016: HKD) / EUR		
- 10 % increase	9,431	13,567
- 10 % decrease	-9,431	-13,567

The Group did not carry out any hedging transactions in the 2017 financial year. However, the managing directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

Other than cash at banks which carry interest at market rates, the Group has no other significant interest-bearing long-term assets and liabilities. The interest income derived therefrom is relatively insignificant for the Group's operations, which is why its income and operating profit are largely independent of changes in market interest rates.

A bank loan was taken out for financing the purchase of an investment property in Texas. The loan has a notional amount of kUSD 15,000 and bears an interest rate of 300 basis points over LIBOR as reference rate. A shift in interest rates by plus / minus 100 basis points will have the following impact on interest cost and profit and loss.

	2017	2016
Impact on interest rate risk		
- 100 basis points increase	-133 kEUR -(kUSD 150)	0
- 100 basis points decrease	133 kEUR (kUSD 150)	0

The Group has not taken out any interest rate hedges in 2017. The managing directors review on an ongoing basis the current interest rate risk and consider hedging the exposure if interest rates are starting to increase.

Credit risk

The Group has adopted a policy of only dealing with creditworthy counterparties. It is the Group's policy that all customers who wish to trade and including tenants on credit terms are subject to credit verification procedures. The Group may uses inputs from external partners to estimate the credit worthiness. To minimise the credit risk, the management reviews the recoverable amount of individual trade and other receivables at the end of the reporting period to ensure that adequate impairment loss is recognised for irrecoverable amounts. In this regard, the managing directors of the Company believe that the Group's credit risk is negligible.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to fund the Group's operations and mitigate the effects of fluctuation in cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on contractual undiscounted payments.

in EUR 000s	**On demand or within one year**	**Within one to five years**	**Total discounted cash flows**	**Carrying amount**
Balance as at: 31 December 2017				
Non-derivative financial liabilities:				
Trade payables and other liabilities excluding accruals and other tax liabilities, as well as amounts owed to the managing director	189	12,753	12,753	12,942
Balance as at: 31 December 2016				
Non-derivative financial liabilities:				
Trade payables and other liabilities excluding accruals and other tax liabilities, as well as amounts owed to the managing director	2,789	400	3,198	3,198

Fair value of financial instruments

Fair value measurement by level of hierarchy is not disclosed, as the Group has no financial instruments measured at fair value in the statement of financial position.

The carrying value less impairment provision of receivables and payables are a reasonable approximation of their fair values.

8. REVENUE

Revenue represents amounts generated and receivable for the sale of sanitary ware products and accessories, less sales-related taxes, and regular rental income from real estate.

in EUR 000s	2017	2016
Revenue from sanitary ware	0	17
Revenue from real estate activities (rental income)	990	0
	990	**17**

9. FINANCIAL INCOME

in EUR 000s	2017	2016
Interest on loans and receivables	110	2,204
	110	**2,204**

Interest on loans and receivables mainly relates to interest receivable from a borrower of Easy Taken Credit in the amount of kEUR 100. In 2016, the financial income from loans and receivables consisted mainly of interest owed by White Horse in the amount of kEUR 2,165, resulting from the sale of the Group's main subsidiaries to White Horse.

10. LOSS ON DISPOSAL OF SUBSIDIARIES

In 2016, following a detailed inspection of all sanitary ware facilities in the former Beijing-based facility a decision was made to dispose of certain tangible assets, which are unsuitable for transportation and use in the new production facility in the US or elsewhere. The loss on disposal of these items amounted to kEUR 4,922 in 2016.

11. ADMINISTRATIVE EXPENSES

The administrative expenses include the following expenses:

in EUR 000s	**2017**	**2016**
Auditor's fee	153	85
Real estate management fee	153	0
Depreciation/amortisation	11,550	8,202
Write-downs on trade and other receivables	104	0
Write-downs on property, plant and equipment	0	3,802
Minimum payments for operating leases for rented premises	255	163
Personnel costs:		
Salaries and expenses (including remuneration of managing directors)	792	232
Paid fees and property tax*	264	8,344
Legal and consulting services cost	764	1,498
Other administrative expenses	1,449	121
Total	**15,484**	**22,447**

*Paid fees and property taxes were incurred for 2017 in the US, mainly as a result of the acquisition of Kirby Interchange. The comparison value for 2016 in China relates to the sale of production in Beijing.

12. SEGMENT REPORTING

The business of the ROY Group is organised into business units and has the following two segments, which are subject to reporting requirements:

- The sanitary ware segment covers the area of development, production and marketing of high-quality sanitary ware. The activities in this business segment are currently dormant.

- The real estate business segment covers property development and property sales and letting. In the year under review, this business segment mainly comprised an investment property with leased office space and properties in Houston and California, which are developed and owned by ROY.

The operating results of the business units are monitored by the Board of Directors, which is the responsible corporate body, to make decisions about the allocation of resources and to ascertain the profitability of the units. The performance of the segments is assessed on the basis of the result generated and evaluated in line with the result as reported in the consolidated financial statements. The transfer prices between the business segments are determined on the basis of third-party market conditions.

Revenues from transactions with other segments are eliminated for consolidation purposes and are summarised in the "other" column. Other adjustments and eliminations will be detailed in subsequent reconciliations.

As the "real estate" business segment was only created in the 2017 financial year; there are no comparable figures for the 2016 financial year.

Adjustments

Financial income and expenses and gains and losses on financial assets measured at fair value are not allocated to the individual operating segments because the underlying financial instruments are managed at the Group level.
Actual taxes, deferred taxes and certain financial assets and financial liabilities are not allocated to the individual business segments because they are managed uniformly across the Group.
Investments relate to additions to property, plant and equipment, intangible assets and investment property, including assets from the acquisition of subsidiaries. Proceeds from transactions with other segments are eliminated for consolidation purposes.

Financial year ended 31 December 2017	**Sanitary ware**	**Investment properties**	**other**	**Total business segments**	**ROY Group**
	in EUR 000s	**in EUR 000s**	**in EUR 000s**	**in EUR 000s**	**in EUR 000s**
Revenue					
Total revenue	0	990	0	990	920
Income / (expense)	-2,007	-1,145	-821	-3,974	-3,974
Personnel costs	-224	-52	0	-276	-276
Depreciation and amortisation	-11,178	-344	-28	-11,550	-11,550
Segment result	**-13,409**	**-551**	**-849**	**-14,808**	**-14,808**
Total assets	70,694	34,930	18,063	123,687	123,687
Total liabilities	-211	-13,467	-336	-14,015	-12,015

Financial year ended 31 December 2017	**Sanitary ware in EUR 000s**	**Investment properties in EUR 000s**	**other in EUR 000s**	**Total business segments in EUR 000s**	**ROY Group in EUR 000s**
Other disclosures					
Investments	0	31,601	0	31,601	31,601

The non-current assets shown here include property, plant and equipment, investment property and intangible assets.

Reconciliation of the result	**2017 „Investment properties“**	**2017 „Sanitary Ceramics“**	**2017 "other"**	**2017 Total**
	TEUR	**TEUR**	**TEUR**	**TEUR**
Segment result				
Financial income	39	10	61	110
Financial expenses	253	301	2	556
Profit before tax	-537	-13.410	-861	-14.808
Reconciliation of assets				
Assets of the business segment	34.490	70.694	16.397	121.581
Loans to members of the Company's management	-	-	1.300	1.300
Borrower's note loan	-	-	366	366
Deferred tax assets	440	-	-	440
Total assets	34.930	70.694	16.063	123.687
Reconciliation of liabilities				
Liabilities of the business segment				
Interest-bearing loans	-12.753	-	-	-12.753
other	-714	-211	-336	-1.262
Total liabilities	-13.467	-211	-336	-14.015
Information about geographical areas				
Revenue from external customers				
Asia	-	-	-	-
Europe	-	-	-	-
US	990	-	-	990

13. REMUNERATION OF MANAGING DIRECTORS AND MEMBERS OF THE BOARD OF DIRECTORS

in EUR 000s	**2017**	**2016**
Fixed remuneration of managing directors		
Siu Fung Siegfried Lee	327	0
Matthias Herrmann	79	0
Harald Goldau	0	36
Fixed remuneration of members of the Board of Directors	56	56
	560	115

The remuneration of the managing directors relates to the remuneration of the managing directors Mr Lee and Mr Herrmann. The remuneration in 2017 did not include any variable components. Mr Lee also received benefit in kind of kEUR 98 in 2017.

14. FINANCIAL EXPENSES

In 2017, the Group incurred financial expenses of kEUR 554 relating primarily to a bank loan (kEUR 253; 2016 kEUR 38) to finance the purchase of Kirby Interchange and loan from managing director Mr Lee (kEUR 301; 2016 kEUR 0).

15. INCOME TAX EXPENSE

in EUR 000s	**2017**	**2016**
Current taxes:		
US corporate tax	0	4
Hong Kong corporate tax	4	0
Deferred tax (Note 16)	-218	-3

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands or BVI. This tax rate is best suited to represent the group tax rate for the 2017 financial year.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

in EUR 000s	**2017**	**2016**
Loss before taxes	-14,807	-25,193
0% tax rate in Cayman Islands		
Tax effects of non-deductible expenses	0	143
Losses of the current year for which no deferred tax asset was recognised (tax rate for 2017: 31.93 %, 2016: 31.93 %)	0	-142
variances due to different tax rates	-56	0
Use of previously unrecognised tax losses	52	0
Accruing deferred taxes on tax loss carryforwards	218	0
Income tax benefit for the year (Effective tax rate for 2017: 1,4 %, 2016: 0 %)	214	1

The losses of the current year, for which no deferred tax entitlement was applied, were generated in the Federal Republic of Germany.

16. PROPERTY, PLANT AND EQUIPMENT

in EUR 000s	Buildings held and used	Leasehold improvements	Machinery and equipment	Office equipment	Motor vehicles	Total
At historical cost or after valuation						
Balance as at: 1 January 2016	**615**	**192**	**101,845**	**46**	**0**	**102,698**
Exchange rate adjustments	36	11	5,916	1	0	5,964
Disposal	0	0	-7,134	0	0	-7,134
Balance as at: 31 December 2016	**651**	**203**	**100,627**	**47**	**0**	**101,528**
Exchange rate adjustments	-83	-26	-12,857	-3	0	-12,969
Additions	0	104	0	5	2,793	2,902
Disposal	0	-177	0	0	0	-177
Reclassification as investment property	-568	0	0	0	0	-568
Balance as at: 31 December 2017	**0**	**104**	**87,770**	**49**	**2,793**	**90,716**
Accumulated depreciation						
Balance as at: 1 January 2016	**0**	**96**	**20,885**	**7**	**0**	**20,988**
Exchange rate adjustments	0	8	1,724	0	0	1,732
Registered in the financial year	0	39	8,152	12	0	8,202
Disposal	0	0	3,803	0	0	3,803
Impairment	0	0	-1,866	0	0	-1,866
Balance as at: 31 December 2016	**0**	**142**	**32,697**	**19**	**0**	**32,858**
Exchange rate adjustments	0	-11	-4,850	-1	-12	-4,873
Registered in the financial year	0	49	11,130	12	194	11,385
Disposal	0	-170	0	0	0	-170
Balance as at: 31 December 2017	**0**	**10**	**38,977**	**31**	**183**	**39,200**
Carrying amounts						
Balance as at: 31 December 2017	0	93	48.794	18	2,610	51,515
Balance as at: 31 December 2016	651	61	67,931	28	0	68,670

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking into account their estimated residual values, as follows:

Buildings held and used	20 years
Leasehold improvements	5-20 years
Machinery and equipment	10-20 years
Office equipment	5 years
Motor vehicles	5 years

As at 31 December 2017, the Group owned one property in the US that serves as collateral for a promissory note of ROY USA, Inc. (land charge), and one property that is mortgaged.

Effective from 2016, the unused tangible assets previously located at the Beijing factory premises are depreciated on a straight-line basis at 10 % of the carrying amount as at 31 December 2015, which is a more realistic estimate of the useful lives of 10 years for these assets.

Following the sale of the Chinese operating subsidiaries to White Horse effective 30 September 2015, moveable tangible assets previously used by the Beijing plant were transferred to LLH. Property, plant and equipment are recorded on the balance sheet with the remaining useful life of 10 years and straight-line depreciation is applied accordingly. The straight-line depreciation of tangible fixed assets amounted to kEUR 11,385 in the 2017 financial year (2016: kEUR 8,202). According to the report of Nova Appraisals, the fair value of tangible assets as at 31 December 2017 is RMB 458.6 million or EUR 48.9 million (in 2016 RMB 508.7 million or EUR 69.5 million).

The fair value is based on the cost as well as the market approach. The impairment is included in the administrative expenses for the 2017 financial year.

17. DEFERRED TAXES

The following is the deferred tax recognised and movements thereon during the current and prior years. The deferred tax assets increased from kEUR 106 to kEUR 440 and mainly consist out of tax losses carried forward in the USA. The deferred tax liabilities increased from kEUR 5 to kEUR 142 and mainly consitst out of depreciation between US GAAP and IFRS. The balanced deferred taxes are as follows:

in EUR 000s	**2017**	**2016**
As at 1 January	106	103
Expenses recognised in the consolidated income statement	192	3
Balance as at: 31 December	298	106

The Group's tax loss in Germany as at 31 December 2017 amounted to kEUR 1,442 (kEUR 1,682 as at 31 December 2016). The tax rate to be used in 2017 and 2016 is 31.925 %. The tax loss is generally available indefinitely for offset against future taxable profits of ROY Ceramics SE in Germany. However, a deferred tax asset has not been recognised due to the fact that no resilient estimation is possible regarding the timeframe within which the tax loss can be used in future.

18. INVENTORIES

in EUR 000s	**2017**	**2016**
Finished products	0	76
Total	**0**	**76**

19. TRADE AND OTHER RECEIVABLES

in EUR 000s	2017	2016
Trade receivables	100	0
Other receivables	19,894	69,041
Prepayments	155	0
	20,149	**69,041**
Other receivables and prepayments, net	20,149	69,041
Less: Prepayments classified as non-current assets	0	0
Trade and other receivables	20,149	69,041

The other receivables of the Group as at 31 December 2017 include an unsecured receivable against a client of Lee's Pharmacy, which manages kUSD 20,000 (kEUR 19,231) as a trustee on behalf of ROY on the Chinese mainland. In 2016, this related to the outstanding purchase price balance payable by White Horse in the amount of kEUR 68,843 in connection with the sale of the main operating subsidiary completed on 30 September 2015. The nominal value of the receivables corresponds to the fair value.

Pursuant to the contingent share purchase agreement dated 20 August 2015 between Lion Legend Holdings Limited and White Horse, the principal claim of USD 80 million plus accrued interest is expected to be settled by 30 June 2016. The accrued interest of USD 3.6 million includes 6 % p.a. interest on the principal claim from 1 October 2015 to 30 June 2016.

In 2017, the amount still owed by White Horse was paid in full.

20. CASH AND CASH EQUIVALENTS

As at 31 December 2017, kEUR 25,690 (2016: kEUR 792). Thereof kEUR 22,272 of the bank balances were denominated in USD and kEUR 3,302 in Euro and the remaining balances were denominated in HKD.

Bank balances bear interest at variable rates for bank balances payable on demand. The bank balances are held at banks with high creditworthiness, which did not incur any losses in the recent past.

21. TRADE PAYABLES AND OTHER LIABILITIES

in EUR 000s	2017	2016
Trade payables	22	33
Received deposits	153	0
Other liabilities	2	35

Liabilities from salary and staff costs as well as costs for social benefits	843	505
Other tax liabilities	87	8
Liabilites against majority shareholder	12	12
Trade and other payables	1,119	593

Below you will find a breakdown of trade payables by maturity based on the invoice date as at the end of the period under review.

in EUR 000s	**2017**	**2016**
Within 180 days	22	33
181 to 365 days	0	0
1 to 2 years	0	0
Total	**22**	**33**

The average payment period for the purchase of goods ranges between 30 and 180 days. The Group and the Company have financial risk management policies in place to ensure that all payables are settled within the agreed time limits for payment.

22. AMOUNTS OWED TO A MANAGING DIRECTOR

in EUR 000s	**2017**	**2016**
Amounts owed to a managing director	0	2,718
Amounts owed from a managing director	1,300	0

In 2017 the receivable relates to amounts owed by Siu Fung Siegfried Lee, which are unsecured, non-interest bearing and repayable on demand. In 2016 this relates to amounts due to Siu Fung Siegfried Lee, which are unsecured, non-interest bearing and repayable on demand.

23. SHARE CAPITAL

in EUR 000s	**Share capital 2017**
As at 1 January 2017	13,110
Change in 2017	4,999
As at 31 December 2017	18,109

The share capital amounts to EUR 18,109,000.00 and consists of 18,109,000 non-par-value shares which are bearer shares for which a global share certificate was issued.

In 2017, the Group made partial use of the 2015 authorised capital increase by completing a capital increase in the amount of EUR 4,999,000. The shares were issued from 1 January 2016 and carry full dividend rights, the calculation of earnings per share for 2017 is therefore based on the weighted number of shares after the capital increase was registered with the commercial register on 27 June 2017.

The 2017 annual general meeting resolved to cancel the authorised capital 2015 and to create 2017 authorised capital. In accordance with Article 6 of the Company's Articles of Association, the Board of Directors is authorised up to 1 October 2022 to increase the Company's share capital by up to EUR 9,054,500 against cash and / or non-cash contributions on one or more occasions.

	2017	2016
Earnings per share in EUR		
Weighted average:	-0.94	-1.92

The calculation of earnings per share on the weighted average is based on the weighted average number of ordinary shares which was 15,684,827 for the FY 2017. FY 2016 there was no change to the number of ordinary shares and therefore the average number of ordinary shares was 13,100,000. Exchange differences resulting from currency translation are excluded from the earnings per share calculations.

In the 2017 financial year, the Company's capital was conditionally increased by a total of EUR 1,810,900 in accordance with Article 6a of the Articles of Association. This capital increase will only be carried out if the subscription rights were issued in accordance with the simultaneously adopted stock option programme for 2017 (conditional capital 2017). This has not taken place to date.

Another conditional capital increase under Article 6b of the Articles of Association relates to an amount of EUR 5,244 thousand. This conditional capital increase is intended to provide new bearer shares to the holders or creditors of convertible bonds, options and/or profit participation bonds and/or profit participation rights, which were issued on account of the authorisation from the same date (conditional capital 2015/II). The issuance of one or more of the specified instruments has not taken place to date.

The Board of Directors of the Company is further authorised to exclude the shareholders' statutory subscription rights in the following cases:

- to balance out fractional amounts;
- to acquire enterprises, parts of enterprises or investments in enterprises or other assets, including receivables, through the provisions of shares
- in a cash capital increase, the proportion of the share capital attributable to the new shares for which the subscription right is excluded, both at the time of the exercise and at the time the authorization is exercised does not exceed ten per cent of the share capital and the issue price of the new shares is not significantly lower than the stock exchange price of the shares of the company with the same features as defined by

Sections 203 (1) and (2), 186 (3) sentence 4 AktG; this ten from hundred limit includes (i) the proportion of the share capital attributable to treasury shares which are sold directly or mutatis mutandis pursuant to § 186 (3) sentence 4 AktG as of the effective date of this authorization, and (ii) the portion of the share capital attributable to shares to which conversion and / or option rights or conversion obligations under the bonds and other of § 221 AktG. Instruments under the exclusion of subscription rights pursuant to Section 186 (3) sentence 4 AktG. be issued.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes equity. The amounts are explained as follows:

Statutory reserve: The statutory reserve consists of premiums, which must be set at 5% of ROY Ceramics SE net profit, which may have been reduced by a loss carried forward from the previous year, until this reserve together with the capital reserve of ROY Ceramics SE reaches 10% of the share capital of ROY Ceramics SE.

Capital reserve: The capital reserve consists of the increase in capital of the parent company in 2014 and the contribution in kind arising from the acquisition of the subsidiary LLH resulting from the difference between the nominal value of the newly issued shares issued to the holders and the nominal value of the newly issued shares transferred to the owners.

Translation reserve: The translation reserve results from cumulated foreign currency translation recognised in other comprehensive income arising from assets and liabilities of the financial statements of the Group, whose functional currency is not the euro. The translation reserve is not distributable as dividends.

Retained earnings: Retained earnings comprise the cumulative net profits recognised in the consolidated income statement.

25. FINANCIAL LIABILITES

As at 31 December 2017, the Group had a note payable to Marquee Funding Group, Inc., Calabasas, US, in the amount of kEUR 349 (2016: kEUR 401). The note payable carries interest at 9.99 % per annum and has a maturity date of 1 January 2019. The note payable is collateralised by the Group's buildings situated in the US and is denominated in USD.

The purchase of Kirby Interchange was partly funded by a bank loan. As at 31 December 2017, the Group had a floating rate bank loan of kEUR 12,404 (kUSD 15,000) with Midfirst Bank. The interest is LIBOR plus 3%, and it will become due on 1 September 2020. The loan is secured by the property.

Changes in debt as a result of financing activities

	1 January 2017	Cash flows	Changes in exchange rates	other	31 December 2017
	in EUR 000s	in EUR 000s	in EUR 000s	in EUR 000s	in EUR 000s
Long-term interest-bearing loans	400	12,783	-430	0	12,753
Total liabilities from financing activities	**400**	**12,404**	**-51**	**0**	**12,753**

26. LONG-TERM INTEREST-BEARING LOANS

In the 2017 financial year, a a long-term loan receivable of kEUR 612 existed. This amount is an Easy Taken Credit claim on a single debtor. The claim bears interest at 12% pa and is secured by a property of the debtor. The debtor had already repaid a portion of the loan, which was originally planned to be fully paid in installments until 2032. With special repayments amounting at the year end of 2017 the debt has been already repaid up to 41% of the original nominal amount. In the previous year there was a long-term claim of ROY USA, Inc. against Unix Packaging Inc. in the amount of 401 TEUR, which earns interest at 9.99% and is secured with a property and personal guarantee of the debtor. This loan is shown under current liability in 2017.

27. INVESTMENT PROPERTIES

Investment properties are properties held to earn rentals and/or for capital appreciation. Such properties are not used by the Company or held for sale. They are measured at historical cost and subsequently at amortised cost (including scheduled straight-line depreciation). Useful life is assumed to range from 28 year to 40 years.

Any gain or loss on the disposal of an investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement.

As at 31 December 2017, the item "investment property" comprises eleven existing properties.

The Kirby Interchange was founded in the 2017 financial year, when it acquired its first property. The gross rental income in the reporting year amounted to EUR 913 thousand. The weighted average remaining term of the portfolio (WALT) was 2.9 years as at the balance sheet date.

In addition, ten properties were purchased in Houston in 2017. The total purchase price for this property was USD 3.5 million and was fully funded from equity. Three of the purchased properties are developed, and two of them are rented out. Rental income of kUSD 7 in 2017 was generated by two let houses. It is planned that the undeveloped land, as well as the land with a demolished house will be redeveloped and rented out or sold at a profit to generate a return for the Company.

The purchase of the Kirby Interchange was financed by an equity investment of USD 9.7 million and a bank loan of USD 15 million (EUR 12,4 million). The bank loan was taken out on market terms and conditions with a national US bank. The bank loan can be increased by up to USD

2,55 million under certain conditions. The term of the loan is three years with a one-way option for ROY to extend the loan for another 2 years. The benchmark interest rate is 30-day LIBOR plus 300 basis points. Collateral was provided to the financing bank in the form of a senior mortgage on the property (with a carrying amount of EUR 21,401 as at 31 December 2017). An early repayment of the loan is possible anytime, however, a breakage charge of 1% will be applied for early repayment within the first 18 months.

A property in California, that was previously used for operative reasons, has been let for the first time during the year and was reclassified from property, plant and equipment to investment property.

in EUR 000s	Completed Buildings	Buildings in development	Total
At historical cost			
Balance as at: 1 January 2016	0	0	0
Additions	26,074	2,625	28,699
Disposal	-3,817	0	-3,817
Exchange rate adjustments	-1,423	0	-1,423
reclassified property from property, plant and equipment into investment property	568	0	568
Balance as at: 31 December 2017	21,401	2,625	24,026
Accumulated depreciation			
Balance as at: 1 January 2017	0	0	0
Registered in the financial year	165	0	165
Exchange rate adjustments	-10	0	-10
Balance as at: 31 December 2017	155	0	155
Carrying amounts			
Balance as at: 31 December 2017	21,246	2,625	23,871
Balance as at: 31 December 2016	0	0	0

As at 31 December 2017, the fair values of the properties are based on valuations conducted by accredited independent appraisers, which were carried out at the time of purchase. Due to the fact that the purchase of the properties was only completed close the balance sheet date, no separate appraisal report from an independent real estate appraiser was commissioned as of 31 December 2017. As at 31 December 2017, therefore, the carrying amounts are largely in line with fair values. Future valuations of the properties will be carried out by accredited, independent appraisers. The aim is to use a valuation model in conformity with the model recommended by the International Valuation Standards Committee.

in EUR 000s	2017	2016
Rental income from investment property	990	0
Direct operating expenses (including repairs and maintenance) that generate rental income (included in the cost of sales)	709	0
Direct operating expenses (including repairs and maintenance) that do not generate rental income (included in the cost of sales)	36	0
Result from financial investments measured at fair value	245	0

There are no restrictions on the disposability of investment property and no contractual obligations to purchase, create or develop the investment property. There are also no contractual obligations with respect to repairs, maintenance or improvements.

The following measurement methods are used as the basis for measuring the fair value of level 3 investment properties in accordance with IFRS 13.

	Measurement methods	Significant unobservable inputs	Range (weighted average) 2017	2016
Office properties	Discounted cash flow method			
	(see below)	Estimated market rent per square meter and month	EUR 7–10 (EUR 9)	0
		Rent increase p. a.	2.5 %*	0
		Long-term vacancy rate	5–10 % (10 %)	0
		Discount rate	10.5 %	0

* The relatively low rent increase is based on the fact that ROY strives to convert the new tenants and expiring contracts into NNN contracts. In these contracts, the tenant bears all operating costs of the rented property.

Using the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long-term vacancy rate.

28. MATERIAL NON-CASH TRANSACTIONS

In the year under review, a non-cash consultancy fee of kEUR 148 (2016: kEUR 908) was recognised in the income statement. This relates to the consultancy fees paid to Luck Connection Limited.

29. CAPITAL COMMITMENTS

As at the end of the reporting period, there were no capital commitment contracts to be reported in the consolidated financial statements.

30. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund (hereinafter referred to as "MPF", which is similar to a contributory retirement fund) for its qualifying employees in Hong Kong. The assets of the MPF are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5 % of relevant payroll costs monthly to the MPF, which is matched by employee contributions.

In the financial year ended 31 December 2017, the total retirement benefit scheme contributions recognised in the consolidated income statement and other comprehensive income amounted to kEUR 6 (2016: kEUR 17).

31. LEASE COMMITMENTS

As lessee

At the end of the reporting period, the Group had outstanding obligations from future minimum payments for lease agreements according to uncancellable operating lease agreements that will fall due as follows:

in EUR 000s	2017	2016
Within one year	154	101
From second to fifth year inclusive	633	112
Total	787	213

The leasing payments are rent payments that the Group pays for its office space. The term of the lease agreements is set to a period of one to five years.

As lessor

The following gross rental income was generated during the reporting period:

in EUR 000s	2017	2016
Kirby Interchange	964	0
Houston single-family homes	6	0
California	20	0
Total	990	0

At the end of the reporting period, the Group had receivables from future payments on non-callable lease contracts from the Kirby Interchange property, as well as the currently leased two properties in Houston and one property in California, which were due as follows:

in EUR 000s	2017	2016
Within one year	2,048	0
From second to fifth year inclusive	4,428	0
Beyond the fifth year	367	0
Total	6,843	0

32. RELATED PARTIES AND DISCLOSED PARTICIPATING INTERESTS

Following the capital increase by in-kind contributions in 2014, the Company has 48 minority shareholders holding a total of 35 % of its shares.

The Shine Eagle Trust reg., Balzers, Liechtenstein, has informed us, that it has at August 24, 2016 as a consequence of its liquidation, transferred its 8.507.000 shares to Hi Scene Industrial Limted, Tortola, British Virgin Islands.

Mr. Lee Sujida Lelalertsuphakun, China, has informed us in accordance with Section 21(1a) of the German Securities Trading Act (WpHG) that her voting share in ROY Ceramics SE, Munich, as of August 24, 2016, was 64.77%.

It is a voluntary group information as a consequence of threshold triggering at the level of a subsidiary due to a group restructuring.

At the same time 64,77% of the voting shares are to be attributed to her and were hold by the following shareholders, as of these shares of ROY Ceramics SE 3% or more of the voting rights are attributable:
- Hi Scene Industrial Limted, Tortola, British Virgin Islands

On 21 September 2016, Hi Scene Industrial Limited, Tortola, British Virgin Islands, informed the company in accordance with Article 27a of the German Securities Trading Act (WpHG) that
- the notification by Ms Lee Sujida Lelalertsuphakun, China represents a strategic investment for the reporting company and
- it is its intention to acquire additional shares within the next twelve months,
- it is its intention to have a significant influence on the appointment and dismissal of management personnel and administrative directors,
- it is not its intention to influence the capital structure, the ratio of equity to debt and the dividend policy.

Mr. Lee Sujida Lelalertsuphakun, China, has informed us in accordance with Section 21(1a) of the German Securities Trading Act (WpHG) that her voting share in ROY Ceramics SE, Munich, as of September 01, 2017, was 75.47%.

At the same time 75,47% of the voting shares are to be attributed to her and were hold by the following shareholders, as of these shares of ROY Ceramics SE 3% or more of the voting rights are attributable:
- Hi Scene Industrial Limted, Tortola, British Virgin Islands

Mr. Tak Chung Pang, China, has informed the Company in accordance with Section 21(1a) WpHG that his voting share in ROY Ceramics SE, Munich, at the time of the first admission of the shares of ROY Ceramics SE for trading on the regulated market of the Frankfurt Stock Exchange on April 29, 2015, was 3.81 % of the voting rights. 3.81 % of these voting rights are to be assigned to him according to Section 22(1) sentence 1 No 1 WpHG and were held by the following companies he controls whose voting share in ROY Ceramics SE is respectively 3 % or more:
- Golik Holdings Limited, Hamilton, Bermuda
- Golik Investments Ltd., British Virgin Islands

Golik Investments Ltd., Tortola, British Virgin Islands, has informed us in accordance with Section 21(1a) WpHG that its voting share in ROY Ceramics SE, Munich, at the time of the first admission of the shares of ROY Ceramics SE for trading on the regulated market of the Frankfurt Stock Exchange on April 29, 2015, was 3.81 % of the voting rights.

3.81 % of these voting rights are to be assigned to it according to Section 22(1) sentence 1 No. 1 WpHG and were held by the following companies he controls whose voting share in ROY Ceramics SE is respectively 3 % or more:

- Golik Holdings Limited, Hamilton, Bermuda

All supply and service agreements between Shine Eagle Trust Reg. and the Company were concluded at standard market prices.
The holding acquired in October 2015 in Siu Fung Concept Ltd. was previously owned by Mr. Surasak Lelalertsuphakun, the Deputy Chairperson of the Administrative Board of ROY Ceramics SE. This transaction was concluded on arm's length terms.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed under Note 14, 22, 29 and 31 of these financial statements, the Group completed the following material transactions with related parties in the year under review:

in EUR 000s	2017	2016
Advisory fee paid by subsidiaries to:		
Hi Scene Industrial Ltd.*	72	175
Lease payment for a property in California paid by subsidiary to:		
Hi Scene Industrial Ltd.*	43	0

*Hi Scene Industrial Ltd is a shareholder of the Company.

The above transactions were entered into with LLH on market conditions.

34. PRINCIPAL SUBSIDIARIES

Information on the Company's key subsidiaries as at 31 December 2017 and 2016:

Name of the subsidiary	Registered office	Nominal value of issued ordinary shares / registered	Stake in the company and voting rights		Core activity	Profit / loss for the year
			31/12/2017	31/12/2016		
Lion Legend Holdings Limited	George Town, Cayman Islands	USD 129,900,000	Direct wholly owned subsidiary	Direct wholly owned subsidiary	Investment	- kEUR 13,410 (- kUSD 14,892)
Siu Fung Concept Limited	Tortola, BVI	USD 60,000,000	Indirect wholly owned subsidiary	Indirect wholly owned subsidiary	Investment	- kEUR 692 (- USD 830)
Easy Taken Credit	Hong Kong	HKD 10,000,000	Indirect wholly owned subsidiary		Investment	kEUR 41 (kHKD 381)
ROY USA, Inc.	Los Angeles, USA	USD 1,170,000	Indirect wholly owned subsidiary	Indirect wholly owned subsidiary	Real estate company	- kEUR 205 (- kUSD 246)
ROY Equities Houston, Inc.	Texas, USA	USD 0	Indirect wholly owned subsidiary		Investment	EUR 0 (USD 0)
ROY Commercial Houston, Inc.	Texas, USA	USD 1,000	Indirect wholly owned subsidiary		Investment	- kEUR 58 (- kUSD 69)
ROY Commercial Real Estate Houston, Inc.	Texas, USA	USD 1,000	Indirect wholly owned subsidiary		Investment	- kEUR 64 (- kUSD 77)
ROY Holdings Houston, Inc.	Texas, USA	USD 0	Indirect wholly owned subsidiary		Investment	EUR 0 (USD 0)
ROY Houston Management, Inc.	Texas, USA	USD 1,000	Indirect wholly owned subsidiary		Investment	- kEUR 292 (- kUSD 350)

ROY 6914 Schiller LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 3 (- kUSD 3)
ROY 2031 Arbor Cove LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 5 (- kUSD 7)
ROY 22622 Sierra Lake LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 4 (- kUSD 5)
ROY 22735 Sierra Lake LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 1 (- kUSD 1)
ROY 22422 Kendall Shay LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 13 (- kUSD 15)
ROY 6910 Schiller LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 3 (- kUSD 4)
ROY 7010 Schiller LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 3 (- kUSD 4)
ROY 1510 Hellendahl LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 2 (- kUSD 2)
ROY 7002 Blandford LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 4 (- kUSD 4)
ROY 1329 Voss LLC	Texas, USA	USD 0	Indirect wholly owned subsidiary		Real estate company	- kEUR 2 (- kUSD 3)
Kirby SPE LLC*	Wilmington, Delaware	USD 9,700,000	Indirect wholly owned subsidiary*		Investment	kEUR 208 (kUSD 250)

* Kirby will be fully consolidated as the ROY Group bears all significant opportunities and risks and ROY holds 100% of the voting rights at the annual general meeting. In addition, all economic opportunities and risks rest with ROY and ROY's capital employed. Service providers are remunerated on a performance basis, which is 40% of the part exceeding the net return of 8%. In 2017, service providers did not receive any remuneration under this agreement. The purchase of the Kirby Interchange was funded by a bank loan of USD 15 million and ROY is the beneficial owner of this loan through the fully consolidated Kirby SPE LLC.

The listed property LLCs were purchased with the aim of clearing the developed properties and developing new homes, as well as developing the undeveloped seven plots of land. ROY, together with a local partner, plans to develop a two-house model to be built on the aforementioned properties.

35. AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the 2017 financial year was 3 and in the 2016 financial year 6, of which 1 was a senior executive (2016: 2) and 2 were employees and workers (2016: 4).

36. AUDIT FEES

The auditor's fee included in expenses for the 2017 financial year amounted to kEUR 78 (2016: kEUR 85), was incurred solely for auditing services, of which EUR 0 (2016: kEUR 20) relates to auditing services provided in the previous year.

37. EVENTS AFTER THE BALANCE SHEET DATE

In January 2018, ROY bought undeveloped properties in Haberstock, La Canada Flintridge in Los Angeles, US. The properties have an area of 6,700 square meters and were purchased for USD 2.2 million. The purchase price was paid in February. The property will be developed, and planning applications for single-family homes are expected to be submitted shortly.

ROY participated in another real estate project in April 2018. The project in Jurupa Valley has a total investment value of USD 61.8 million, and the plan is to build 97 single-family homes and 118 multi-family homes spread over several construction phases over a period of three years on a plot of approx. 10 hectares. ROY is investing USD 5 million in the project in exchange for a 55% majority stake in the project company.

At its meeting held on 25 March 2018, the Board of Directors resolved to appoint Mr Robert Huyck as Managing Director with effect from 1 April 2018.

37. DECLARATION OF CONFORMITY IN ACCORDANCE WITH ARTICLE 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The declaration of conformity with respect to the German Corporate Governance Code required in accordance with Article 161 of the German Stock Corporation Act was submitted and it is available on the Company's website at http://www.roykeramik.de/en/entsprechenserklaerung/.

Munich, 27 April 2018

ROY Ceramics SE

Managing directors

SIU FUNG SIEGFRIED LEE	MATTHIAS HERRMANN	ROBERT HUYCK
CEO	CFO	COO
LEI YANG	SURIYA TOARAMRUT	
DESIGN DIRECTOR	TECHNICAL DIRECTOR	

RESPONSIBILITY STATEMENT BY THE STATUTORY REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable principles for financial reporting, we hereby certify that the consolidated financial statements give a true and fair view of the assets and liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 27 April 2018

ROY Ceramics SE

Managing directors

SIU FUNG SIEGFRIED LEE	MATTHIAS HERRMANN	ROBERT HUYCK
CEO	CFO	COO
LEI YANG	SURIYA TOARAMRUT	
DESIGN DIRECTOR	TECHNICAL DIRECTOR	

AUDITORS' REPORT

For ROY Ceramics SE, Munich

Memorandum on the audit of the annual financial statement and the group management report, consolidated with the management report of the parent company

Audit opinion

We have audited the consolidated financial statement of ROY Ceramics SE, Munich and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of December 31, 2017, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 as well as the explanatory notes on the consolidated financial statement, including a summary of important accounting methods. Additionally, we have reviewed the group management report of ROY Ceramics SE, consolidated with the management report of the company,for the financial year from 1 January to 31 December 2017. Wehave not reviewed the content of the the group declaration on corporate management, the corporate governance report according to item 3.10 of the German Corporate Governance Codex or the non-financial group declaration in accordance with German legal regulations.

According to our assessment, based on the insight gained from the audit,

- the accompanying financial statement complies with the IFRS in all material respects, as they are applied in the EU, and with the supplementary regulations of German law according to § 315e par. 1 of the German Commercial Code and provides, in accordance with these regulations, a true and fair view of the actual circumstances of the Group's net assets and financial position as of 31 December 2017 as well the results of its operations for the financial year from 1 January to 31 December 2017 and

- the accompanying group management report, consolidated with the management report of the parent company, gives an overall accurate picture of the group's situation. This group management report, consolidated with the management report of the parent company, is consistent in all material respects with the consolidated financial statement, complies with the German statutory provisions and accurately illustrates the opportunities and risks of future development. Our audit opinion on the group management report, consolidated with the management report of the parent company, does not cover the content of the above mentioned group declaration on corporate management.

According to § 322 par. 3 sentence 1 of the German Commercial Code, we declare that our audit has not lead to any objections to the correctness of the consolidated financial statement or of the group management report, consolidated with the management report of the parent company.

Basis of the audit opinion

We conducted our review of the consolidated financial statement and of the group management report, consolidated with the management report of the parent company, in accordance with § 317 of the German Commercial Code and the EU Audit Regulations (No. 537/2014; hereafter "EU-APrVO") with respect to the German principles of orderly auditing as established by the Institute of Public Auditors in Germany (IDW). Our responsibilities according to these provisions and policies are further described in the section of our audit report entitled "Auditors' responsibility for the auditing of the consolidated financial statement and group management report". We are independent of the Group companies, in accordance with the European and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, we declare, as per Article 10 par. 2 letter f) of the EU-APrVO, that we have not rendered any forbidden non-audit-related services as per Article 5 par. 1 of the EU-APrVO. We are of the opinion that the audit evidence which we have obtained is sufficient and suitable to serve as the basis of our audit opinion on the consolidated financial statement and the group management report.

Particularly important audit issues in the audit of the consolidated financial statement

Particularly important audit issues are those issues that were, in our best judgement, most significant in our audit of the consolidated financial statement for the financial year from 1 January to 31 December 2017. These issues were taken into consideration in the context of our audit of the consolidated financial statement as a whole and in the formation of our audit opinion; we give no separate audit opinion on these issues.

Below, we illustratethe audit issue that we consider the most significant:

- **Impairment of fixed assets reported in the consolidated financial statement**

Our report on this particularly important audit issue is structured as follows:

1) Description of the issue, including references to related disclosures in the consolidated financial statement and
2) audit procedures.

Description of the issue

For the accounting and valuation methods used, we refer you to the notes in section "4. SIGNIFICANT ACCOUNTING AND VALUATION PRINCIPLES" and section "5. CRITICAL DISCRETIONARY JUDGEMENTS AND IMORTANT GROUNDS FOR UNCERTAINTIES IN ESTIMATES". Information on the development of fixed assets can be found under the notes "16. FIXED ASSETS".
In the consolidated financial statement of ROY Ceramics SE, total financial assets were declared in the amount of 51,516 kEUR under balance sheet item "16. FIXED ASSETS" as of 31 December 2017.

A large portion of these assets consists of machines with which ceramic products were produced in Beijing, China, until September 2015. The dismantling of all of the machinery in Beijing took place in 2017. Most of the machinery was shipped to Houston, Texas, USA. Some of the other machines were shipped to Germany to be refurbished for possible production in the USA or Germany, as well as to Thailand to assist in the setting up of outsourced sanitary ware production for ROY at an OEM manufacturer. The company conducts annual linear depreciation taking into account the estimated profitable useful life. On the reporting date, a depreciation test was also carried out for the machinery based on a valuation report by an independent valuation specialist to determine whether there were any indications for further depreciation.

The impairment testing of fixed assets is complex and is based on a range of discretionary assumptions. This particularly includes the future use of the machinery. In the long term, the development of a new production location is planned in the USA. There is a risk for the consolidated financial statement that the assets are not recoverable. In our view, this issue was of particular significance in the scope of our audit.

Audit procedures

As part of our audit, we questioned management with regard to the measures taken for the valuation and reuse of the machinery. We analysed the indications for depreciation identified by the company and, based on the information we obtained during the audit, assessed whether there were any further indications for depreciation not identified by the company. The audit of the fixed assets was also a focus for the audit by the sub-group auditor. We additionally inspected the machinery located in Germany and made enquiries. We also analysed the valuation by an independent assessor.

Miscellaneous information

The legal representatives are responsible for the miscellaneous information. The miscellaneous information encompasses:

- the group declaration on corporate management,
- the remaining parts of the annual report, excluding the audited consolidated financial statement and group management report as well as our audit report,
- the Corporate Governance Report as per No. 3.10 of the German Corporate Governance Codex and
- the insurance pursuant to § 297 par. 2 sentence 4 of the German Commercial Code on consolidated financial reports and the insurance pursuant to § 315 par. 1 sentence 5 of the German Commercial Code on the group management report, consolidated with the management report of the parent company.

Our audit opinions on the consolidated financial statement and the group management report, consolidated with the management report of the parent company, do not cover the miscellaneous information, and thus we provide neither an audit opinion nor any other form of audit conclusion to this end.

Regarding our audit, we have the responsibility to read the miscellaneous information and to assess whether the miscellaneous information

- exhibits material discrepancies with the consolidated financial statement, the group management report, consolidated with the management report of the parent company, or our findings from the audit or
- was otherwise materially falsely represented.

Responsibility of the legal representatives and the Board of Directors for the consolidated financial statement and the group management report, consolidated with the management report of the parent company

The legal representatives are responsible for the preparation of the consolidated financial statement, which complies in all material respects with the IFRS, as they are applied in the EU, and with the applicable German statutory provisions pursuant to § 315e par. 1 of the German Commercial Code, and are also responsible for ensuring that the consolidated financial statement, with respect to these regulations, provides a view of the group's net assets, financial situation and results of operations that accurately represents the true circumstances. Moreover, the legal representatives are responsible for the internal control that they have determined to be necessary to enable the preparation of a consolidated financial statement that is free from material misrepresentation—whether intentional or unintentional.

When preparing the consolidated financial statement, the legal representatives are responsible for assessing the Group's ability to continue its business activities. Furthermore, they have the responsibility to report issues related to the continuation of business activities, if applicable. In addition, they are responsible for balancing accounts based on accounting principles for the continuation of business activities unless there is an intent to liquidate the Group or to cease business operations or there is no realistic alternative.

Furthermore, the legal representatives are responsible for the preparation of the group management report, consolidated with the management report of the parent company, which gives an overall accurate picture of the Group's situation and is in accordance, in all material respects, with the consolidated financial statement, complies with German statutory provisions and accurately represents the opportunities and risks of future development. Additionally, the legal representatives are responsible for the provisions and measures (systems) that they have deemed necessary in order to enable the preparation of a group management report, consolidated with the management report of the parent company, in accordance with the applicable German legal regulations and in order to be able to provide sufficient, suitable evidence for the statements in the group management report, consolidated with the management report of the parent company.

The Board of Directors is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statement and the group management report, consolidated with the management report of the parent company.

Responsibility of the auditor for the audit of the consolidated financial statement and the group management report, consolidated with the management report of the parent company

Our objective is to obtain sufficient assurance as to whether the consolidated financial statement is, as a whole, free from material misrepresentations—whether intentional or unintentional—and whether the group management report, consolidated with the management report of the parent company, gives an overall accurate picture of the Group's situation and is, in all material respects, in accordance with the consolidated financial statement as well as with the findings obtained from the audit, complies with the German statutory provisions and accurately represents the opportunities and risks of future development, as well as to issue an audit report on the consolidated financial statement and the group management report, consolidated with the management report of the parent company.

Sufficient assurance is a high degree of assurance but not a guarantee that an audit, conducted in accordance with § 317 of the German Commercial Code and the EU-APrVO in compliance with the German principles of orderly auditing, will always reveal a material misrepresentation. Misrepresentations can result from violations or inaccuracies and are considered material if they could be reasonably expected to influence, individually or collectively, the affected economic decisions of addressees based on this consolidated financial statement and the group management report, consolidated with the management report of the parent company.

During the audit we exercise due discretion and maintain a critical approach. Furthermore

- we identify and assess the risks of material misrepresentation - whether intentional or unintentional - in the consolidated financial statement and the group management report, consolidated with the management report of the parent company, plan and conduct audit procedures in response to these risks and obtain audit evidence, which is sufficient and appropriate, to serve as the basis for our audit opinion. The risk of material misrepresentations not being revealed is higher with violations than with inaccuracies, since violations can involve fraudulent collaboration, forgeries, intentional incompletions, misleading representations or the bypassing of internal controls.
- we gain an understanding of the relevant internal control system for the audit of the consolidated financial statement and the relevant provisions and measures for the audit of the group management report, consolidated with the management report of the parent company, in order to plan audit procedures that are suitable under the given circumstances, though not with the goal of giving an audit opinion on the effectiveness of these systems.
- we assess the appropriateness of the accounting methods used by the legal representatives as well as the tenability of the estimated values and related disclosures provided by the legal representatives.
- we draw conclusions about the appropriateness of the accounting principles used by the legal representatives for the continuation of business activities and, based on the obtained audit evidence, we determine whether there is material uncertainty related to events or circumstances, which may cast significant doubt on the ability of the Group to continue business activities. If we conclude that there is material uncertainty, we are required, in the audit report, to call attention to the corresponding information in the consolidated financial statement and the group management report, consolidated with the management report of the parent company, or, if this information is inadequate, to modify our respective audit opinion. We draw our conclusions based on the audit evidence obtained up to the

date of our audit opinion. However, future events or circumstances may lead to the Group being unable to continue its business activities.

- we assess the overall presentation, structure and content of the consolidated financial statement, including the disclosures and whether the consolidated financial statement presents the underlying business transactions in such as a way that the consolidated financial statement provides an accurate view of the circumstances regarding the Group's net assets, financial position and results of operations, in compliance with the IFRS, as in the EU, and with the supplementary, applicable German statutory provisions, as per § 315e par. 1 of the German Commercial Code.
- we gather sufficient, appropriate audit evidence for the accounting information of the company or business activities within the Group in order to provide an audit opinion on the consolidated financial statement and the group management report, consolidated with the management report of the parent company. We are responsible for the guidance, supervision and execution of the consolidated financial statement audit. We bear the sole responsibility for our audit opinions.
- we assess the consistency of the group management report, consolidated with the management report of the parent company, with the consolidated financial statement, its legal compliance and the view it provides of the Group's situation.
- we conduct audit procedures on the future-oriented statements presented by the legal representatives in the group management report, consolidated with the management report of the parent company. On the basis of sufficient, suitable audit evidence, we track, in particular, the significant assumptions that were based on future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not provide an independent audit opinion on the future-oriented statements or the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the future-oriented statements.

We discuss with those responsible for the supervision, among others, the planned scope and timing of the audit as well as significant audit findings, including any shortcomings in the internal control system that we ascertain during our audit.

We explain to those responsible for supervision that we have complied with the relevant independence requirements, and discuss with them all relationships and other issues that can reasonably be expected to affect our independence and the preventive measures taken against this.

From the issues that we have discussed with those responsible for supervision, we determine those issues that were most significant in the audit of the consolidated financial statement for the current reporting period and which are thus very important audit issues. We describe these issues in our audit report, unless laws or other legal provisions preclude the disclosure of the issues.

Other legal and otherwise regulatory requirements

Other information according to Article 10 EU-APrVO

We were elected as the group auditors by the general assembly on 2 October 2017. We were appointed by the Board of Directors on 16 January 2018. We have been continuously employed as group auditors for ROY Ceramics SE, Munich, since the 2015 financial year.

We declare that the audit opinions contained in this audit report are in accordance with the supplementary report given to the examining board pursuant to Article 11 EU-APrVO (audit report).

Responsible auditor

The auditor responsible for the audit is Mr. Armin Weber.

Munich, 27 April 2018

ECOVIS Wirtschaftstreuhand GmbH
Auditing Company
Headquarters Munich

Peter Knop Auditor	Armin Weber Auditor

COMPANY AND LEGAL INFORMATION

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FINANCIAL CALENDAR 2018

Publication of the 2017 annual report
30 April 2018

Q1 interim report 2018
31 May 2018

Annual general meeting of shareholders 2018
TBA

Publication of the 2018 semi-annual report
28 September 2018

Q3 / 9M interim report 2018
30 November 2018

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