ROY CERAMICS SE

ANNUAL REPORT 2016

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

During the year 2016 the Group did not generate any significant revenues from the sale of sanitary ware products. The net loss of EUR 25.2 million for 2016 was largely due to loss on disposal of immoveable plant and machineries amounting to EUR 4.9 million and depreciation of EUR 8.2 million on the moveable plant and machineries which are in the process of being shipped from China to the USA. In addition in 2016 we recognized an impairment loss provision on certain old items of machineries amounting to EUR 3.8 million and recognized fees and land taxes paid to Beijing government authorities which amounted to EUR 8.3 million. The latter amount was paid by White Horse on our behalf and reduces the outstanding receivable from White Horse under the original Agreement. The result for the year also included interest income receivable from White Horse amounting to EUR 2.2 million and a total amount of US$3.6 million (EUR 3.4 million) accrued interest receivable from White Horse in the balance sheet as at 31 December 2016.

Of the US$80 million consideration receivable from White Horse, excluding interest and final adjustments, an amount of US$2 million was received from White Horse on 2 December 2016 and subsequent to the year end a further amount of US$10 million was received from White Horse until the end of March 2017. We expect the remaining balance, less the fees and land taxes paid by White Horse on our behalf, to be received by 30 June 2017.

Part of the sales proceeds will be utilised to build a new state of the art ceramics production facility in the USA. It is likely that the new factory will be located in Houston, Texas. A detailed feasibility study is being conducted and a decision will be made once a proper financial analysis has been completed. In the meantime there is very little business activity and we await the remaining payments from White Horse before proceeding with the relocation plan to the USA and outsourced OEM manufacturing in Asia.

In the meantime a specialist team of ceramics manufacturing engineers are in Beijing arranging the dismantling of the factory and the packing of all moveable plant and machineries for shipment to the USA. Some of the equipment will require servicing in Germany prior to onward shipment to the USA

I would like to express my thanks to all our shareholders for supporting the Company.

Sincerely yours,

Siu Fung Siegfried Lee
CEO of ROY Ceramics SE

REPORT OF THE ADMINISTRATIVE BOARD

The Administrative Board was informed throughout the whole year 2016 about events of material importance in between regular meetings and conference calls.

Due to the size of the Board and the one tier management structure of the Company, there were no additional committees. An efficiency test for the activities of the Administrative Board was not conducted, because improvements in processes are regularly considered and implemented.

The Annual Report of ROY Ceramics SE as at December 31, 2016 together with the Group Annual Report as at December 31, 2016, including the management report for the Group was prepared by the Administrative Board and audited by ECOVIS Wirtschaftstreuhand GmbH, Wirtschaftsprüfungsgesellschaft, Munich and endorsed with an unqualified audit opinion.

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

The auditor took part in the annual financial report meeting on April 27, 2017, and reported upon all significant findings and results of the audit for the year ended December 31, 2016.

The Administrative Board reviewed the Annual Report and the Group Annual Report, the management report and the net loss for the year, and agreed to the Annual Report and Group Annual Report, raising no objections after its review. The Administrative Board has approved the Annual Report and Group Annual Report.

Munich, 27. April 2017
On behalf of the Administrative Board

Siu Fung Siegfried Lee
Chairman of the Administrative Board

COMBINED MANAGEMENT REPORT OF ROY CERAMICS SE AND ROY CERAMICS SE GROUP FOR THE FINANCIAL YEAR FROM 1. JANUARY UNTIL 31. DECEMBER 2016

1. GROUP PROFILE

1.1 General Information

ROY Ceramics SE, Munich (the "Company" or shortly "ROY"), is the parent company of the Group. The Company is a European stock corporation, founded on May 8, 2014, recorded in the commercial register (HRB 211752) of Munich, Germany, with business address at Gießener Strasse 42, 35410 Hungen, Germany. The administrative seat was relocated from Munich to Frankfurt am Main on March 6, 2015. In 2016 the administrative seat was relocated from Frankfurt am Main to Hungen, Germany.

On April 30, 2015, the shares of ROY Ceramics SE were listed in the Prime Standard segment of the Frankfurt Stock Exchange (Germany) for the first time and, at the same time, on the non-regulated market (third segment) of the Vienna Stock Exchange (Austria). The shares are traded under the securities identification number RYSE88 and ISIN DE000RYSE888 respectively.

The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged until September 30, 2015 in the manufacturing and sales of ceramic sanitary wares and accessories. The Company acts as an investment holding company. The principal activities of its subsidiaries and the proportion of ownership interest and voting power held by the company are set out in Note 32.

1.2 Group Structure Before and After September 2015

The Group structure changed completely in 2015. The timeline is shown below.

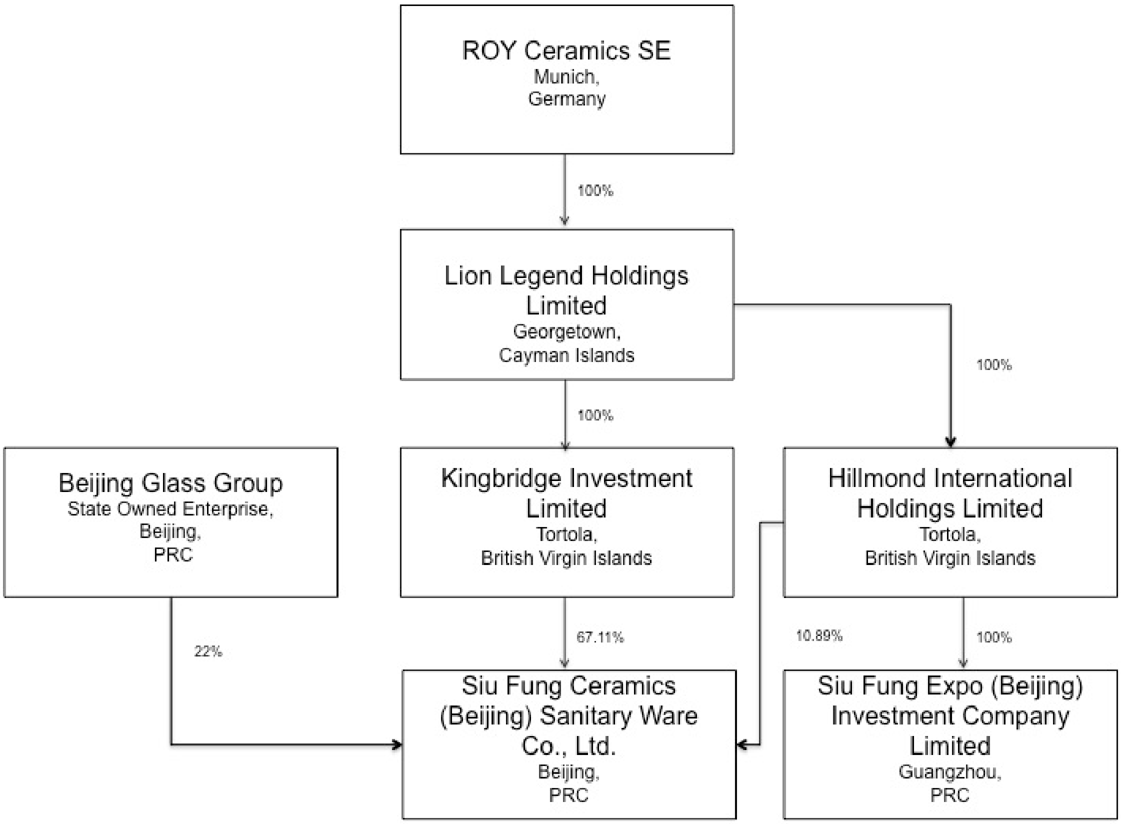
In the first half of 2015 the Group's organisational structure or business operations were the same as in 2014:

ROY Ceramics SE, Munich, was the sole shareholder of Lion Legend Holdings Limited (Georgetown, Cayman Islands, in the following also "LLH"). LLH is a limited liability company incorporated under the laws of the Cayman Islands. LLH has a branch office in Hong Kong registered in the commercial register of Hong Kong under register number F0012615. The Hong Kong branch of LLH is the regional head office covering accounting, administration, IT, marketing and sales support.

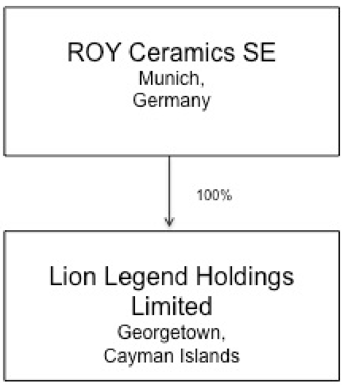
LLH in turn was the sole shareholder of (i) Kingbridge Investment Limited, Tortola, British Virgin Islands (in the following also "Kingbridge"), incorporated under the laws of the British Virgin Islands and (ii) Hillmond International Holdings Limited, Tortola, British Virgin Islands (in the following "Hillmond"), also incorporated under the laws of the British Virgin Islands. Kingbridge in turn was a 67.11% shareholder of Siu Fung Ceramics (Beijing)

Sanitary Ware Co., Ltd., Beijing, PRC ('People's Republic of China'), (in the following also "SFC"), incorporated as a limited liability company under the laws of PRC. Another 10.89% shareholder of SFC is Hillmond. Another 22% shareholder of SFC was the Chinese state owned enterprise Beijing Glass Group,Beijing, PRC. Hillmond was further the sole shareholder of Siu Fung Expo (Beijing) Investment Company Limited, Guangzhou, PRC (in the following also "SFE"), incorporated as a limited liability company under the laws of PRC.

The structure chart until September 30, 2015 of ROY was as follows:

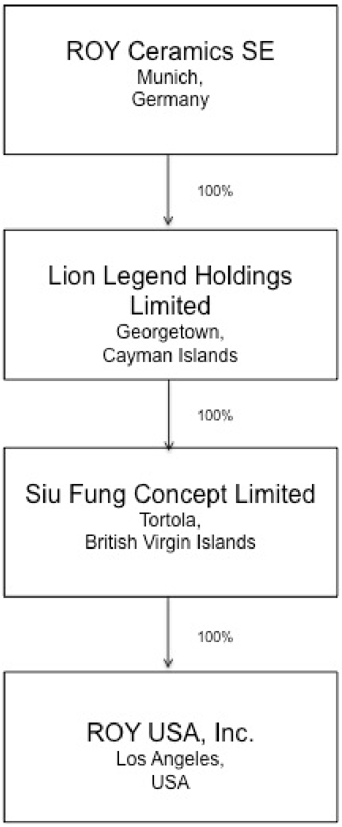


As a result of the sale of the Group's principal subsidiaries to White Horse Holdings Ltd., Hong Kong (in the following 'White Horse') effective from September 30, 2015, the organizational structure of ROY was as follows:



In October 2015, as part of the further restructuring of the Group, Lion Legend Holdings Limited acquired 100 % of the issued share capital of Siu Fung Concept Limited, a private company incorporated in Roadtown, British Virgin Islands, which was previously owned by Mr. Surasak Lelalertsuphakun, the Deputy Chairman of ROY Ceramics SE. Siu Fung Concept Limited has an authorised share capital of US$ 60 million and owns 100 % of ROY USA, Inc., based in Los Angeles, California, USA. ROY USA, Inc. will manage the Group's new state-of-the-art ceramics factory in the USA.

Effective from October 2015 the current structure of ROY is as follows:



1.3 Business Model

Up until the closure of the Beijing production facility necessitated by the sale of the Group's operating subsidiaries in China to White Horse effective in September 2015, ROY Ceramics SE produced a full range of sanitary bathroom amenities for use in mid- to-high priced premises. ROY Ceramics SE provided quality and aesthetically pleasing sanitary ware to the PRC. Upon receipt of full payment from White Horse ROY aims to be a leading bathroom solutions provider in the PRC and international markets from its new state-of-the-art ceramics production facility to be built in Houston, Texas. As it will take approximately two years for the new production facility in Houston to become operational in the meantime the intention is for ROY to outsource manufacturing of its branded ceramics products to an OEM manufacturer.

1.4 Strategy

ROY has effectively established the ROY brand in the PRC market and now plans to further strengthen the brand in new international markets in the USA, Asean countries and Europe. Referring the risk see note 2.5.4.

ROY plans its attendance at high profile trade fairs in Europe and the USA from second half of 2017 onwards and will also start to promote the ROY brand to a much wider network of customers.

ROY's in-house design team currently employed in USA is concentrating firstly on developing new design concepts into functional products using ROY's engineering team. Secondly, developing and completing the design for the universal outlet adaptor for ROY's toilets which enables ROY's toilets to comply with both European and American industry standards. ROY's universal outlet adaptor opens the potential to supply major international markets and has taken three years to perfect. Thirdly, developing a set of bespoke bathroom designs specifically suitable for use by the elderly and physically handicapped in collaboration with Henderson Land Group (a major property developer listed on the Hong Kong Stock Exchange).

Upon receipt of full payment from White Horse (see section 4.2.1.1) manufacturing and sales will restart with the priorities as follows:

- finalise an Agreement in Thailand or an other ASEAN country for OEM production of ROY's branded products and ship moveable plant and machinery required from Beijing to new OEM facility,

- identify suitable land site in Houston Texas for new state-of-the-art production facility in the USA and ship moveable plant and machinery to USA,

- identify suitable location for new flagship showroom for ROY's integrated bathroom solutions in collaboration with Steve Leung Designers Limited (SLD). This will be aimed at the luxury market in the USA.

1.5 Control System

The aim of ROY Ceramics Group is to grow sustainably and successfully. To enable this, an internal control system is used by the persons in charge to coordinate and oversee the companies. This system is based on a large number of mechanisms and key indicators that map and make measurable area-specific processes. A pronounced control system has not been used since the suspension of operating activities. This will be realigned with the restart of the operating business. Until then all appropriate control activities will be executed by the CEO, Mr. Lee, in close collaboration with persons in charge of ROY's subsidiaries.

1.6 Corporate Bodies, Management and Founders

The current Administrative Board of the Company has the following members:

Name	Member since
Siu Fung Siegfried Lee (Chairman)	August 27, 2015
Surasak Lelalertsuphakun (Deputy Chairman)	September 18, 2014
Chi Tien Steve Leung	August 27, 2015
Yuen Shan Kimmy Tse	August 27, 2015

Mr. Surasak Lelalertsuphakun is Siu Fung Siegfried Lee's son.

From August 31, 2015 until December 29, 2016 the Management Board comprised:
- Siu Fung Siegfried Lee - Chief Executive Officer
- David Hirst-Chief Financial Officer; resigned December 29,2016
- Harald Goldau-Chief Operating Officer; resigned December 29,2016

Effective from March 2, 2017 the Management Board comprises:
- Siu Fung Siegfried Lee – Chief Executive Officer
- Sikun Jiang – Technical Director
- Lei Yang - Design Director

Sikun Jiang joined the Group in 2001 and was previously in charge of the engineering aspects of the ceramics factory in Beijing.

Lei Yang is Mr. Lee's wife. She joined the Group in 2002 and became Design Director in 2004.

Mr. Hirst and Mr. Goldau resigned as Managing Directors on December 29, 2016. Since then Mr. Hirst continues to be involved as a consultant to the Group.

2. ECONOMIC REPORT

2.1 Economic Development

The following presents figures of the Group on the basis of the IFRS and figures of ROY Ceramics SE based on German GAAP (HGB).

2.1.1 Overall Economic Development

According to the International Monetary Fund ('IMF') World Economic Outlook-January 2017, global economic growth for 2016 is estimated at 3.1 %. Economic activity in both advanced economies and emerging markets and developing economies is projected to be 3.4 % to 3.6 % in 2017-8. There remain major uncertainties in Europe post Brexit whilst the developing markets in Asia continue to grow at sustainable rates.

According to <tradingeconomics.com> the Chinese Government expects the China economy to grow by around 6.5 % in 2017 compared to 6.7 % in 2016, the slowest for 26 years, demonstrating a slowdown in momentum but without a hard landing yet. The construction boom of the past decade appears to be over with a decline in new builds, higher end resorts and major projects. Consequently the demand for high value sanitary ceramics is falling whilst new competitors continue to enter the market. These factors were foreseen and were a strong influence on the decision of the directors of the Company to sell the operating subsidiaries to White Horse in 2015 and to diversify the Group's interests to other international markets.

The new markets in which ROY will be active in the future in the second half of 2017 including USA and ASEAN countries, have stable growth and indicate future sales growth for ROY after a successful relocation of production. In particular the election of Donald Trump as President of the USA is seen as having a positive influence on ROY's planned relocation of production facilities to Houston,Texas.

2.2 Results of Operations, Financial Position and Net Assets

The following management's discussion and analysis of the financial condition and results of operations of ROY refer to the audited consolidated financial statements according to IFRS of ROY as well as on the financial statements in accordance with German GAAP of the single entity ROY Ceramics SE for the financial year ended December 31, 2016 and the comparable prior fiscal year ended December 31, 2015.

The financial data is presented in the tables below primarily in thousands of Euro (kEUR) and is commercially rounded to the nearest kEUR. The percentages contained in the text and tables below have also been commercially rounded to one decimal point. As a result, the figures shown in the text and tables below may not add up exactly to the total figures given and the percentages may not add up to 100 %.

Comparisons between the results for 2016 and 2015 and the use of Key Performance Indicators ('KPI's) are not particularly meaningful due to the closure of ROY's production facility and suspension of sales in Q3 2015. Results of ROY Ceramics SE itself are not discussed in detail as the company carried out no trading activities so far and acts only as the investment holding company for the Group.

2.2.1 Results of Operations

ROY's single entity income statement shows an operative loss of kEUR 444 (previous year: kEUR 1.069). The loss in 2015 derived mainly from costs connected with the listing of the Company's shares on the Frankfurt Stock Exchange. The loss in 2016 derives from the ongoing costs of maintaining the listing on the Frankfurt Stock Exchange and the Company's operations in Germany.

The following table presents consolidated income statement data of ROY for the financial years ended December 31, 2016 and ended December 31, 2015.

Selected Comprehensive Income Statement Data of the Group:

kEUR	Year ended 31/12/2016	Year ended 31/12/2015	Change in %
Revenue	**17**	**70,385**	**n/a**
Cost of sales	6	54,595	n/a
Gross profit	**11**	**15,790**	**n/a**
Other operating loss on disposal of Subsidiaries	0	23,036	n/a
Loss on disposal of fixed assets	4,922	0	n/a
Distribution expenses	1	5,446	n/a
Administrative expenses	22,447	8,716	157.5
Loss from operations/ EBIT	**-27,359**	**-21,409**	**-27.8**
Finance income	2,204	1,282	71.9
Finance expenses	38	10	280.0
Loss before income tax	**-25,193**	**-20,136**	**-25.1**
Income tax	1	1,577	-99.9
Net loss for the period	**-25,194**	**-21,713**	**-16,0**
Gross margin in %	*n/a*	*22.4*	*n/a*
EBIT margin in %	*n/a*	*-30.4*	*n/a*
Net profit margin in %	*n/a*	*-30.8*	*n/a*

pp = percentage points

n/a = As the Group had no business operation in 2016, the key figures ‘Gross margin’, ’EBIT margin’ and ‘Net profit margin’ have no explanatory value. As a consequence we did not report them this year.

2.2.2 Revenue

ROY’s revenues until Q3 2015 were derived from the ROY Group two operating Chinese companies, SFC and SFE. Revenue represented the amount received and receivable for sale of sanitary ware products and accessories, net of sales related taxes.

The decrease in ROY Group revenues from fiscal year (FY) 2015 to FY 2016 is largely attributable to the sale of the operating subsidiaries to White Horse and the closure of the Beijing factory in Q3 2015.

ROY Ceramics SE, the Parent Company in Germany has had no revenue so far.

2.2.3 Cost of Sales

The main components of ROY Group cost of sales until Q3 2015 were raw materials, labor costs, manufacturing overhead costs (including energy, depreciation of factory plant and equipment, consumables and packaging) and the costs of non-ceramic goods and accessories purchased from external suppliers. As the group had no business operation in 2016, no material cost of sales arose in the fiscal year.

2.2.4 Gross Profit and Gross Profit Margin

The following tables show a breakdown of gross profit and gross profit margin for the financial years ended December 31, 2016 and ended December 31, 2015.

kEUR	2016	2015
Gross profit	11	15,790
Gross profit margin	n/a	22.4%

As the group had no business operation in 2016, the key figure ‘Gross profit margin’ has no explanatory value. As a consequence we did not report them this year.

2.2.5 Finance Income

Finance income of the Group increased from kEUR 1,282 in FY 2015 to kEUR 2,204 in FY 2016 mainly due to the 6 % interest income due from White Horse until June 30, 2016 on the Agreement for the sale of the operating subsidiaries.

2.2.6 Distribution Expenses

The Group’s Distribution expenses up to Q3 2015 comprised mainly advertising and promotional expenses, travelling and entertaining expenses, transportation costs incurred for the delivery of goods to customers and distributors and salaries and commission paid to sales and marketing personnel.

2.2.7 Administrative Expenses

The Group’s Administrative expenses comprise mainly of payroll and payroll related expenses of directors, management and administrative personnel, travelling and entertainment expenses incurred by management and directors, depreciation charges, utilities, repairs and maintenance, rental, office expenses, transportation expenses and provision for impairment loss on trade and other receivables.

Administrative expenses amounted to kEUR 22,447 in FY 2016 compared with kEUR 8,716 in FY 2015. The increase in FY 2016 was mainly attributable to the depreciation of plant and machinery in 2016 of kEUR 8,145 based on a straight line depreciation method on the carrying value of all moveable plant and machinery in Beijing as of January 1, 2016 due to the fact that the remaining useful life expectancy of machineries has been set to 10 years now (2015:

kEUR 2,374 based on an original longer useful life period). This was due to a more realistic estimation of useful lives adopted by the Group in 2016. There was also an impairment loss provision made on certain old items of machineries amounting to kEUR 3,802 based on an external valuation report (2015: nil). Furthermore, fees and land taxes, mainly for former periods, have been paid to the Beijing government authorities amounting to kEUR 8,344 (2015: nil).

2.2.8 Other operating loss on disposal of subsidiaries (Group)

The loss recognised of kEUR 23,036 in FY 2015 represented primarily the difference between the group's interest in the net book value of the subsidiaries' net assets disposed of to White Horse and the consideration receivable of US$ 80,000,000.
In 2016 no loss on disposal of subsidiaries were recognized.
Details are set out in Note 10.

2.2.9 Income Tax Expenses (Group)

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 and BVI. Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries up to Q3 2015 was 25 %.

kEUR	2016	2015
Current tax:		
USA taxation	1	0
PRC Enterprise Income Tax ("EIT")	0	1,577

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:

kEUR	2016	2015
Loss before tax	-25,193	-20,136
Tax at the applicable tax rate of 0 % in the Cayman Islands (2015: PRC 25 %)	0	-5,034
Tax effect of non deductible expenses	143	7,272
Losses of the current year, for which no deferred tax entitlement was applied (tax rate in 2016: 31.93 %; 2015: 31.93 %)	-142	-341
Tax effect of income not taxable	0	-320
Income tax expense for the year (effective tax rate in 2016:0,0 %, 2015: 7,8 %)	1	1,577

The Group has no deferred tax liabilities during the year or at the end of the reporting year.

Due to ROY Ceramics SE's realized losses so far it does not pay any taxes in Germany.

2.3 Balance Sheet Data of ROY (Group)

kEUR	Dec 31, 2016	Dec 31, 2015
Assets		
Total non-current assets	69,302	82,460
Total current assets	70,084	75,724
Total assets	**139,386**	**158,184**
Equity and liabilities		
Total equity	135,670	154,789
Total liabilities	3,716	3,395
Total equity and liabilities	**139,386**	**158,184**

Total non-current assets consist mainly of property, plant and equipment. Most of the immoveable property, plant and equipment was disposed of on September 30, 2015 pursuant to the Agreement with White Horse. The moveable plant and equipment amounting to kEUR 67,968 is retained by LLH for shipment to the USA to be utilised in the new production facility in Houston, Texas.

Current assets as at December 31, 2016 comprise mainly of the amount receivable from White Horse. Other assets and liabilities were taken over by White Horse effective September 30, 2015.

As at the end of the reporting period, financing by equity takes place predominantly. The reduction in equity in 2016 is due to the operating loss in 2016 including the loss of disposal of some items of plant and machinery deemed unsuitable for transporting to the USA for use in the new production facility.

2.3.1 Non-current Assets

Non-current assets comprise mainly property, plant and equipment in China and Hong Kong to be shipped to the USA in 2017 and real estate in the USA.

The reduction in non-current assets in FY 2016 compared with FY 2015 is primarily due to the disposal of plant and machinery deemed unsuitable for transporting to the USA for use in the new production facility and the depreciation of fixed assets in FY 2016 amounting to kEUR 8,195 and the impairment loss provision on fixed assets in FY 2016 amounting to kEUR 3,802.

Property, Plant and Equipment

kEUR	Buildings held for own use	Lease-hold improve-ment	Machi-nery	Office equipment	Motor vehicles	Total
At Cost or valuation						
At 1 January 2015	14,907	4,551	142,761	977	1,183	164,379
Currency Adjustments	0	244	7,848	76	0	8,168
Additions	615	0	0	23	0	638
Disposals	-14,907	-4,618	-48,761	-1,030	-1,183	-70,499
At 31 December 2015	615	177	101,848	46	0	102,686
Disposals	0	0	-7,130	0	0	-7,130
At 31 December 2016	615	177	94,718	46	0	95,556
Accumulated depreciation						
At 1 January 2015	11,227	2,370	28,833	598	695	43,723
Provided for the year	228	164	1,721	89	172	2,374
Currency Adjustments	610	126	1,538	25	33	2,332
Disposals	-12,065	-2,569	-11,208	-710	-900	-27,452
At 31 December 2015	0	91	20,884	2	0	20,977
Provided for the year	0	46	8,145	4	0	8,195
Currency adjustments	0	0	-3,880	0	0	-3,880
Disposal	0	0	-2,208	0	0	-2,208
Impairment loss	0	0	3,802	0	0	3,802
At 31 December 2016	0	137	26,743	6	0	26,886
Carrying values						
At 31 December 2015	615	86	80,964	44	0	81,709
At 31 December 2016	615	40	67,975	40	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:

Building held for own use	20 years
Leasehold improvements	5-20 years
Machineries	10-20 years
Office equipment	5 years
Motor vehicles	5 years

As at December 31, 2015 the only building of the Group is situated in the USA and is pledged to secure the note payable to the Group.

Effective from 2016 the machineries previously located at the Beijing factory premises are depreciated at 10 % per annum – which represents a remaining useful lifetime of ten years - on the carrying value as December 31, 2015 based on a reassessment. This is a more realistic estimate of the useful lives of the machineries.

Following the indirect sale of the Chinese operating subsidiaries to White Horse effective September 30, 2015, the moveable plant and machineries previously utilised by the Beijing factory were transferred to LLH. These machineries are included in the statement of financial position based on an independent professional valuation carried out by Nova Appraisals Limited.

2.3.2 Current Assets

Bank Balances and Cash

As at December 31, 2016, kEUR 792 (2015: kEUR 0) of the bank balances were denominated in United States Dollars, the remaining balances were denominated in Hong Kong Dollars and Euros.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Trade and other Receivables

Trade and other receivables comprise mainly receivables due from White Horse.

kEUR	**31.12.2016**	**31.12.2015**
Trade receivables	0	3
Other receivables	69,042	74,623
Prepayments	0	1,078
	69,042	75,704
Other receivables and prepayment,	69,042	75,704
Less: prepayments classified as non-current assets	0	-141
Trade and other receivables	69,042	75,563

Included in the Group's other receivables as at December 31, 2016 is the consideration receivable from White Horse of kEUR 68,843 (2015: kEUR 74,345) in respect of the consideration for the sale of the Group's principal subsidiaries, which comprised kEUR 73,944 of principal (2015: kEUR 73,246) and kEUR 3,323 of interest (2015: kEUR 1,099) payable to the Group under the terms of the Agreement.

Inventories

Inventories comprise of finished goods products in stock.

kEUR	2016	2015
Finished goods	76	79
Total	**76**	**79**

2.3.3 Current Liabilities

Trade and Other Payables

Trade payables mainly comprise of fees from consultants and key service providers. Other payables and accruals include accrued payroll and staff welfare related expenses, utilities and other tax payables.

kEUR	2016	2015
Trade payables	33	128
Other payables	35	34
Accrued payroll and staff welfare and expenses	505	213
Other tax payables	8	4
Total	**581**	**379**

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

kEUR	2016	2015
Within 180 days	33	128
181 to 365 days	0	0
1 year to 2 years	0	0
Total	**33**	**128**

Balance sheet data of the single entity ROY Ceramics SE:

kEUR	**Dec 31, 2016**	**Dec 31, 2015**
<u>Assets</u>		
Total non-current assets	12,999	13,006
Total current assets	91	25
Total assets	13,090	13,031
<u>Equity and liabilities</u>		
Total equity	11,628	12,072
Total liabilities	1,462	959
Total equity and liabilities	13,090	13,031

The non-current assets consist in both years mainly in the shares of Lion Legend Holdings Ltd. (LLH).

The current assets are mainly cash and prepaid expenses.

The change in equity results from the loss of the fiscal year 2016.

Liabilities are accruals, trade liabilities and amount due to Lion Legend Holdings Ltd. All liabilities are payable within one year.

2.4 Cash Flow of ROY (Group)

kEUR	2016	2015
Operation cash flow before changes in working capital	-9,524	5,053
Net cash generated from operating activities	-1,076	-2,715
Net cash from (used) in investing activities	1,943	-33,898
Net cash used in financing activities	-38	-10
Net (decrease) increase in cash and cash equivalents	829	-36,623
Adjustments due to currency translation	56	1,817
Cash and cash equivalents at the beginning of the period	82	34,888
Cash and cash equivalents at the end of the period	967	82

The cash position of the Group was adversely effected in the short term by the sale of its principal subsidiaries to White Horse. The cash position will improve very substantially upon the receipt of the consideration due latest June 30, 2017 from White Horse of US$ 68,751,682 plus interest at 6 % per annum accruing until June 30, 2016. For the period until payment is received from White Horse the majority shareholder Hi Scene Industrial Limited has agreed to provide financial support to the Group. Prior to December 31, 2016 US$2,000,000 has been received from White Horse and since the year end an additional US$10,000,000 has been received by March 31, 2017. The remaining balance including accrued interest is due to be received by June 30, 2017.
The cash flow of ROY's separate financials shows as at December 31, 2016 a negative cash flow of operating acitivities which results primarily from the administrative expenses for maintaining the listing at the Frankfurt stock exchange. Investments were also made for the Group's new website: www.roykeramik.de.

2.5 Other Factors that Impacted on Results

2.5.1 Research and Development

Under normal operations two to three series of new products are developed every year. Several requests for patents have been filed in the PRC including the universal outlet adaptor for ROY's toilets (patent application date: January 23, 2014), and production processes developed in house. ROY will file patent requests for new developments in the future.

Accordingly the main focus of research and development activities since 2011 until today has been fourfold:

- Firstly, developing new design concepts into functional products using ROY's in house engineering team;

- Secondly, developing and completing the design for the universal outlet adaptor for ROY's toilets which enables ROY's toilets to comply with both European and American industry standards. This has taken three years to perfect and the patent application has been filed in the PRC in 2015;

- Thirdly, developing a set of bespoke bathroom designs specifically suitable for use by the elderly and physically handicapped in collaboration with Henderson Land Group, a major property developer listed on the Hong Kong Stock Exchange.

- Fourthly, developing in collaboration with Steve Leung Designers Limited ('SLD'), modern bathroom solutions suitable for sale to retail customers and developers in international markets.

After restarting the business operations, a continuation of the development activities is also planned.

2.5.2 Production Facilities

All the processes and technological know how from the Beijing production facility will be replicated in the new production facility to be established in Houston, Texas, USA (see section 2.5.4.4).

2.5.3 Marketing and Distribution of ROY's Products

ROY's China business was sold to White Horse effective from September 30, 2015. Once production restarts using an OEM in the ASEAN region following the receipt of the consideration due from White Horse, ROY will reactivate the distribution network it has previously established in the PRC.

2.5.4 Intellectual Property Rights

2.5.4.1 Trademarks

The Company believes that the brand "ROY" is an important element for the success of the business of ROY in the PRC and a precondition for future success in overseas markets as well. Therefore ROY will have to increase the brand recognition further. To protect the brand "ROY", ROY has registered the following trademarks already and will proceed with registering trademarks in other countries.

Trademark	Territory	Holder	Term of Protection until
ROY (fig.)	Single European Market, Trademark registration number: 009727793	Kingbridge	28. February 2021
ROY (fig.)	German Trademark, registration number 30 2012 020 829, classes 11, 19, 21	Kingbridge	31. March 2022

Arrangements will be made with White Horse to transfer these trademarks from Kingbridge to LLH by June 30, 2017.

2.5.4.2 Patents

Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. (SFC) had applied for a patent (Patent name: “A kind of a toilet”) for a universal toilet adaptor on January 23, 2014. The patent has been authorized on November 5, 2014. Using the patented adaptor the toilet can be installed using both floor waste outlet and wall waste outlet through different kinds of PVC pipes. A toilet with a floor waste outlet can be installed with a Chinese national standard rough-in of 305 mm and 400 mm or any other non-standard rough-in through different sizes of PVC pipes. For a toilet with a wall waste outlet the floor waste outlet pipe can be changed to a wall floor pipe. Thus, the toilets can be installed with either vertical or horizontal outlet pipes.

The information on SFC’s patent is summarized as follows:

Patent Holder	Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd.
Patent Name	A kind of toilet
Inventor	Mr. Siu Fung Siegfried Lee, Mr. Sikun Jiang
Patent Number	ZL 2014 2 0044813.6
Territory	PRC
Patent Application Date	January 23, 2014
Authorization Proclamation Date	November 5, 2014
Term of Protection until	January 23, 2034

Arrangements will be made with White Horse to transfer these trademarks from Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. to LLH by June 30, 2017.

2.5.4.3 Domains

www.roykeramik.de

The domain names above are registered to ROY Ceramics SE. Further domain names are intended to be acquired in the event of a respective market entry in other countries.

2.5.4.4 Production Process

The intellectual property regarding the production process is a secret formula and process which is closely guarded by ROY although not as yet legally protected. This technology was developed in house over a period of several years and this enables ROY’s products to be marketed internationally, which is a vital part of ROY’s expansion plans. Of ROY’s competitors ROY is aware of only Toto, which has similar capabilities with some of their toilet designs. The ROY trademark and intellectual know how will be transferred to LLH as part of the Agreement with White Horse.

2.5.5 Employees

As of December 31, 2016, the ROY Group employed, in addition to the Managing Directors of the Company, a total of six employees.

During the business years of 2012 – 2016, the entities of the current ROY Group employed the following numbers of employees (year end figures):

Business year 2016: 6
Business year 2015: 9
Business year 2014: 495
Business year 2013: 455
Business year 2012: 426

Additional staff will be hired to augment the next phase of ROY's development once the payment has been received from White Horse.

ROY Ceramics SE, the Parent Company, had no employees in 2016 and the previous year.

2.5.6 Experienced Management Team

The company's Chief Executive Officer Mr. Siu Fung Siegfried Lee is highly experienced with over 30 years in the bathroom ceramics business.

The intention is that most of the key staff previously employed by ROY will be retained in the new business subject to their ability to relocate and USA immigration requirements.

2.5.7 Business Locations, Property, Plant and Equipment, Inventory

2.5.7.1 Production Facilities

The production facilities of ROY were owned and operated by Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. The factory site was situated on a 150,000 square meter site just outside central Beijing, located at 5 Huagong Road, Zhaoyang District, Beijing, PRC.

SFC had obtained land use rights for the factory site for 50 years from June 28, 1993 to June 27, 2043.

The land use rights were sold to White Horse together with the operating subsidiaries effective September 30, 2015.

A new production facility will be built in Houston, Texas and all moveable plant and machineries suitable for use in the production facility will be exported from Beijing to USA.

2.5.7.2 Equipment and Machinery

All moveable plant and machinery was retained by ROY as part of the Agreement with White Horse.

Nova Appraisals Limited, Hong Kong, a recognized and independent evaluator has carried out on-site inspection at the Beijing Factory of SFC in 2016. Nova Appraisals Limited has appraised the fair value of the moveable equipment and machinery retained by ROY in accordance with the International Valuation Standards issued by the International Valuation Standards Committee as of December 31, 2016 at RMB 508,700,000 (approx. EUR 69.5 million).

2.5.7.3 Leases

LLH as lessee and Hong Kong Science and Technology Parks Corporation as landlord concluded a real estate lease contract dated March 11, 2013 for the office premises of LLH at Units 601B and 601C, 6th Floor, InnoCentre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong, for a term of three years, commencing on 25 January 2013 and expiring on January 24, 2016 for a rent of HKD 46,909 (EUR 4,786) per month exclusive of Government rent, rates, management fees and other outgoings. Further LLH has to pay a property management fee of HKD 13,362 (EUR 1,364) per month.

The lease has been extended for another three years from January 25, 2016 until January 24, 2019 for a monthly rent of HKD 58,850 (EUR 6,950) for the first year of the extension, HKD 66,242 (EUR 7,823) and HKD 72,496 (EUR 8,561) for the second and third year of the extension. Further LLH has to pay a property management fee of HKD 15,000 (EUR 1,771) per month.

Moreover, LLH as Lessee and Supreme Town Investment Co. Ltd. as lessor entered into a lease contract on March 27, 2014 for the Warehouse premises of room C, 10th floor Houston Industrial Building, 32-40 Wang Lung Street, Tsuen Wan, New Territories, Hong Kong. The monthly rent is HKD 9,500 (EUR 969). The lease expired in March 31, 2016. The contract was terminated in April 2016.

3. REPORT ON EVENTS AFTER THE REPORTING PERIOD

As of the date of this report US$10,000,000 payment has been received from White Horse. The outstanding amount of US$ 58,751,682 plus accrued interest at 6 % per annum until June 30, 2016 and final adjustments is due to be received by June 30,2017.

Arrangements on the formal reassignment of patents and the brand ROY will be concluded once the full payment has been received.

In March 2017 a team of expert ceramics manufacturing engineers was deployed on the old Beijing factory site to prepare all moveable ceramics plant and machineries for shipment to USA for use in the new production facility. Some of the machineries will be shipped to Germany for servicing on route to USA.

On March 31, 2017 Siu Fung Concept Limited, a wholly owned and fully consolidated subsidiary of the Group, purchased an apartment in the Imperial Cullinan development in Hong Kong for a consideration of HK$28,691,761 (approx. EUR 3.5 million). The directors expect a growth in value for this investment.

4. REPORT ON FORECAST, OPPORTUNITIES AND RISKS

The following statements on the future development and performance of ROY and the key underlying assumptions concerning market and industry developments are based on assessments which ROY considers realistic on the basis of the information currently available. They nevertheless involve a degree of uncertainty and an unavoidable risk that forecast developments may not actually occur, either in the general pattern or to the extent anticipated.

4.1 Forecast Report

4.1.1 Future Economic Environment

4.1.1.1 Global Economy

With a new focus on international markets, the expected development of the global economy is becoming more important for the ROY Group. Growth prospects for the global economy are subdued at this time. Current estimates from Kiel Institute for the World Economy, for 2017 show an increase in global production of around 3.5 %. An increase of around 3.0 % in global trade is also expected for 2017.

Overall, every region in the world will be affected. The advanced national economies will continue to operate an expansive monetary policy paired with a slightly restrictive fiscal policy. This results in uncertainty on the markets. Difficulties in developing countries are only being overcome slowly. The economic slump in China remains a risk to the global economy.

Based on these assumptions, a relocation of production and sales markets was only logical. The economy in the USA continues to grow steadily and even more strongly in global terms: for the USA, an increase in gross domestic product of around 2.5 % for 2017 is expected. (As a comparison: Eurozone – 2017: 1.8 %). This justifies the decision of the directors to relocate the production facility to Houston, Texas, among other things.

4.1.2 Future Business Environment

According to the IMF World Economic Outlook –January 2017, the medium-term outlook in China predicts a further easing of growth to 6.5 % in 2017 and a stable outlook thereafter, reflecting a gradual slowdown in China, which will be offset by a pick-up in the rest of the Asian region in 2017. In the rest of the Asian region growth will strengthen to 5.5 % by 2017 supported by firming exports, improved political stability, and strengthening investment. With regard to the ceramics sector in the PRC, the market development is expected to become weaker in 2017 due to the continued slowdown in major new property development projects. This justifies to some extent the Board’s recent decision in 2015 to sell the China operating subsidiaries to White Horse and start to position the Group in other international markets in the ASEAN region and the USA.

Despite the overall subdued prospects for the global economy described in the introduction, ROY is convinced, however, that the foreign markets especially the USA under the presidency of Donald Trump offer good business opportunities, which will help the group’s growth. And by relocating production, they can be better served than before.

4.1.3 Future Development of ROY

The following information shall give an overview on recent trends regarding the Group and the strategies ROY is pursuing in the future:

4.1.3.1 Reactivation of the ROY Brand

ROY plans its attendance at high profile trade fairs in Europe and the USA from 2017/2018 and will also start to promote the ROY brand to a much wider network of customers in the USA and ASEAN markets.

4.1.3.2 Movement of Part of the Factory

Following the receipt of the full payment from White Horse the moveable plant and machinery currently in Beijing will be transported to Houston, Texas to be utilised in the new production facility, which has not yet been constructed.

4.1.3.3 Forecast ROY Ceramics SE and the group

ROY has had to suspend its operating business following the sale of its China subsidiaries. Consequently ROY is now operating with a skeleton staff until the next phase of its development can commence. No sales revenues have been included in the calculations whilst overhead costs – especially of general administration costs - continue to be incurred in the USA, Hong Kong and Germany. We expect a net loss for Q1 and Q2 2017, mainly driven by operational overhead costs. The next stage of the restructuring of the ROY Group will proceed once the remaining funds have been received from White Horse, which we expect by June 30, 2017. We do not expect any further operational revenues until such time as the OEM facility in Thailand or another ASEAN country is operational. EBIT for Q2 2017 could also be adversely affected by the cost of moving plant and machinery from Beijing to Thailand and the USA with some machineries probably requiring servicing in Germany by specialist ceramics manufacturing engineers.

For ROY Ceramics SE we plan a loss at a similar amount than in 2016 for 2017. Furthermore we also plan a loss for the ROY group all over all for the business year 2017 especially due to the costs in connection with the renewal of operation activities.

4.2 Opportunities and Risk Report

The business operations and net assets, financial condition and results of operations of ROY Ceramics SE could be materially and adversely affected in case of a materialization of any one or several of these risks. Further risks and uncertainties of ROY of which the Company is not presently aware or the significance of which the Company fails to appreciate, may likewise impair the business of ROY Ceramics SE and materially adversely affect its business and its net assets, financial position and results of operations. At the same time, the selection and substance of the risk factors are based on assumptions that may subsequently be revealed to have been incorrect.

The planned construction of a new production facility in Houston, Texas to commence immediately upon receipt of final payment from White Horse will provide a major new opportunity for ROY, especially to penetrate the USA market.

4.2.1 Market Risks

4.2.1.1 Risk of non-payment from White Horse

There is a risk, that the due payment from White Horse in connection with the sale of the operating subsidiaries in 2015, of as of now US$ 62.351.682, could be delayed due to events in China, which are outside our influence and control.
In accordance with the agreements, the consideration must be paid in full by 30 June, 2017 at the latest. The balance of the receivable is essential for the going concern of the company and for the commencement of operations of the group in the USA.

This risk is mitigated by the fact that partial payments of USD 12,000,000 have already been made. At the moment the company is funded by these partial payments. Furthermore the majority shareholder Hi Scene Industrial Limited has agreed to provide sufficient liquidity to ROY Ceramics SE until the receivable has been settled by White Horse.

A payment default is not expected. As a result going concern for the group – and implicit for ROY Ceramics SE – is secured.

4.2.1.2 Risk of finding a suitable OEM facility

There is a risk that ROY will not be able to find a suitable OEM facility in the ASEAN region to manufacture ROY’s branded products whilst the new production facility is being built in Houston, Texas. The OEM manufacturer would need to produce ROY’s products to the usual high quality that our customers expect on an efficient and cost effective basis. Discussions have been held with several potential OEM partners but no agreement has been reached yet.

It is assumed that a suitable OEM factory will be found.

4.2.1.3 Risk of transporting plant and equipment from Beijing

There is a risk that plant and equipment in Beijing may not be easily transportable to either an OEM facility in the ASEAN region or to the USA for use in ROY’s new production facility. Overall, the movable tangible fixed assets in Beijing as at December 31, 2016 has a carrying amount of about EUR 68,7 million.

It is not assumed that there will be significant problems during transport.

4.2.1.4 Risk of building a modern new production facility in the USA

There is a risk that building a modern new state of the art production facility in the USA may not be as easy and cost effective as anticipated. A detailed economic analysis will be commissioned in the USA before ROY makes any capital commitment to this project. At the same time, it is ensured that this project is carried out as quickly as possible to keep the ROY brand alive in the market.

A quick and cost-effective implementation is assumed.

4.2.1.5 Highly Competitive Market

The Company believes that the sanitary ware industry is highly competitive. Numerous domestic and international brands compete with each other for market shares on the Chinese and international market based on, inter alia, product design, product variety, product quality and price as well as brand loyalty. Competitors may also position their brand at the same level and target the same segment as ROY. Moreover, many sanitary ware producers have achieved already a similar if not greater brand and market awareness and have captured already or have the ability to capture a greater market share due to more financial, marketing, distribution and other resources than ROY.

There is a risk that ROY is not able to compete effectively with existing or new competitors in the future and that it loses already gained market share or is not able to gain new market share.

4.2.1.6 Dependency on Major Customers and Projects

In 2014 ROY's top ten customers in the PRC accounted for circa 18 % of revenues. Consequently, there is a high level of dependency on major customers to retain revenues and market share. Following the closure of ROY's production facility in Beijing in Q3 2015 ROY's established customers may have resorted to purchasing bathroom sanitary ware from other manufacturers.

4.2.1.7 Fluctuation of Trends and Customer's Preferences

The bathroom ceramic products of ROY target in particular customers who prefer high quality and luxury bathrooms. Customers of ROY are in particular high-end office and commercial/government buildings, property developers, property management firms, retail outlets, hotels and architects and design houses. ROY's success depends in part on its ability to stay abreast of design trends in that market and to be able to react to new trends and even to anticipate new trends in a very timely manner. As such, ROY continually launches new designs to broaden its customer base and appeal with a view to increase its revenue.

ROY has and is able to hire personnel in its design and development division who are responsible for keeping track of market trends and developing new designs for its bathroom products. The launch and development of each new product line involves considerable time and resource commitment. Nevertheless, there is no assurance that ROY will always be able to react effectively and positively to changing customers' preferences and taste and produce designs which will appeal to its target market or that any new product line that ROY launches in the future will be commercially viable or successful. If ROY is not able to adjust to the market needs and customers' tastes and preferences and consistently design and sell commercially viable high quality products, the demands for ROY's products may decrease which could have material adverse effects on ROY's business, financial conditions and results of operations.

4.2.1.8 Risks Regarding the Development and Promotion of its Brand

The brand of ROY is a key factor of ROY's continued success in the market of high quality and luxury bathroom equipment. ROY is of the opinion that brand image and brand recognition are important factors for customers' purchasing decisions. The marketing efforts of ROY are concentrated on enticing and maintaining ROY's target customers, in particular high end office, commercial and government buildings, property developers, property management firms, retail outlets, hotels as well as architects and design houses. The management expects that the trademark formally will be transferred without greater problems and financial expenses back to the group.

Future sales of ROY's products will depend partly on ROY's efforts in increasing brand recognition and awareness for its products and the ability to protect ROY's brand from third party usage or counterfeit which may adversely affect the reputation and goodwill associated with the brand.

There is a risk that ROY might fail to increase the recognition of ROY's brand to the extent as it was targeted due to be a lack of availability due to a longer search for an OEM partner or the creation of an own plant, or any negative publicity or perception of ROY's brand or image in the PRC or if ROY fails to successfully promote or protect and maintain the image of a high quality ceramic manufacturer. The brand recognition and goodwill associated with the brand may even decrease which could lead to loss of customer's confidence and reduced sales.

4.2.1.9 Risks Resulting from the High Competition on ROY's Market

ROY's business is subject to high competition so that there is a risk of losing market shares due to the Group's own performance or the performance of its competitors. The sanitary ware and ceramics production market in China is very competitive and in the view of the Company competition is still evolving. Therefore, there is a risk that existing or new competitors may pull ahead of ROY in certain fields and ROY would lose respective market segments. In such case the Group's profit margin would be reduced, in its amount depending on the market segment and the number of competitors. This would consequently have a detrimental effect on ROY's business, profitability and cash flows.

4.2.1.10 Risks of Employee's Fluctuation

ROY's future success heavily depends upon continued services of its management and other key employees. If one or several of such management or key personal were unable or unwilling to continue in their present positions, ROY might not be able to retain or replace them, as there is a very high demand in particular for experienced personnel and the search for personnel with the relevant skills can be time and cost consuming.

Further, there is a risk that a member of the management or key personal could join a competitor of ROY or establish a competing business which could lead to a loss of know-how, customers and further key professions and staff members. Efforts are being made to retain the core management team for the next stage of ROY's development in the USA and ASEAN markets.

4.2.1.11 Unprotected intellectual Property Rights

Since the designs and production of ROY's products involve several formulae and production technologies, their protection is very important to ROY's success and position in the competition.

Until now there is no protection of ROY's technologies, production formulae and know-how. Therefore, there is a risk that third parties might copy such technologies, production formulae or other know-how used by ROY and that ROY may have no effective legal means to prevent it. In such cases ROY will not be able to claim permanent injunction or damages based on mentioned infringements.

Further, it cannot be excluded that ROY's technologies, production formulae and other know-how violate third party rights, which could lead to claims for permanent injunction and/or damages by these third parties against ROY.

Further, as mentioned in 2.5.4.1 and 2.5.4.2 there is a risk that certain trademark brands and patents currently not legally owned by the Group, will be transferred without greater problems and financial expenses to the Group by White Horse upon full settlement of the Agreement due by June 30, 2017.

It is not expected that the reassignment will cause any significant problems.

4.2.2 Opportunities

4.2.2.1 Penetration into new markets

The planned transfer of production to the United States is bound to open up new markets for the ROY group. The label "Made in USA" will increase the acceptance of the products of ROY significantly on the entire American continent (South America, USA and Canada) and in a possible second step in Europe and ASEAN countries for export markets. The proximity to these new customer groups is a further locational advantage that can be exploited.

4.2.2.2 Efficient structures

The sale of the two intermediate holding companies to White Horse decreases the size of the Group in the short-term and moves operational risks from China to the USA. The lower coordination effort and shorter decision-making strategies can be implemented more quickly and with less effort. The communication is much easier and faster. Also the organizational and reporting efforts on the individual group level has dropped significantly. So in the future ROY can respond more quickly and better to meet the needs of the market and to implement forward-looking strategies.

4.2.2.3 Financing

Once the still outstanding payment due from White Horse of kUSD 62.352 plus accrued interest has been received, ROY will have at once the necessary means and financial resources to commence rapid construction of the new plant in the USA. The internal cash resources of the Group can then be augmented by a capital increase and/or additional external financing if required.

5. DESCRIPTION OF THE KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE GROUP ACCOUNTING PROCESS (SEC. 315 PARA. 2 NO. 5 OF THE GERMAN COMMERCIAL CODE – HGB)

ROY uses an internal control system as well as a risk management system, which defines appropriate structures and processes for accounting and preparing the financial statements measured by the current size and complexity. These systems should guarantee a deadline-driven, standard and precise invoicing for all business processes and transactions and ensure the observance of legal provisions and standards of accounting and financial reporting.

These systems are currently strongly dominated by the interplay of the management and Administrative Board due to the manageable organisational structures.

The consolidated financial statements are prepared by an external German service provider on the basis of the data supplied by the subsidiaries involved. The consolidation, certain reconciliation operations to Group policies and monitoring of the related time schedules and procedures are performed by the accounting department of ROY and a German external service provider. System-based controls are monitored by personnel and supplemented by manual inspection. An internal audit does not exist due to the size of the company recently.

On account of the planned relocation of the production to the USA in an own plant, the complexity and the scope of the accounting will increase. The directors are planning to expand the controlling system and risk management system accordingly.

6. REMUNERATION SYSTEM

6.1 Remuneration of the Managing Directors

The Managing Directors of ROY Ceramics SE in the reporting year were:

Siu Fung Siegfried Lee, Chief Executive Officer, Hong Kong
Harald Paul Goldau, Chief Operating Officer, Wiesbaden
David Adamson Hirst, Chief Finance Officer, Hong Kong

Harald Paul Goldau and David Adamson Hirst resigned as Managing Directors on December 29, 2016.

The Managing Director at December 31, 2016 is Mr. Siu Fung Siegfried Lee, who is also Chairman of the Administrative Board of ROY Ceramics SE. Mr. Siu Fung Siegfried Lee has been appointed as a Managing Director for indefinite time. Since he is a Member of the Administrative Board as well as a Managing Director, Mr. Siu Fung Siegfried Lee may only be withdrawn for cause.

Mr. Siu Fung Siegfried Lee receives no remuneration as Managing Director but receives a fixed fee of EUR 24,000 per year as Chairman of the Administrative Board.
Managing Director Goldau was paid a results-independent remuneration of kEUR 36 in 2016 (excl. VAT)-(2015: kEUR 101).

Managing Director Hirst was not paid any remuneration in this capacity.

The Managing Director at December 31, 2016 has no shareholdings in the Company and no options to acquire shares in the Company.

On 2 March, 2017 Sikun Jiang and Lei Yang were appointed Managing Directors.
Lei Yang owns 30 % of the shares in Hi Scene Industrial Limited which has a 64.77 % shareholding in the Company.

6.2 Remuneration of the Members of the Administrative Board

The current Administrative Board of the Company has the following members:

Name	Member since
Siu Fung Siegfried Lee (Chairman)	August 27, 2015
Surasak Lelalertsuphakun (Deputy Chairman)	September 18, 2014
Chi Tien Steve Leung	August 27, 2015
Yuen Shan Kimmy Tse	August 27, 2015

Each Member of the Administrative Board is entitled to a fixed annual fee of EUR 18,000.00, the Chairperson to a fixed annual fee of EUR 24,000.00 and the Deputy Chairperson to a fixed annual fee of EUR 20,000.00, each payable within one week after the Shareholders' Meeting has resolved on the formal discharge of the administrative board. Members of the Administrative Board who were Members of the Administrative Board for only part of the year are entitled to a twelfth of the annual compensation for each month of their participation.

Subsequent to the transfer of 64.77 % interest in the Company from Shine Eagle Trust to Hi Scene Industrial Limited, none of the Members of the Administrative Board has any direct or indirect shareholdings in the Company.

Surasak Lelalertsuphakun is a Director of the majority shareholder Hi Scene Industrial Limited.

7. DISCLOSURES IN ACCORDANCE WITH SEC. 315 PARA. 4 HGB AND NARRATIVE EXPLANATIONS

7.1 Composition of Capital Subscribed

The Company's registered share capital (gezeichnete Grundkapital) amounts to EUR 13,110,000. It is divided into 13,110,000 no par value ordinary bearer shares (Inhaber-Stückaktien) each with a notional amount of EUR 1.00. All shares have been fully paid in. Each share grants the holder one vote at the general shareholders' meeting.

7.2 Restrictions on Voting Rights or on the Transfer of Shares

Each share in ROY Ceramics SE carries one vote. Under the Company's Articles of Association, there are no restrictions regarding voting rights or the transfer of shares going beyond the general provisions of the German Stock Corporation Act (AktG).

7.3 Direct or Indirect Interests in the Capital Exceeding 10%

Statutory voting rights notifications received by the Company from shareholders with substantial direct or indirect shareholdings in the Company can be found in the Notes of the Company.

7.4 Holders of Shares with Special Rights Conferring Control Powers

ROY has not issued shares with special rights conferring control powers.

7.5 Voting Right Control in the Event of Employee Ownership of Capital

The Company has no employee share participation program in place and, therefore, no such voting right controls apply.

7.6 Statutory Regulations and Provisions of the Articles of Association concerning the Appointment and Recall of Members of the Management Board and the Administrative Board and Amendments to the Articles of Association

The Managing Directors are appointed by the Administrative Board. According to Section 13 Para. 1 of the Articles of Association of ROY Ceramics SE, one or more Managing Directors can be appointed. The Managing Directors conduct the business of the Company and represent the Company in dealings with third parties. If only one Managing Director has been appointed, he shall represent the Company alone. If more than one Managing Directors have been appointed, the Company shall be represented by two Managing Directors jointly or by one Managing Director together with a holder of a statutory power of attorney (Prokurist). The Administrative Board may determine that individual Managing Directors are entitled to solely represent the Company, for example as in the case of

Mr. Lee. The Administrative Board may withdraw Managing Directors by resolution at any time. However, according to § 13 Para. 2 of the Articles of Association of the Company a Managing Director who is member of the Administrative Board at the same time, may be withdrawn for cause only.

The members of the administrative board are elected by the shareholders' meeting. According to Section 9 Para. 1 of the articles of association of ROY Ceramics SE, the administrative board of the Company has four members. The administrative board elects a chairperson and one deputy from its midst.

Declarations of the administrative board are made though its chairperson, in case of his prevention by his deputy. The administrative board is leading the Company, is determining the fundamental guidelines of its business and is controlling the implementation of the measures planned by it. The administrative board has therefore similar rights as the managing board (Vorstand) and the supervisory board (Aufsichtsrat) of a German stock corporation (Aktiengesellschaft) or of an European Company with the two tier system.

The chairman of the administrative board of ROY Ceramics SE convenes an ordinary meeting of the administrative board at least every three months. The administrative board resolves its resolutions in the respective meetings of the administrative board. The administrative board has a quorum if all its members participate in the decision making. Members of the administrative board not present in the meeting may vote through a written voting via present members.

The administrative board convenes the general shareholders' meetings, is preparing the implementation of shareholders' resolutions, appoints the managing directors, leads the accounting department and has to establish a control system to recognize developments of the company threatening its existence as early as possible, mandates annual auditors, is checking the approval of the annual accounts and reports – if required – the loss of half of the share capital and the case of insolvency.
The members of the administrative board have a right to participate in the general shareholders' meetings and to participate in amendments of the articles of association. Further, the members of the administrative board have the right to issue new shares in connection with increases of the share capital on the basis of authorized capital.

7.7 Management Board's Authorisations concerning the Possibility of Issuing or Buying Back Shares

According to section 6 subsection 1 of the Company's articles of association (Satzung), the administrative board is authorized to increase the share capital of the Company until August 26, 2020, by way of issuance of new non-par value bearer shares in return for contributions in cash and/or in kind, once or several times, up to an aggregate amount of EUR 6,555,000. The new shares are entitled to a dividend from the beginning of the Company's financial year in which they are issued (Authorised capital 2015/I). The authorised capital 2014/II was revoked.

The administrative board (Verwaltungsrat) of the company is further authorized to exclude the shareholders' right of subscription (gesetzliches Bezugsrecht) in the following cases:

- for fractional amounts;
- increases of the registered capital through contributions in kind, in particular in the form of companies and share in companies, claims or other assets;
- cooperation with another company, if the cooperation serves the purpose of the Company and the cooperating company is requesting a participation;
- issuance of employee shares, also to the employee and management of affiliated companies, as in the interest of the Company, in particular for purposes of commitment to the Company and for incentives;
- as far as required to provide a subscription right to new shares to the holders of stock warrants (Optionsscheine) and convertible bonds (Wandelschuldverschreibungen) issued by the Company or subsidiaries in an amount as they are entitled to after the exercise of the stock warrant right respectively the option for conversion;
- increase of the registered capital through a contribution in cash, as far as the share of the registered share capital represented by the new shares neither exceeds in total 10 % of the registered capital of the Company at the moment of registration with the commercial register of this authorized capital nor in total exceeds 10 % of the registered capital in the moment of the issuance of the new shares, and the issuing price of the new shares does not fall materially below the stock exchange price.

In 2015 the capital of the company in accordance with Section 6a of the Articles of Association was conditionally increased by kEUR 1,311. This capital increase is only carried out if subscription rights in accordance with the simultaneously decided share option programme 2015 were issued (conditional capital 2015/I). This has not occurred to date.

A further conditional capital increase in accordance with Section 6b of the Articles of Association relates to an amount of kEUR 5,244. This conditional capital increase serves to guarantee new non-par bearer shares for the owners or creditors of convertible, warrant and/or participating bonds profit-sharing rights granted on the same day under the authorisation (conditional capital 2015/II). The issuance of one or more instruments has not taken place to date.

7.8 Significant Agreements that apply in the Event of a Change of Control Resulting from a Takeover Bid

ROY Ceramics SE is not a party to significant agreements which apply in the event of a change of control resulting from a takeover bid.

7.9 Indemnity Agreements with the Management and Employees that apply in the Event of a Change of Control Resulting from a Takeover Bid

There are no indemnity agreements with the management or employees in place which apply in the event of a change of control resulting from a takeover bid.

8. DEPENDENCY REPORT

For all legal transactions and the measures disclosed in the dependency report in the year to December 31, 2016, in the circumstances known to the Managing Directors at the time these legal transactions and measures were concluded to the advantage of ROY Ceramics SE, especially to strengthen the financial situation of the Company.

9. DECLARATION OF CORPORATE GOVERNANCE

The declaration of Corporate Governance according to section 289a German Commercial Code for ROY Ceramics SE and according to section 315 (5) German Commercial Code for ROY Group is part of the management report. According to section 317 (2) sentence 4 German Commercial Code the disclosures pursuant to section 289a German Commercial Code and section 315 Abs. 5 German Commercial Code are not in the scope of the financial audit.

The declaration of required pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) is issued and published on the Group's homepage under http://www.roykeramik.de/en/investor-relations/corporate-governance/declaration-of-compliance.html.

The Managing Directors of ROY Ceramics SE managed the Company and Group as a matter of their own responsibility. They are thereby bound by the Company interest and must act in the sense of the Company's best interests. Furthermore, they are guided by the intention to grow the Company's value over the long term. As an international company, ROY Ceramics SE is aware of the responsibility of doing business in harmony with legal, social and ethical matters.

The declaration of corporate management pursuant to § 289a German Commercial Code and § 315 (5) German Commercial Code is published on the Group's homepage under http://www.roykeramik.de/en/investor-relations/corporate-governance/corporate-governance-statement.html.

Munich, 27. April 2017

ROY Ceramics SE

Management Board

SIU FUNG SIEGFRIED LEE CEO	SIKUN JIANG	LEI YANG

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31. DECEMBER 2016

ROY Ceramics SE, Munich

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31. December 2016

ASSETS	Note	31.12.16 in kEUR	31.12.15 in kEUR
I. Current assets			
1. Cash and cash equivalents	19	967	82
2. Trade and other receivables	18	69,041	75,563
3. Inventories	17	76	79
Total current assets		70,084	75,724
II. Non-current assets			
1. Goodwill		125	120
2. Property, plant and equipment	15	68,670	81,710
3. Long-Term Loans	24	401	387
4. Deferred tax Assets	16	106	103
5. Prepayments	18	0	140
Total non-current assets		69,302	82,460
Total assets		139,386	158,184

EQUITY AND LIABILITIES	Note	31.12.16 in kEUR	31.12.15 in kEUR
I. Current liabilities			
1. Trade and other payables	20	593	379
2. Amount due to director	21	2,718	2,628
Total current liabilities		3,311	3,007
II. Non-current liabilities			
1. Note payable	24	405	388
Total non-current liabilities		405	388
III. Equity			
1. Share capital	22	13,110	13,110
2. Reserves	23	122,560	141,679
Total equity		135,670	154,789
Total equity and liabilities		139,386	158,184

ROY Ceramics SE, Munich

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31. December 2016

		Note	2016 in kEUR	2015 in kEUR
1.	**Revenue**	8	**17**	**70.385**
2.	Cost of sales		6	54.595
3.	**Gross profit**		**11**	**15.790**
4.	Other operating income		0	0
5.	Loss on disposal of subsidiaries/fixed assets	10	4.922	23.036
6.	Distribution and selling expenses		1	5.446
7.	Administrative expenses	11	22.447	8.717
8.	**Loss from operations**		**-27.359**	**-21.409**
9.	Finance income	9	2.204	1.283
10.	Finance expenses	13	38	10
11.	**Loss before income tax**		**-25.193**	**-20.136**
12.	Income tax expenses	14	1	1.577
13.	**Loss/Profit**		**-25.194**	**-21.713**
14.	Exchange differences arising on translation		6.075	13.378
15.	**Other comprehensive income**		**6.075**	**13.378**
16.	**Total comprehensive income**		**-19.119**	**-8.335**
17.	**Total comprehensive income attributable to:**			
18.	Owners of the Company		-19.119	-8.732
19.	Non-controlling interests		0	397
20.	**Loss attributable to:**			
21.	Owners of the Company		-25.194	-22.110
22.	Non-controlling interests		0	397

	Note	2016 in EUR	2015 in EUR
Earnings per share			
Weighted average basis:	22	-1,92	-1,65

ROY Ceramics SE, Munich

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31. December 2016

	Share capital kEUR	Capital reserve* kEUR	Translation reserve kEUR	Statutory reserve kEUR	Retained earnings kEUR	Total kEUR	Non-controlling interest kEUR	Total kEUR
Note	22	23	23	23	23			
Balance as at Jan 1, 2015	**13,110**	**99,675**	**44,924**	**1,711**	**37,484**	**196,904**	**30,389**	**227,293**
Exchange differences	0	0	13,378	0	0	13,378	0	13,378
Loss/Profit	0	0	0	0	-22,110	-22,110	397	-21,713
Total comprehensive income	0	0	13,378	0	-22,110	-8,732	397	-8,335
Disposal of Group Subsidiaries	0	-21,148	-33,383	-1,711	22,859	-33,383	-30,786	-64,169
Balance at Dec 31, 2015	**13,110**	**78,527**	**24,919**	**0**	**38,233**	**154,789**	**0**	**154,789**
Balance at Jan 1, 2016	**13,110**	**78,527**	**24,919**	**0**	**38,233**	**154,789**	**0**	**154,789**
Exchange differences	0	0	6,075	0	0	6,075	0	6,075
Loss	0	0	0	0	-25,194	-25,194	0	-25,194
Total comprehensive income	0	0	6,075	0	-25,194	-19,119	0	-19,119
Balance at Dec 31, 2016	**13,110**	**78,527**	**30,994**	**0**	**13,040**	**135,670**	**0**	**135,670**

* The amount of kEUR 78,327 included in the capital reserve is the result of the inverse reserve acquisition, including contributions in kind from the business year 2014.

ROY Ceramics SE, Munich

CONSOLIDATED CASH FLOW STATEMENT

For the year from 1. January until 31. December 2016

	Note.	2016 in kEUR	2015 in kEUR
Operating activities			
Loss before income tax		-25,193	-20,136
Adjustments for			
Interest Income / Interest Expenses	9	-2,166	-1,283
Loss on Disposal of Subsidiaries	10	0	23,036
Loss on Disposal of Fixed Assets		4,922	0
Amortisation of prepaid lease payments		0	206
Depreciation		8,202	2,374
Impairment loss on fixed assets		3,802	0
Non-cash consultancy fee		908	855
Operating cash flow before changes in working capital		**-9,525**	**5,053**
Decrease (increase) in inventories		3	7,175
Decrease (increase) in trade and other receivables		8,126	-5,634
(Decrease) increase in amount due to director		90	4,013
(Decrease) increase in trade and other payables and Note payable		231	-7,782
Decrease (increase) in amounts due from a related party		0	184
Cash generated from operating activities		**-1,075**	**3,009**
Income tax paid		-1	-5,724
Net cash generated from operating activities		**-1,076**	**-2,715**
Investing activities			
Interest received	9	48	154
Purchase of intangible assets		0	-23
Cash acquired on acquisition of subsidiaries	25	0	1
Proceeds from disposal of subsidiaries	10	1,895	-34,030
Net cash from used in investing activities		**1,943**	**-33,898**
Financing activities			
Interest paid	13	-38	-10
Net cash generated from financing activities		**-38**	**-10**
Net (decrease) increase in cash and cash equivalents		**829**	**-36,623**
Adjustments due to currency translation		56	1,817
Cash and cash equivalents at the beginning of the period		82	34,888
Cash and cash equivalents at the end of the period	19	**967**	**82**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31. DECEMBER 2016

1. GENERAL INFORMATION

ROY Ceramics SE (the “Company”) is the parent company of the Group. The Company is a European stock corporation, founded on May 8, 2014, recorded in the commercial register (HRB 211752) of Munich, Germany, with business address at Giessener Strasse 42, 35410 Hungen. The company's registered address was originally Prinzregentenstrasse 48, 80538 Munich and was first changed to Frankfurt and in 2016 to Hungen. The Shine Eagle Trust Reg., Balzers, Liechtenstein was the sole shareholder at the founding of the company.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and sales of ceramic sanitary wares and accessories. The Company acts as an investment holding company. The principal activities of its subsidiaries and the proportion of ownership interest and voting power held by the company are set out in Note 32.

On April 30, 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 in the un-regulated market (third segment) of the Vienna Stock Exchange (Austria). The shares are traded under the securities numbers RYSE88 or ISIN DE000RYSE888.

On August 30, 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 supervisory board Siu Fung Siegried Lee. For more details see note 30.

The consolidated financial statements are presented in thousand units of Euro (kEUR). In 2016 the financial statements of the principal subsidiary were prepared in Hong Kong dollars as the company is located in Hong Kong and following the sale of the China operating subsidiaries in Q3 2015 there were no transactions denominated in Renminbi (RMB).

The following exchange rates are used in the preparation of the consolidated financial statements were as follows:

- 2016 profit or loss and comprehensive income items: 8.59 HK$ to 1 Euro, and 2016 Statement of Financial Position: 8.18 HK$ to 1 Euro.

- 2015 Profit or loss and comprehensive income items: 6.0913 RMB to 1 Euro, and 2015 Statement of Financial Position: 7.0893 RMB to 1 Euro.

The consolidated financial statements will be authorised for issue by the Managing Directors to the Administrative Board on April 27, 2017. On April 27, the Administrative Board will authorize the financial statements for issue.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in absolute accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively referred as "IFRS") issued by the International Accounting Standards Board ("IASB"), including the IFRS Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), as endorsed by European Union ("EU IFRS"). The requirements of section 315a of the German Commercial Code (HGB) regarding the preparation of consolidated financial statements in accordance with IFRS, as endorsed by the EU, are met.

All requirements that must be applied under German commercial law are additionally observed in preparing the consolidated financial statements.

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

The preparation of consolidated financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the directors are also required to exercise judgement in the process of applying the accounting policies. Although these estimates and assumptions are based on the best knowledge of events and actions, actual results could differ from those estimates. Thus, the directors of the Company are responsible for preparing the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

a) New and revised IFRSs issued first effective for the year ended 31 December 2016:

The Company has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11:	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1:	Disclosure Initiative
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IAS 16 and IAS 38:	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41:	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28:	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs:	Annual Improvements to IFRSs 2012-2014 Cycle Annual Improvements to IFRSs 2010-2012 Cycle

The application of the new and revised IFRSs in the current year has had no material impact on the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

(b) New and revised IFRSs issued but not yet effective:

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year 31 December 2016 and which have not adopted in these financial statements.

IFRS 9:	Financial Instruments[1]
IFRS 15:	Revenue from Contracts with Customer and related Amendments[1]
IFRS 16:	Leases[2]
Amendments to IFRS 2:	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 10, and IAS 28:	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7:	Disclosure Initative[4]
Amendments to IAS 12:	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1. January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1. January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1. January 2017, with earlier application permitted.

The directors of the Company access the impact of the application of IFRS 9. For the moment, it is not practicable to provide a reasonable estimate the effect of the application of IFRS 9 until the Company performs a detailed review.

The directors of the Company anticipates that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The directors of the Company access the impact of the application of IFRS 16. Besides of the additional recognition of assets and liabilities for Operating Leasing contract under IAS 17, it is not practicable for the moment to provide a reasonable estimate of the effect of the application of IFRS 16 until the Company performs a detailed review.

The directors of the Company anticipates that the application of the other new and revised IFRSs 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 endorsed by the European Union (EU). All pronouncements of the International Accounting Standards Board (IASB), whose application is mandatory in the EU, have been observed.

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

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

The income statement is prepared according to the internationally practised 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 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 Group'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 those used by other members of the Group.

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

Changes in the Group's ownership interests in existing subsidiaries

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 are outside the scope of IFRS 3. The merger accounting is used by the consolidated group to account for such common control business combinations.

Merger accounting for common control business combinations

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

Subsidiaries acquired which have met the criteria for pooling of interest are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the merger had been in effect throughout the current 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 merger method 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 subsidiaries being merged are included for the full financial year.

Acquisition method of accounting for non-common-control business combinations

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets trans- ferred by the Group, liabilities incurred by the Group to the former owners of the ac- quiree and the equity interests issued by the Group in exchange for control of the ac- quiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent report dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Groups obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the report- ing period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recog- nised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

(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 recognized 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 including leasehold land (classified as finance leases) and buildings held for own use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost or fair value less subsequent accu- mulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment other than construction in progress 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 in the course of construction for production, supply or administrative purposes are carried at cost, loess any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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) Prepaid lease payments on land use right

Payment for obtaining land use right is considered as prepaid operating lease payment. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to consolidated statement of comprehensive income over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

Prepaid lease payments represent land use rights held for use in the production or supply of goods, or for administrative purposes.

(f) 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.

(g) Cash and cash equivalents

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

(h) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 (“FVTPL”)) are added to or deducted from the fair value of the financial assets or finan- cial liabilities, as appropriate, on initial recognition. Transaction costs directly attributa- ble 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 recog- nised 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 policy on 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; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- 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 asset, such as trade and other receivables, assets s that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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 receivables is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset 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 according with the substance of the contractual arrangements entered into 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 paid or received that form an integral part of the effective interest rate, transaction costs and other premium 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 at fair value through profit or loss (“FVTPL”)

Financial liabilities are classified as at FVTPL 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 amount due to a director are subsequently measured at amortised cost, using the effective in- terest method.

Warrants

Warrants issued by the Company that will be settled by other than a fixed amount of cash for a fixed number of the Company’s own equity instruments are derivative financial instruments. Warrants classified as a derivative financial instrument are initially recognised at their fair values at the date of issue. Changes in fair values in subsequent periods are recognised in profit or loss. There have been no warrants issued by the Company or the Group.

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 liabil- ity derecognised and the consideration paid and payable is recognised in profit and loss.

(i) Impairment losses of 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 es- timated 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 recov- erable amount of the cash-generating unit to which the asset belongs. Where a reasona- ble and consistent basis of allocation can be identified, corporate assets are also allo- cated 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.

Recoverable amount is the higher of fair value less to sell 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.

Where 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 as income immediately.

(j) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and rep- resents amounts receivable for goods sold in the normal course of business, net of dis- counts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has 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 is from a financial asset is recognised when it 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.

(k) 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 functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environ- ment in which the entity operates) at the rates of exchanges prevailing on the date of the transactions. At the end of 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 arising on the settlement of monetary items, and on 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, such exchange differences 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 expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the ex- change rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

(m) 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 lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

(n) Leasehold land and building

When a lease includes both land and buildings elements, the Group assesses the classification of each element as a finance 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 building elements in proportion to the relative fair values of the leasehold interests in the land elements and building 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.

(o) 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.

(p) 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 as- sets 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.

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.

(q) Related parties

A party is considered to be related to the group if:

(a) The party is a person or a close member of that person's family and that person
(i) has control or joint control over the Group; (ii) has significant influence over the Group; or
(iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

(b) The party is an entity where any of the following conditions applies:
(i) The entity and the Group are members of the same group;
(ii) One entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
(iii) The entity and the Group 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 Group or entity related to the Group;
(vi) The entity is controlled or jointly controlled by a person identified in (a); and
(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) and
(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 the parent of the reporting entity.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these 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.

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

<u>Key sources of estimation uncertainty</u>
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.

Additionally an impairment test for certain old items of machineries at the Beijing site was carried out in 2016. The result was an impairment of kEUR 3,802 in the carrying value of machineries as at December 31, 2016. We also refer to note 15.

Write down of inventories
As explained in Note 4, the Group's inventories are stated at the lower of cost and net realisable value. The directors of the Company review an aging at the end of the reporting period, and make provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for inventories in the periods in which such estimate is changed will be adjusted accordingly.

The Group carried out an inventory review on a product-by-product basis at the end of the reporting period. No allowance for obsolete items was provided as at December 31, 2016 (2015: kEUR 0).

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 able to collect full amount due. These estimates were based on the payment history, customers' credit-worthiness, historical write-off experience and default or delinquency in payments. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated. As at December 31, 2016, the carrying amount of the trade and other receivables net of provision for impairment loss of approximately kEUR 0 and kEUR 69,041 (2015: kEUR 3 and kEUR 75,563) respectively.

6. CAPITAL RISK 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 prior year. Please also see the remarks concerning this in the management report.

The capital structure of the Group consists of net debt, which includes cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

kEUR	2016	2015
Net debt (totally composed by positive cash)	967	82
Equity attributable to owners of the company	135,670	154,789

The 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

kEUR	As at December 31, 2016		As at December 31, 2015	
	Carrying amount	Fair Value	Carrying amount	Fair value
Financial assets				
Loans and receivables (including trade and other receivables, as well as long-term loans)	69,422	69,422	75,950	75,950
Total	69,422	69,422	75,950	75,950
Financial liabilities				
Liabilities measured at amortised cost (including trade and other payables amount due to a director and notes payable, excluding accrued payroll, staff welfare and expenses as well as other tax payables (see note 20)”)	3,186	3,186	3,178	3,178
Total	3,186	3,186	3,178	3,178

Financial risk management objectives and policies
Exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk arises in the normal course of the Company’s business. These risks are limited by the Group’s financial management policies and practices 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 United States Dollars which is nearly fixed to the Hong Kong Dollar. The Group’s operating activities in China ceased as of September 30, 2015. As such there is negligible foreign currency risk from operational 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 arising on translation are dealt with separately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Foreign currency risk sensitivity analysis
The following table approximates the sensitivity to a reasonably possible change in the foreign currency HK$ (2015: RMB) from a presentation currency EUR perspective at the end of the reporting period, with all other variables held constant.

Fair value of financial assets and financial liabilities

Fair value measurement by level of hierarchy is not disclosed as the Group has no financial assets or financial liabilities 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.

kEUR	2016	2015
Effects on Profit/(Loss) after taxation HK$ (2015: RMB)/EUR		
- strengthened by 10%	-2,519	-2,171
- weakened by 10%	2,519	2,171

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

kEUR	2016	2015
Impact on the HK$ (2015: RMB)/EUR equity		
- strengthened by 10 %	13,567	15,478
- weakened by 10 %	-13,567	-15,478

The Group currently does not have a foreign currency hedging activities. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider the 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 there from is relatively insignificant to the Group's operations, therefore, its income and operating cash flows are substantially independent of changes in market interest rates.

Accordingly, the directors are of the opinion that the Group does not have significant cash flow interest rate risk and no sensitivity analysis is performed.

Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In order to minimise the credit risk, the management reviews the recoverable amount of each individual trade and other receivables at end of the reporting period to ensure that adequate impairment loss is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is not significant.

Following a partly offsetting and a payment from White Horse in FY 2016 and FY 2017, the remaining balance of US$58,751,682 and interest receivable of US$3,600,000 is highly considered to be fully recoverable by June 30, 2017. And therefore no impairment is recorded as of December 31, 2016.

The credit risk on liquid funds 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 finance the Group's operations and mitigate the effects of fluctuation in cash flows. The principal liquidity risk is the receipt of the remaining payment of US$ 58 million due from White Horse on or before June 30, 2017. In the meantime the shareholders of Hi Scene Industrial Limited, the majority shareholder continue to ensure sufficient funds are made available to the Company to meets its financial obligations as they fall due.

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.

kEUR	On demand or within one year	Within one and five years	Total discounted Cash flows	Carrying amount
At 31. December 2016				
Non-derivative financial liabilities: trade and other payables, amount due to director as well as note payable	3,311	405	3,715	3,715
At 31. December 2015				
Non-derivative financial liabilities: trade and other payables, amount due to director as well as note payable)	2,790	388	3,178	3,178

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 the amount received and receivable for the sale of sanitary ware products and accessories, net of sales related taxes.

9. FINANCE INCOME

kEUR	2016	2015
Bank interest income	0	142
Interest on loans and receivables	2,204	1,141
	2,204	**1,283**

Interest on loans and receivables includes interest receivable from White Horse amounting to kEUR 2,165 (2015: kEUR 1,099) which relates to the consideration receivable on the sale of the Group's principal subsidiaries at 6 % per annum from September 30, 2015 until June 30, 2016.

10. LOSS ON DISPOSAL OF SUBSIDIARIES

On August 20, 2015 the Group entered into a share purchase agreement ("Agreement") to dispose of the entire share capital owned by the Group in its subsidiaries, Kingbridge Investment Limited and Hillmond International Holdings Limited, which carried out all the Group's ceramic sanitary ware manufacturing and selling operations in China, to White Horse Holdings Limited ("White Horse") for a total consideration of US$ 80,000,000. The transaction was completed on September 30, 2015 on which date control and legal ownership of these subsidiaries passed to White Horse. Under the terms of the original Agreement White Horse had until June 30, 2016 to make the payment, which in the meantime accrues at 6 % per annum until June 30, 2016. Based on a variation to the original agreement accepted by both parties, the payment was postponed until June 30, 2017 at the latest with interest accruing only until June 30, 2016.

The loss on disposal of the Group's principal subsidiaries to White Horse in Q3 2015 amounted to kEUR 23,036 and represented primarily the difference between the consideration receivable from White Horse amounting to US$ 80,000,000 and the net assets of the subsidiaries disposed of which excluded moveable plant and machineries and all intellectual processes, trademarks, patents and technology retained by the Group.

The deconsolidation loss is calculated as follows:

kEUR	2015
Total consideration (cash) received	71,139
Net assets disposed of	
Property, plant and equipment	43,600
Prepaid lease payment	7,911
Inventories	9,113
Accounts and other receivables	66,513
Tax recoverable	1,795
Bank and cash	34,030
Accounts and other payables	-4,565
Amount due to director	-53
	158,344
Non-controlling interests	30,786
Reclassification translation reserve	33,383
Loss on disposal	-23.036

In 2016 following a detailed inspection of all ceramics machineries on the Beijing site a decision was made to dispose through profit or loss of certain machineries unsuitable for transportation and use in the new production facility in USA or elsewhere. The loss on disposal of these items amounted to kEUR 4,922 (2015: kEUR 0).

11. ADMINISTRATIVE EXPENSES

The Group's administrative expenses comprise of the following:

kEUR	2016	2015
Auditor's remuneration	85	78
Amortisation of prepaid lease payments	0	206
Depreciation	8,202	2,374
Impairment loss on trade and other receivables	0	724
Impairment loss on fixed assets	3,802	0
Minimum operating lease payments in respect of rented premises	163	203
Staff costs:		
Salaries and allowances (including directors' emoluments)	232	3,859
Fees and land taxes paid to Beijing government	8,344	0
Other operational overheads	1,619	1,273
Total	**22,447**	**8,717**

12. DIRECTORS' EMOLUMENTS

kEUR	2016	2015
Director's fees-fixed	36	101
Administrative Board fees-fixed	80	61
	115	162

Directors' fees relate to fees paid to Mr. Harald Paul Goldau. Mr. Siu Fung Siegfried Lee is paid a fixed salary for his activities as Chairman of the Administrative Board of kEUR 24.

13. FINANCE COSTS

In 2016 the Group incurred kEUR 38 of finance costs relating to a loan which was acquired as part of the first time consolidation of ROY USA, Inc., a subsidiary consolidated for the first time in 2015 (2015: kEUR 10).

14. INCOME TAX EXPENSE

kEUR	2016	2015
Current tax:		
USA tax	4	0
PRC Enterprise Income Tax ("EIT")	0	1,601
Deferred taxation (Note 16)	-3	-24

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 and BVI. This tax rate is best suited to represent the group tax rate for the fiscal year 2016.

Under the Laws of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries up to Q3 2015 were 25 %.

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:

kEUR	2016	2015
Loss before tax	-25,193	-20,136
Tax at the applicable tax rate of 0 % in the Cayman Islands (2015: PRC 25 %)	0	-5,034
Tax effect of non deductible expenses	143	7,272
Losses of the current year, for which no deferred tax entitlement was applied (tax rate in 2016: 31.93 %; 2015: 31.93 %)	-142	-341
Tax effect of income not taxable	0	-320
Income tax expense for the year ((effective tax rate in 2016: 0,0 %, 2015: 7,8 %)	1	1,577

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

15. PROPERTY, PLANT AND EQUIPMENT

kEUR	Buildings held for own use	Lease-hold improve-ment	Machi-nery	Office equipment	Motor vehicles	Total
At Cost or valuation						
At 1 January 2015	14,907	4,551	142,761	977	1,183	164,379
Currency Adjustments	0	244	7,848	76	0	8,168
Additions	615	0	0	23	0	638
Disposals	-14,907	-4,618	-48,761	-1,030	-1,183	-70,499
At 31 December 2015	615	177	101,848	46	0	102,686
Disposals	0	0	-7,130	0	0	-7,130
At 31 December 2016	615	177	94,718	46	0	95,556
Accumulated depreciation						
At 1 January 2015	11,227	2,370	28,833	598	695	43,723
Provided for the year	228	164	1,721	89	172	2,374
Currency Adjustments	610	126	1,538	25	33	2,332
Disposals	-12,065	-2,569	-11,208	-710	-900	-27,452
At 31 December 2015	0	91	20,884	2	0	20,977
Provided for the year	0	46	8,145	4	0	8,195
Currency adjustments	0	0	-3,880	0	0	-3,880
Disposal	0	0	-2,208	0	0	-2,208
Impairment loss	0	0	3,802	0	0	3,802
At 31 December 2016	0	137	26,743	6	0	26,886
Carrying values						
At 31 December 2015	615	86	80,964	44	0	81,709
At 31 December 2016	615	40	67,975	40	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:

Building held for own use	20 years
Leasehold improvements	5-20 years
Machineries	10-20 years
Office equipment	5 years
Motor vehicles	5 years

As at December 31, 2016 the building of the Group is situated in the USA and is pledged to secure the note payable to the Group.

Effective from 2016 the unused machineries previously located at the Beijing factory premises are depreciated at 10 % per annum on the carrying value as at December 31, 2015 which is a more realistic estimate of the useful lives of these machineries.

Following the sale of the Chinese operating subsidiaries to White Horse effective September 30, 2015, moveable plant and machineries previously utilized by the Beijing factory were transferred to LLH. These machineries are included in the statement of financial position.

The machineries are depreciated on the basis of a straight line method over their expected useful lives. Until 2015 an overall useful life of 40 years was expected. However, due to an independent professional valuation carried out by Nova Appraisals Limited in the reporting period 2016 (triggering event) changes in the accounting estimate with regards to the useful life expectancy of machineries in line with IAS 8 have been made. The remaining useful life expectancy of machineries has been reduced to 10 years. The straight line depreciation of machineries in fiscal year 2016 amounts to kEUR 8,152.

Additional to the change of depreciation method, certain machineries were impaired in the amount of kEUR 3,802 to their fair value less cost to disposal as a result of the report of the external valuers. The fair value of the machineries as at December 31, 2016 per the Nova Appraisals report was RMB 508.7 million (EUR 69.5 million). The carrying value of the machineries as at December 31, 2016 of EUR 68.7 million takes into account the estimated cost of dismantling the machineries so that they are in a saleable and transportable condition.

The fair value is based on the cost as well as the market approach. The impairment is included in the administrative cost within the loss for the fiscal year 2016.

16. DEFERRED TAXATION

The following is the deferred tax recognised and movements thereon during the current and prior years:

kEUR	2016	2015
At 1 January	103	0
Acquisition of subsidiaries (Note 25)	0	79
Credit to consolidated statement of profit or loss	3	24
At 31 December	106	103

The Group's tax loss in Germany amounts to kEUR 1,682 as of December 31, 2016 (kEUR 1,238 as of December 31, 2015). The tax rate to be used in 2016 and 2015 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.

17. INVENTORIES

kEUR	2016	2015
Finished goods	76	79
Total	**76**	**79**

18. TRADE AND OTHER RECEIVABLES

kEUR	31.12.2016	31.12.2015
Trade receivables	0	3
Other receivables	69,041	74,623
Prepayments	0	1,078
	69,041	75,704
Less: Impairment loss recognized	0	0
Other receivables and prepayment, net	69,041	75,704
Less: prepayments classified as non-current assets	0	-141
Trade and other receivables	69,041	75,563

Included in the other receivables as of December 31, 2016 was unsecured consideration receivable from White Horse of kEUR 68,843 (2015: kEUR 74,322) in respect of consideration on disposal of subsidiaries closed on September 30, 2015, which comprised of outstanding principal of kEUR 65,418 (2015: kEUR 73,223) and interest receivable of KEUR 3,425 (2015: kEUR 1,098). The nominal value of the receivables corresponds to the fair value.

According to the conditional share purchase agreement entered into on August 20, 2015 by Lion Legend Holdings Limited and White Horse, the consideration principal of US$80 million should have been settled to the Group by June 30, 2016 plus related interest at a rate of 6% per annum on the principal amount for the period from October 1, 2015 to June 30, 2016 amounting to US$3.6 million.

During the year ended December 31, 2016, an amount of US$2 million has been received from White Horse. In this context, White Horse has also paid certain PRC expenses in an amount of approximately US$9.2 million (kEUR 8,344). The interest receivable of US$3.6 million has been deferred from June 30, 2016 until June 30, 2017 based on the circumstances that the transfer of the principal consideration plus interest out of the PRC takes a longer process of approval by the local authorities than previously expected. Therefore, the parties have also agreed that the outstanding amount due after June 30, 2016 is interest-free due to the fact that the delay of payment is not caused by White Horse.

Subsequent to the end of the reporting period amounts of US$10 million were received from White Horse. The management is still highly confident that the commitment of White Horse will be fulfilled completely. As a result, no impairment loss on the consideration receivable was recognized as at the end of the reporting date due to the fact that the delay of the payment is based on circumstances that are out of the control of White Horse and the Company.

19. CASH AND CASH EQUIVALENTS

As at December 31, 2016, kEUR 792 (2015: kEUR 0) of the bank and cash balances of the Group were denominated in United States Dollars. The remaining balances were denominated in Hong Kong dollars and Euros.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

20. TRADE AND OTHER PAYABLES

kEUR	2016	2015
Trade payables	33	128
Other payables	35	34
Accrued payroll and staff welfare and expenses	505	213
Other tax payables	8	4
Trade and other payables	581	379

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

kEUR	2016	2015
Within 180 days	33	128
181 to 365 days	0	0
1 year to 2 years	0	0
Total	33	128

The average credit period on purchases of goods is ranged from 30 days to 180 days. The Group and the Company has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

21. AMOUNT DUE TO A DIRECTOR

kEUR	2016	2015
Amount due to a director	2,718	2,628

This relates to amounts due to Siu Fung Siegfried Lee, which are unsecured, non-interest bearing and repayable on demand.

22. SHARE CAPITAL

kEUR	Share Capital 2016
As at 1 January 2016	13,110
Increase in Share capital	0
As at 31 December 2016	13,110

The share capital amounts to EUR 13,110,000.00 and consists of 13,110,000 non-par-value shares which are bearer shares for which a global share certificate was issued.

Under Section 6 of the Company's Articles of Association, the Administrative Board is authorised to increase the share capital of the Company using cash deposits and/or deposits in kind once or several times until August 26, 2020 up to kEUR 6,555.

	2016	2015
Earnings per share in Euros Weighted average basis:	-1.92	-1.65

The calculation of earnings per share on the weighted average is based on the weighted average number of ordinary shares which was 13,110,000 for the FY 2016 and 2015. Exchange differences resulting from currency translation are excluded from the earnings per share calculations.

The Company's capital was conditionally increased by a total of kEUR 1,311 in the reporting year in accordance with Section 6a of the Articles of Association in 2015. This capital increase will only be carried out if subscription rights were issued in accordance with the 2015 share option program decided at the same time (conditional capital 2015/I).
This has not happened to date.

A further conditional capital increase in accordance with Section 6b of the Articles of Association relates to an amount of kEUR 5,244. This conditional capital increase serves to grant new no-par value bearer shares to the bearers or creditors of convertible, warrant and/or profit-sharing bonds and/or participation rights on the same day under the authorisation (conditional capital 2015/II). Issuance of one or more instruments has not taken place to date.

The Administrative Board (Verwaltungsrat) of the Company is further authorized to exclude the shareholders' right of subscription (gesetzliches Bezugsrecht) in the following cases:

- o for fractional amounts;
- o increases of the registered capital through contributions in kind, in par- ticular in the form of companies and share in companies, laims or other assets;
- o cooperation with another company, if the cooperation serves the purpose of the Company and the cooperating company is requesting a participa- tion;
- o issuance of employee shares, also to the employee and management of affiliated companies, as in the interest of the Company, in particular for purposes of commitment to the Company and for incentives;
- o as far as required to provide a subscription right to new shares to the holders of stock warrants (Optionsscheine) and convertible bonds (Wandelschuldverschreibungen) issued by the Company or subsidiaries in an amount as they are entitled to after the exercise of the stock warrant right respectively the option for conversion;
- o increase of the registered capital through a contribution in cash, as far as the share of the registered share capital represented by the new shares neither exceeds in total 10 % of the registered capital of the Company at the moment of registration with the commercial register of this authorized capital nor in total exceeds 10 % of the registered capital in the moment of the issuance of the new shares, and the issuing price of the new shares does not fall materially below the stock exchange price.

23. 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 represented amounts transferred from profit after taxation of the Group, until the disposal of the subsidiaries, established in the PRC in accordance with the PRC laws and regulations.

Capital reserve: Capital reserve included the increase of the 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 received by the owners and the nominal value of the shares acquired in LLH.

Translation reserve: The translation reserve arose from the translation of the financial statements of the Group and is not distributable by way of dividends.

Retained earnings: The retained earnings reserve comprise the cumulative net gains recognised in the Group's profit or loss.

24. NOTE PAYABLE

As at December 31, 2016, the Group had a note payable to Marquee Funding Group, Inc., Calabasas, USA, in the amount of kEUR 401(2015: kEUR388). The note payable carries interest at 9.99 % per annum and has a maturity date of January 1, 2018. The note payable is collateralised by the Group's buildings situated in the USA and is denominated in USD.

25. ACQUISITION OF SUBSIDIARIES

On October 7, 2015, the Group acquired all the shares in Siu Fung Concept Ltd. (SF Concept), a limited company incorporated in Tortola, British Virgin Islands, and its wholly owned subsidiary, ROY USA, Inc., a company incorporated in Los Angeles, USA (collectively referred to as "SF Concept Group"), for a consideration of kEUR 53,743 as part of a liability against SF Concept in the same amount and in consequence a net cash consideration of nil. Until purchased, Siu Fung Concept Ltd was owned by Surasak Lelalertsuphakun, a member of the Administrative Board of ROY Ceramics SE.

The reason for acquiring Siu Fung Concept Limited ("SFCL") was that it is envisaged that ROY USA, Inc., will be the Holding Company for the new factory in the USA. Goodwill represents the difference between the consideration paid for the acquisition and the fair value of the net assets acquired.

SF Concept is currently engaged in investments holding. The acquisition has been accounted for using the acquisition method. Details of the acquisition are set out below:

kEUR	2015
Consideration	53,743
Fair value of net assets acquired:	
Receivable due from shareholder	53,743
Property, plant and equipment	638
Loan receivables	574
Deferred tax assets	79
Trade and other receivables	28
Amount due from a director	120
Trade and other payables	-1,181
Note payables	-378
Net assets acquired	53,622
Goodwill arising on acquisition	121
Net cash outflow arising on acquisition of a subsidiary	0
Cash consideration paid	0
Less: Bank balances and cash acquired	1

Included in the loss for the year is kEUR 268 (2015: kEUR 30) attributable to by SF Concept. SF Concept contributed no revenue since the date of acquisition.

26. MAJOR NON-CASH TRANSACTIONS

During the year, a non-cash consultancy fee amounting to kEUR 908 (2015: kEUR 855) was charged to profit or loss. This relates to the consultancy fees paid to Luck Connection Limited.

27. CAPITAL COMMITMENTS

There is no capital commitment contracted for but not provided in the consolidated financial statements at the end of the reporting period.

28. RETIREMENT BENEFITS SCHEMES

As required by the regulations of the PRC, the group contributed to a pension plan until the sale of the subsidiaries, which is managed by the local social insurance office in the PRC. The group paid a specific percentage rate of the base salaries of its employees into the pension plan to finance the benefits.

In additions, the Group operates a Mandatory Provident Fund ("MPF") Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group con- tributes 5 % of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

During the year ended December 31, 2016, the total retirement benefit scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income amounted to kEUR 17 (2015: kEUR 619).

29. LEASE COMMITMENTS

As lessee

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

kEUR	2016	2015
Within one year	101	8
in the second to fifth year inclusive	112	0
Total	213	8

The lease payments represent rentals payable by the Group for its office properties. The lease terms are fixed for periods of two to five years.

30. RELATED PARTIES AND SHAREHOLDING STRUCTURES THAT HAVE BEEN ANNOUNCED

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

Mr. Kuno Frick sen., Liechtenstein, has informed us in accordance with Section 21(1a) of the German Securities Trading Act (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 64.77 % of the voting rights. 64.77 % 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 the company is respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein
- TTA Trevisa-Treuhand-Anstalt, Balzers, Liechtenstein
- Kuno Frick Familienstiftung, Balzers, Liechtenstein

Mr. Kuno Frick sen., Liechtenstein, has informed us in accordance with Section 21(1a) of the German Securities Trading Act (WpHG) that his voting share in ROY Ceramics SE, Munich, as of March 1, 2016 as a consequence if the sale if the shares was 0,0%.
The following by him controlled companies are included in this report:
- Kuno Frick Familienstiftung, Balzers, Liechtenstein

The Kuno Frick Familienstiftung, Balzers, Liechtenstein, has informed us in accordance with Section 21(1a) of the German Securities Trading Act (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 64.77 % of the voting rights. 64.77 % 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 shares in ROY Ceramics SE are respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein
- TTA Trevisa-Treuhand-Anstalt, Balzers, Liechtenstein

TTA Trevisa-Treuhand-Anstalt, Balzers, Liechtenstein, has informed us in accordance with Section 21(1a) of the 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 64.77 % of the voting rights. 64.77 % 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 shares in ROY Ceramics SE are respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein

TTA Trevisa-Treuhand-Anstalt, Balzers, Liechtenstein, has informed us in accordance with Section 21(1a) of the WpHG that its voting share in ROY Ceramics SE, Munich, as of August 24, 2016 as a consequence that its affiliated company Shine Eagle Trust reg., Balzers, Liechtenstein, transferred the shares, was 0,00%.

Mr. Surasak Lelalertsuphakun, 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 64.77 % of the voting rights. 64.77 % 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 shares in ROY Ceramics SE are respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein

At the same time, 29.53 % of these voting shares are to be attributed to him according to Section 22(1) sentence 1 No 2 WpHG and were held by the following shareholders with shares of respectively 3 % or more attributed to ROY Ceramics SE:

- Shine Eagle Trust reg., Balzers, Liechtenstein

Mr. Surasak Lelalertsuphakun, China, has informed us in accordance with Section 21(1a) of the WpHG that its voting share in ROY Ceramics SE, Munich, as of August 24, 2016 as a consequence that his affiliated company Shine Eagle Trust reg., Balzers, Liechtenstein, transferred the shares, was 0,00%.

Ms Lee Sujida Lelalertsuphakun, China, has informed the Company in accordance with Section 21(1a) WpHG that her 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 64.77 % of the voting rights. 64.77 % of these voting rights are to be attributed to it according to Section 22(1) sentence 1 No 1 WpHG and were held by the following companies he controls whose voting shares in ROY Ceramics SE are respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein

At the same time, 12.36 % of these voting shares are to be attributed to her according to Section 22(1) sentence 1 No 2 WpHG and were held by the following shareholders with shares of respectively 3 % or more attributed to ROY Ceramics SE:

- Shine Eagle Trust reg., Balzers, Liechtenstein

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

Hi Scene Industrial Limted, Tortola, British Virgin Islands, has informed the company in accordance with Section 21(1a) of the German Securities Trading Act (WpHG) that

- the notification by Ms Lee Sujida Lelalertsuphakun, China, is a strategic investment for the reporting company and
- It is attended to acquire additional shares within the next twelve months,
- it is intended to have a significant influence on the appointment and dismissal of management personnel and administrative directors,

. it is not intend to influence the capital structure, the ratio of equity to debt and the dividend policy.

Mrs. Lei Yang, China, has informed the Company in accordance with Section 21(1a) WpHG that her 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 64.77 % of the voting rights. 64.77 % of these voting rights are to be attributed to it according to Section 22(1) sentence 1 No 1 WpHG and were held by the following companies she controls whose voting shares in ROY Ceramics SE are respectively 3 % or more:

- Shine Eagle Trust reg., Balzers, Liechtenstein

At the same time, 22.88 % of these voting rights are to be attributed to her according to 22 paragraph 1 clause 1 No. 2 WpHG and were held by the following shareholders with attributed shares of 3 % or more in ROY Ceramics SE respectively:

- Shine Eagle Trust reg., Balzers, Liechtenstein

Mrs Yang Lei, China, has informed us in accordance with Section 21(1a) of the WpHG that its voting share in ROY Ceramics SE, Munich, as of August 24, 2016 as a consequence that his affiliated company Shine Eagle Trust reg., Balzers, Liechtenstein, transferred the shares, was 0,00%.

In August 2016 all 64.77 % of the voting rights in ROY Ceramics SE were transferred by Shine Eagle Trust reg., to Hi Scene Industrial Limited, a company incorporated in the British Virgin Islands and owned 70 % by Ms. Lee Sujida Lelalertsuphakun and 30 % by Mrs. Lei Yang. Consequently 45.33 % of the voting rights are attributable to Ms. Lee Sujida Lelalertsuphakun and 19.43 % of the voting rights are attributable to Mrs. Lei Yang according to 22 paragraph 1 clause 1 No.2 WpHG and were held by the following shareholder with attributable shares of 3 % or more in ROY Ceramics SE respectively:

Hi Scene Industrial Limited, 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.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed under Note 28 in these financial statements, the Group had the following material transactions with related parties during the year:

kEUR	2016	2015
Consultancy fee paid from subsidiary to: Hi Scene Industrial Ltd.	175	218

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

The above transactions were entered into with normal commercial terms.

32. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at December 31, 2016 and 2015 are as follows:

Name of subsidiary	Registered office	Nominal value of Issued ordinary share/ registered	Proportion of Ownership interest and voting power held by the Company		Principal activity	Profit/ Loss
			31.12.2016	31.12.2015		
Lion Legend Holdings Limited	Georgetown, Cayman Islands	USD 129,900,000	100 % Directly own	100 % Directly own	Invest-ment holding	-24.629 kEUR (-211.565 kHKD)
Siu Fung Concept Limited	Tortola, BVI	USD 60,000,000	100 % Indirectly own	100 % Indirectly own	Invest-ment holding	285 kEUR (300 kUSD)
ROY USA, Inc.	Los Angeles, USA	USD 1,170,000	100 % Indirectly	100 % Indirectly	Property holding	-119 kEUR (-132 kUSD)

33. AVERAGE NUMBER OF EMPLOYEES

The average number of employees of the Group during the year was as follows: 2016: 6 and 2015: 350. Of these, an average of 2 were executive employees (2015: 15) and 4 employees and workers (2015: 335).

34. AUDIT FEES

The auditor's fee included in the expenditure of the 2016 financial year is kEUR 85 (2015: kEUR 50) and is solely for the annual audit, whereof kEUR 20 (2015: kEUR 0) relates to the annual audit of the previous year.

35. POST BALANCE SHEET EVENTS

As of the date of this report US$10,000,000 payment has been received from White Horse. The outstanding amount of US$ 58,751,682 plus accrued interest at 6 % per annum until June 30, 2016 and final adjustments is due to be received by June 30,2017.

Arrangements on the formal reassignment of patents and the brand ROY will be concluded once the full payment has been received.

In March 2017 a team of expert ceramics manufacturing engineers was deployed on the old Beijing factory site to prepare all moveable ceramics plant and machineries for shipment to

USA for use in the new production facility. Some of the machineries will be shipped to Germany for servicing on route to USA.

On March 31, 2017 Siu Fung Concept Limited, a wholly owned and fully consolidated subsidiary of the Group, purchased an apartment in the Imperial Cullinan development in Hong Kong for a consideration of HK$28,691,761 (approx. EUR 3.5 million). The directors expect a growth in value for this investment.

36. DECLARATION OF REQUIRED PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The declaration of required pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) is issued and published on the Group's homepage under http://www.roykeramik.de/en/investor-relations/corporate-governance/declaration-of-compliance.html.

Munich, 27. April 2017

ROY Ceramics SE

Management Board

SIU FUNG SIEGFRIED LEE CEO	SIKUN JIANG	LEI YANG

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for annual reporting, the condensed consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Group's 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 in the next fiscal year.

April 27, 2017

ROY Ceramics SE

The Management Board

SIU FUNG SIEGFRIED LEE	SIKUN JIANG	LEI YANG
CEO		

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by ROY Ceramics SE, Munich, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the explanatory notes, together with the group management report, which is summarised with the management report of the parent company, for the fiscal year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the group management report, which is summarised with the management report of the parent company, in accordance with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the HGB (“Handelsgesetzbuch”: “German Commercial Code”) is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report, which is summarised with the management report of the parent company, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB (“Handelsgesetzbuch”: German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the “Institut der Wirtschaftsprüfer” (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report, which is summarised with the management report of the parent company, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report, which is summarised with the management report of the parent company, are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and of the group management report, which is summarised with the management report of the parent company. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

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In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group. The group management report, which is summarised with the management report of the parent company, complies with legal requirements, is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion we draw attention to the statements in Section 4.2.1.1 with regard to the development of the future business in the combined management report. There the following existence jeopardizing fact is stated: There is a risk, that the due payment in connection with the sale of the two main subsidiaries in 2015, of as of now US$ 62,351,682 could be delayed due to events in China, which are outside the influence and control of the reporting company. In accordance with the agreements, the consideration must be paid in full by 30 June 2017 at the latest. The balance of the receivable is essential for the going concern of the company and for the commencement of operations of the group in the USA. This risk is mitigated by the fact that partial payments of USD 12,000,000 have already been made. At the moment the company is funded by these partial payments. A collectability risk of the receivable is not expected. The managing directors assume that therefore the going concern of the group and implicitly the reporting company itself is secured.

Munich, April 27, 2017

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FINANCIAL CALENDAR 2017

Publication of Annual Report 2016

April 27, 2017

Quarterly Interim Statement Q1 2017

May 31, 2017

Annual General Meeting 2017

TBA

Publication of Half Year Report 2017

September 30, 2017

Quarterly Interim Statement Q3/9M 2017

November 30, 2017

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