ROY CERAMICS SE

PASSION FOR LUXURY

ANNUAL REPORT 2014

KEY FINANCIALS

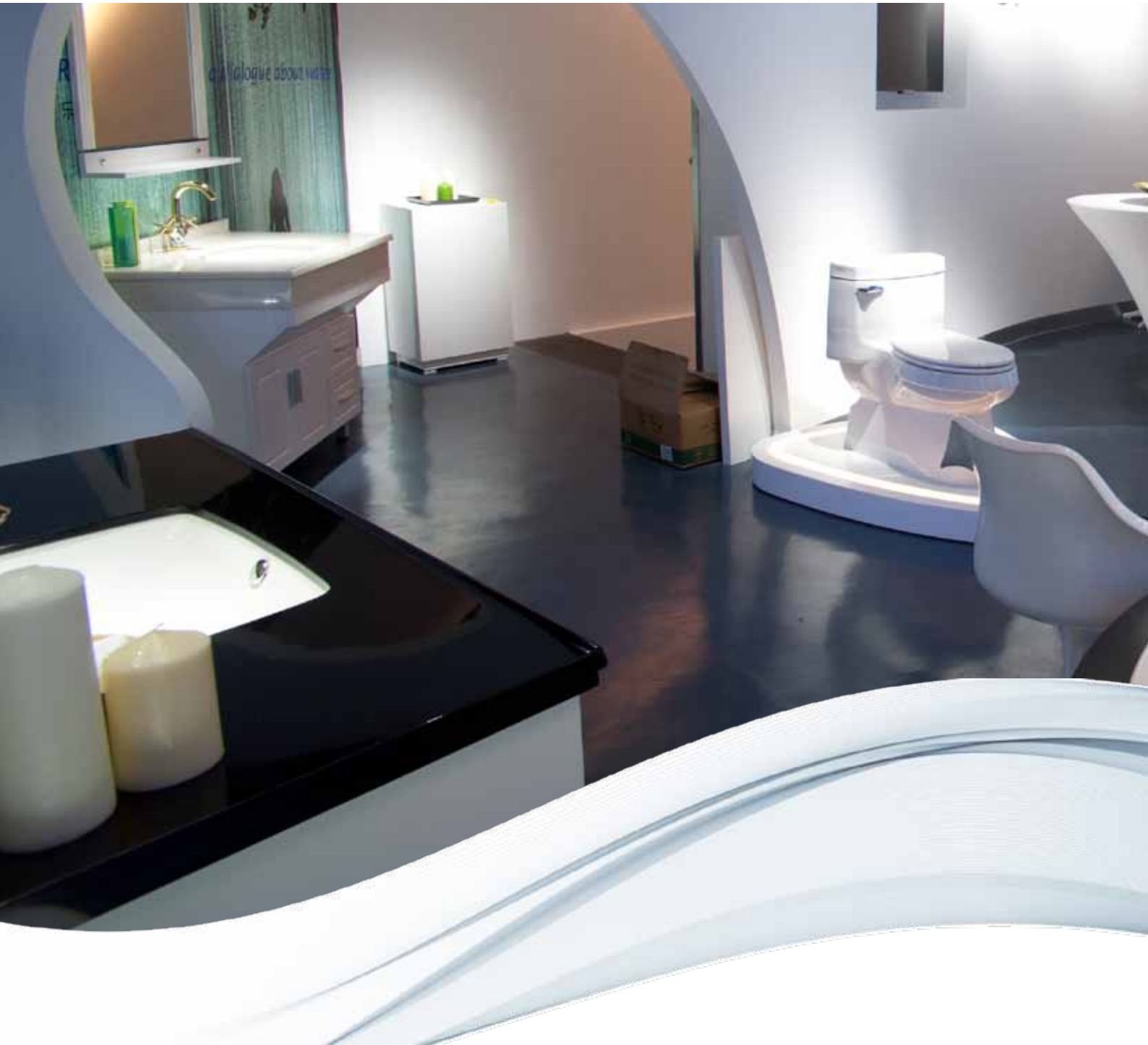
in € million	2014	2013	Change in %
Revenue	103.5	79.4	+30.2
Gross profit	39.2	31.5	+24.4
Gross margin (in %)	37.9	39.7	−1.8 PP
EBIT	21.2	17.3	+22.6
EBIT margin (in %)	20.5	21.8	−1.3 PP
Net profit	14.7	12.4	+19.1
Net profit margin (in %)	14.2	15.6	−1.4 PP

"ROY has a proven success history in developing unique bathroom designs, created by highly experienced multinational design teams."

CONTENT

OUR COMPANY

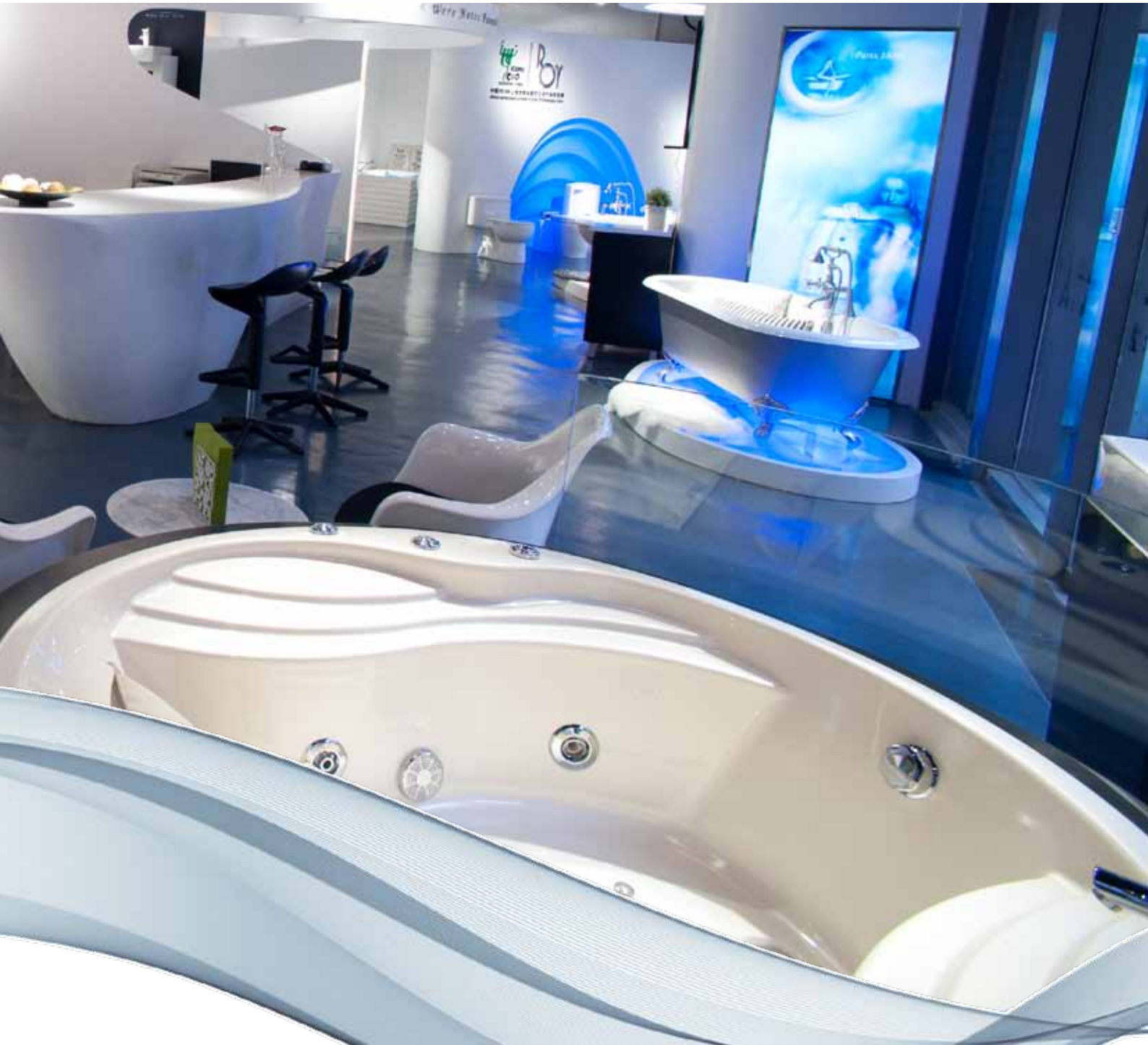
ROY Ceramics – one of the 10 leading players in the Chinese sanitary ware market – develops, designs, produces and markets high-end quality ceramics sanitary ware, bathroom amenities and accessories. Leveraging on German robotic glazing technology, the Group offers product quality unrivalled amongst domestic manufacturers in China.



THE ROY BRAND

The name ROY stands for luxury and exclusiveness through innovative designs and high quality standards of its products. At the same time the brand is well-priced below international luxury brands.

Within the past 20 years ROY developed a domestic brand throughout China, which does not merely bring Western designs, but also adapts the newest Western and Asian designs expectation to the specific taste of Chinese consumers.



OUR PRODUCTS

As a leading producer of high-end quality sanitary ware in China, ROY's product portfolio includes high quality toilets, wash basins, faucets, urinals, bathtubs, showers, bidets, Jacuzzis, bathroom cabinets and fittings, infrared sensors and all accessories.


Hot

LETTER TO OUR SHAREHOLDERS

"ROY stands for exclusive quality and successful entrepreneurship."

– Dipl.-Ing. Harald Paul Goldau, Managing Director of ROY Ceramics –

Dear Shareholders,

It is my pleasure to present you with the first annual report of ROY Ceramics SE.

2014 was a very successful year for our company. We not only achieved some of our most important targets, but also we were able to lay a solid foundation for further sustainable growth in the future.

Our progress is reflected in the very satisfying 2014 financial results. Revenues increased significantly by around 30 per cent from 79.4 million Euros to 103.5 million Euros. Also, the ceramics operation was highly profitable. Gross profit in 2014 amounted to 39.2 million Euros, representing a year-on-year increase of around 24 per cent. Gross profit margin was sustained at a reasonable level of 37.9 per cent. EBIT reached 21.2 million Euros, an increase of about 23 per cent compared to 2013. Accordingly, EBIT margin amounted to 20.5 per cent.

Recently we reached our most important milestone with the successful listing on the Frankfurt Stock Exchange in April 2015. We are very aware that with the listing on a major European Stock Exchange and plans to have a dual listing on the Vienna Stock Exchange, we have a great responsibility towards our shareholders and several post-admission obligations to comply with. We are committed to provide highest transparency in our communications with the capital markets.

ROY's strategy further includes the maintenance of good customer relationships, the insurance of consistent marketing models and promotional activities in key markets as well as the involvement in international high profile events. We also continuously strive to further develop the designs and capabilities of our products by expanding our highly experienced research and development department. Furthermore, Roy focuses on expansion through opening new retail outlets and franchised showrooms in key cities of all major provinces throughout China.

Regarding our medium to long term prospects we plan to continue to expand our brand awareness beyond our current focused market in China to other attractive markets in Asia and overseas by opening new flagship stores in the next two years. In addition, ROY is also looking to commence export and e-commerce sales in Europe from the second half of 2015.

Following the successful listing of ROY Ceramics SE on the Frankfurt Stock Exchange, ROY will attend trade fairs in Europe and the U.S.A. to raise awareness and profile of the ROY brand internationally.

From an economic point of view ROY expects the demand for ROY's high quality luxury ceramics bathroom products to remain strong in the key China market as the Chinese economy is still growing at over 6 per cent per annum.

I would like to thank you, our shareholders, business partners, employees and customers for your support and your trust in our company. We will continue to work hard together to pursue our growth strategy.

Sincerely yours,

Dipl.-Ing. Harald Paul Goldau
Managing Director of ROY Ceramics SE

REPORT OF THE ADMINISTRATIVE BOARD

The Administrative Board was informed since 8th May 2014 (the date the Company was founded) 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 31st December 2014 together with the Group Annual Report as at 31st December 2014, including the management report for the Group was prepared by the Administrative Board and audited by Baker Tilly Roelfs AG 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 30th April 2015, and reported upon all significant findings and results of the audit for the year ended 31st December 2014.

The Administrative Board reviewed the Annual Report and the Group Annual Report, the management report and the net income 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, and agreed the Managing Director's suggestion for the use of net income for the year.

The Administrative Board thanks all employees for their contribution to the success of the Group in 2014.

Frankfurt, April 2015

The Administrative Board

David Hirst
Chairman of the Administrative Board

f.l.t.r.
Surasak Lelalertsuphakun,
Dipl.-Ing. Harald Paul Goldau,
David Hirst

ROY CERAMICS SE

GROUP MANAGEMENT REPORT

JANUARY 1 TO DECEMBER 31, 2014

ROY CERAMICS SE

Group Management Report for the reporting period ended 31 December 2014

1 Foundation

1.1 General Information

Roy Ceramics SE (the "Company") is the parent company of the Group. The Company is a European stock corporation, founded on 8 May 2014, recorded in the commercial register (HRB 211752) of Munich, Germany, with business address at Bockenheimer Landstraße 17/19, 60325 Frankfurt am Main. The Shine Eagle Trust Reg., Balzers, Liechtenstein was the sole shareholder at the founding of the company.

On 5 and 14 November 2014 all shareholders of LION LEGEND HOLDINGS LIMITED (LLH), incorporated in the Cayman Islands, entered into a contribution agreement with the Company whereby they undertook to transfer and arrange for the transfer of all issued shares in LLH, 12,990,000,000 shares of USD 0.01 each, to the company against the issuance of 12,990,000 no par value ordinary bearer shares in the Company in proportion to their stakes in the share capital of LLH. The contribution agreement and the capital increase by way of contribution in kind was approved by an extraordinary shareholders' resolution dated 21 November 2014 and has been registered with the commercial register of the local court of Munich on 15 December 2014. The new no par value ordinary bearer shares in the company were issued to the former shareholders of LLH. The total notional value of the newly issued shares in the amount of EUR 12,990,000 is to be booked as registered share capital of the company. Shine Eagle Trust Reg. now holds 65 % of the Company's shares.

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 29.

Since in December 2014, the Company acquired 100% of the shares in LLH by a contribution in kind while the relative percentage of ownership in the Company as compared with the relative percentage ownership in LLH has not changed with this transaction, the transaction is to be considerers a transaction under common control within the meaning of IFRS 3.B1, for which IFRS 3 is not applicable. The accounting as a reverse acquisition in terms if IFRS 3.B19 is also not applicable, because the presence of a business of Roy Ceramics SE prior to the transaction would have been required to apply the rules of IFRS 3.B19. The contribution of the shares of LLH into the Company has been recognised, considering the economic substance of the transaction analogous to a reverse acquisition, as described in the chapter for significant accounting policies (b) business combinations.

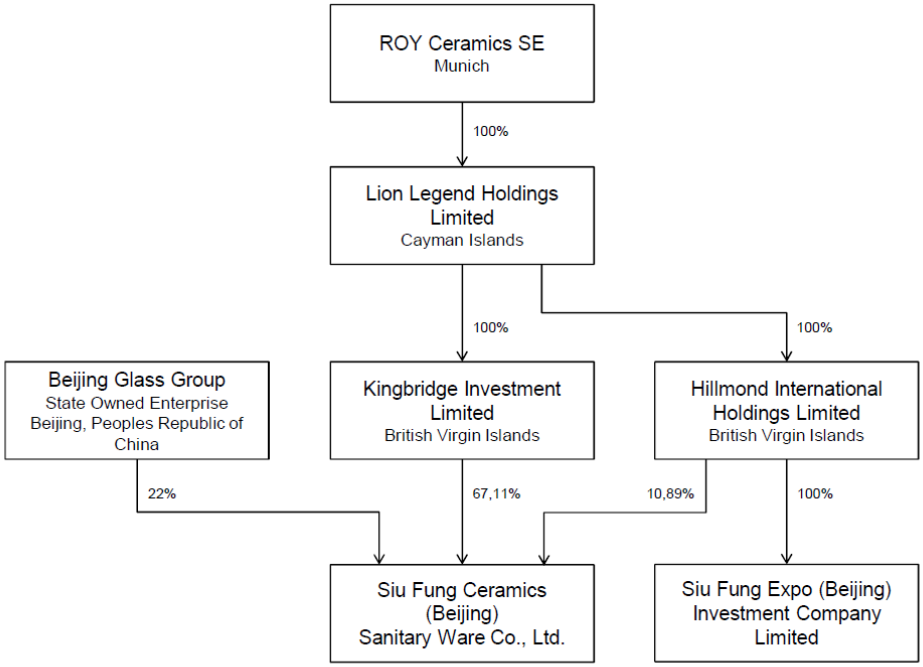
1.2 Group Structure

ROY Ceramics SE is the sole shareholder of Lion Legend Holdings Limited, 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.

Until now there is no significant income derived from LLH in Hong Kong and no transfer of profits from the PRC into Hong Kong. LLH in turn is the sole shareholder of (i) Kingbridge Investment Limited, British Virgin Islands (in the following also "**Kingbridge**"), incorporated

under the laws of the British Virgin Islands and (ii) Hillmond International Holdings Limited, British Virgin Islands (in the following "**Hillmond**"), also incorporated under the laws of the British Virgin Islands. Kingbridge in turn is a 67.11% shareholder of Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. (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 is the Chinese state owned enterprise Beijing Glass Group. Hillmond is further the sole shareholder of Siu Fung Expo (Beijing) Investment Company Limited (in the following also "**SFE**"), incorporated as a limited liability company under the laws of PRC.

The current structure chart of Roy is as follows:



1.3 Business Model

Roy Ceramics produces a full range of sanitary bathroom amenities for use in mid-to-high priced premises. Roy Ceramics aims to provide quality and aesthetically pleasing sanitary ware and targets to become a leading bathroom solutions provider in the PRC and international markets.

The operational business of Roy is exclusively carried out by SFC and SFE. SFC is mainly engaged in the production of sanitary ceramic articles, but also in the marketing of those products, SFE is exclusively engaged in the sale and marketing of bathroom ceramics products produced by SFC and the purchase and sale of all non-ceramics bathroom accessories. Roy Ceramics SE is an investment holding company, which has been established recently for the purpose of listing the Group on the regulated segment of the Frankfurt Stock Exchange.

1.4 Strategy

Roy has effectively established the Roy brand in the PRC market and now plans to further strengthen the brand in the PRC through appointments of Roy brand ambassadors, ensuring consistent marketing and promotional activities in key markets and involvement at high profile events such as the 2010 Shanghai Expo.

A new showroom was opened in Hong Kong in May 2013 to improve brand awareness in Hong Kong and commence sales to Hong Kong and Macau markets as well as export sales from 2015.

The Roy website has also been redeveloped and improved under the domain name www.royceramics.de, designed in line with new promotional brochures, leaflets and catalogues. Roy continues to also provide good relationships with customers by delivering to order on time, providing quality after sales service and regular updates to existing clients.

Roy plans its attendance at high profile trade fairs in Europe and the U.S.A. from 2015 and will also start to promote the Roy brand to a much wider network of customers. In 2014 Roy's business has continued to expand in the PRC which has remained the main focus of attention in 2014. In 2015 Roy will continue to focus on expansion in the PRC and plans to open another five new self-operated flagship showrooms in Chengdu, Changsha, Chongqing, Shenyang and Shenzhen by 2016.

Roy's branded products are displayed in owned and franchised luxury showrooms in major cities in the PRC, enabling retail consumers, designers and developers to view Roy's products in a suitable environment. Roy also plans to increase the number of franchised retail outlets from 60 stores to over 100 stores in key cities of major provinces throughout the PRC. In addition Roy aims to expand the distributor agreements from 34 to 60 and the number of marketing and sales representatives from the current circa 160 to over 260. Roy intends to intensify advertising and promotional initiatives, including TV commercials using 15 seconds commercial slots on CCTV2 network with catchment areas covering 1st tier cities, outdoor billboard displays organized by Whitehorse media launching billboard and scrolling screen displays at public transportation hubs in 22 key cities. Roy has also engaged Focus On Media to place advertisements on large LED screens in prime office buildings, on mobile phone networks and sponsoring of public events.

Roy has a dedicated team of 15 experienced personnel concentrating on research and design development including product development and improvement of production technology and processes. Design concepts introduced by Mr. Enrico Taranta are refined into functional product designs by Roy's in house engineering design team using the latest CAD software. The completed designs drawings are vetted and passed to the factory for manufacturing assessment including any new molds and components. Two to three series of new products are developed every year. There is a dedicated mold development centre on the factory site in Beijing concentrating on improving production methods. Several requests for patents have been filed in the PRC including the universal outlet adaptor for Roy's toilets (patent application date: 23 January 2014), and production processes developed in house. Roy will file patent requests for new developments in the future.

Roy's in house design team are 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. This opens the potential to supply major international markets and has taken 3 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).

Roy's factory is presently located in a prime area suitable for real estate development on the outskirts of Beijing city centre. As such the land upon which the factory sits could be more profitably utilized for residential or commercial development rather than ceramics manufacturing. There is also the possibility that in the future environmental legislation may change to preclude this site being used for factory purposes. Accordingly, management may

consider moving part of the factory to a location in Southern China that might be more suitable for manufacturing ceramics.

Furthermore, in the future an overseas manufacturing location could also be considered where local infrastructure, energy and labor costs and sales markets for ceramics products would be advantageous to the business.

1.5 Corporate bodies, Management and founders

The governing bodies of the Company are according to the one tier system of the European Company the administrative board (*Verwaltungsrat*), the managing director(s) (*Geschäftsführende Direktoren*) and the general shareholders' meeting (*Hauptversammlung*). The powers of these governing bodies are set forth in the German law regarding the European Company (*SEAG*), the German Stock Corporation Act (AktG) and the Company's articles of association (*Satzung*). Rules of procedure for the administrative board (*Geschäftsordnung für den Verwaltungsrat*) would be also of relevance but until now there are no such rules issued.

Generally, an European Company has to choose between a monistic (one tier) and a dualistic (two tier) system according to Article 38b of the SE regulation. For an European Company with a dualistic system the provisions of the German Stock Corporation Act relevant for the management board and the supervisory board basically apply accordingly, see Article 10 of the SE Regulation. Thus, the dualistic system of an European Company distinguishes strictly between the management board (execution) and the supervisory board (supervision). The monistic system of the European Company has no equivalent in the German Stock Corporation Act and thus, is regulated explicitly in sections 20 to 49 SEAG. Contrary to the dualistic system within the monistic system the central management body is the administrative board. The administrative board manages the company, defines the principles of its activity and supervises their implementation (Section 22 para. 1 SEAG). In a monistic system the administrative board therefore is two bodies in one: Management body and supervisory body. The administrative board has all the rights the management and supervisory board of a German stock corporation would have (Section 22 para. 6 SEAG). However, this applies to fundamental management and principles of the monistic European Company. The daily business of the Company is carried out by the managing director. ROY Ceramics SE has chosen to be organized by a one tier system as a monistic European Company with one managing director.

The administrative board is responsible for a suitable risk management system within the Company and the implementation of an internal monitoring system which enables management of the Company to recognize at an early stage developments which are threatening the existence of the company. The members of the administrative board are elected by the general shareholders' meeting of ROY Ceramics SE. The managing director(s) are appointed and dismissed by the administrative board. Members of the administrative board generally can be at the same time be managing directors, provided that the majority of the members of the administrative board are not also appointed as managing directors at the same time.

The members of the administrative board and the managing director have to observe duties of good faith and duties to exercise due care towards the Company. In doing so the members of these organs have to observe a wide range of interests, in particular interests of the Company, of its shareholders, of its employees and of its creditors. The administrative board has to respect in particular the rights of the shareholders regarding equal treatment and equal provision of information.

According to German law it is prohibited that individual shareholders (as any other person) use their influence on the Company to determine a member of the administrative board to an act which is harmful to the Company.

Shareholders with a dominant influence must not use their influence to cause the Company violations of the Company's own best interests. Any person who deliberately influences a member of the administrative board, a managing director, a statutory officer (*Prokurist*) or an authorized agent (*Handlungsbevollmächtigter*) to activities leading to damages of the Company or its shareholders, is obligated to compensate any such damages of the Company and of its shareholders. Further, the respective members of the administrative board and the managing director are jointly and severally liable, if they have violated their obligations.

If members of the administrative board or managing directors violate their respective obligations under the laws, the employment contract or articles of association, the respective persons are jointly and severally liable for damages toward the Company. Shareholders are entitled to enforce compensation claims of the Company in their own names, if these shareholders have successfully passed the proceedings to obtain a declaration of admissibility for legal action (*Klagezulassungsverfahren*) and if their share of share capital of the Company is together 1% or amounts to at least EUR 100,000 of the share capital.

The Company may renounce or settle such damage claims at the earliest three years after such claims have arisen, and only under the condition that the shareholders of the Company have approved it with a shareholders' resolution with simple majority and if no shareholders' minority, whose shares amount to or exceed together 10% of the whole share capital formulate an objection to the minutes of the respective resolution.

The members of the administrative board are elected by the shareholders' meeting. According to Section 9 Para. 2 of the articles of association of ROY Ceramics SE, the administrative board of the Company has three members. The administrative board elects a chairperson and one deputy from its midst.

Declarations of the administrative board are made though its chairperson, or 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 of all its members to 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 in 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.

The current administrative board of the Company has the following members:

Name	Member since
David Adamson Hirst	18 September 2014
Surasak Lelalertsuphakun	18 September 2014
Dipl. Ing. Harald Goldau	Incorporation

Dipl. Ing. Harald Goldau is elected member of the administrative board of the Company since its incorporation. David Adamson Hirst and Surasak Lelalertsuphakun are elected members of the administrative board of the Company since 18 September 2014. The term of office of all three members of the administrative board terminates with the end of the General Shareholders' Meeting, which is resolving upon the relief of the members of the administrative board for the first business year.

There do not exist any family relationships between the members of the administrative board or between members of the administrative board and the managing director of the Company.

2 Economic Report

2.1 Economic Development

2.1.1 Overall Economic Development

Rapid economic growth in China has led to an accelerating urbanization process with an influx of rural inhabitants to the urban areas in China. According to Frost and Sullivan (an independent global growth consulting firm), the urban population in China increased by 18.5% from approximately 582.9 million in 2006 to approximately 690.8 million in 2011 with the urbanization rate, being the urban population as a percentage of the total population, increasing from 44.3% in 2006 to 51.3% in 2011. Frost & Sullivan forecasts that the urban population in China will further grow by 18.1% from approximately 690.8 million in 2011 to approximately 815.8 million by the end of 2015, with the urbanization rate expected to reach 59.3% in 2015. The ongoing urbanization in China has had a substantial impact on the consumption patterns and habits of Chinese consumers. In particular, residents who have moved into urban areas from rural areas have been influenced by the consumption habits of the urban residents and have been increasingly willing to spend on products that would enhance their living standard and comfort, including sanitary ware products.

The economic growth and urbanization process in China has created strong demand for housing. The total completed floor space of residential properties in China increased from approximately 1,314.1 million square metre ("**sqm**") in 2006 to approximately 2,202.5 million sqm in 2011, representing a CAGR (compound annual growth rate) of 10.9% during the period. The expected positive economic outlook and the ongoing urbanization process will continue to drive the demand for housing. Although the PRC government has implemented a series of property tightening measures including home-buying restrictions over the past years its intention is not to limit the real demand for housing, but rather to control the overheating of the PRC property market, and curb the increase in property prices and speculative buying activities. Such measures would inevitably create a more difficult business environment for the property industry which is likely to result in market consolidation with the smaller and

financially weaker real estate developers going into bankruptcy or being acquired. However, in view of macroeconomic factors such as rising disposable income, increasing nominal GDP and per capita nominal GDP and accelerating urbanization in China, it is still expected that the demand for housing and the property market in the PRC as a whole will continue to grow, especially in the less developed and lower tiers cities. Furthermore, the PRC government has announced plans to improve living standards and, more importantly, to resolve the availability of the quality housing in less developed areas, including a plan to construct a total of 36 million units of indemnificatory apartments for low income families from 2011 to 2015. According to Frost & Sullivan, the total completed floor space of residential properties is projected to grow to 3,581.6 million sqm by the end of 2015, representing a CAGR of 12.9% from 2011 to 2015.

In 2014 the Chinese economy grew at 7.4%, which is 0.3% lower than 2013. The slowdown in GDP (Gross Domestic Product) was mainly attributable to the slowdown in fixed asset investment and domestic consumption. Besides, the slowdown also represents the challenging economic outlook in China now whereby the sentiment is relatively weak and consumers are becoming more cautious in their spending. In addition, despite the Chinese economy being mainly driven by its domestic consumption, it will also be affected by the headwinds from the world's economy, to a certain extent. The recent incidents, for example, political unrest in Ukraine, slowing European economy, in particular, the economic crisis in Russia and Greece, plummeting crude oil price etc. will certainly have an impact on China's economy.

2.1.2 Development of the Chinese Sanitary-Ware Industry

China is one of the largest sanitary ware markets in the world in terms of retail revenue and accounted for approximately 35% of the global production volume of sanitary ware products in 2011. China was also the largest exporter of sanitary ware products in the world in 2011 with its key export markets including North America, Europe and Asia, according to Frost & Sullivan.

The development of the retail industry in China has brought about significant changes in retail distribution with the emergence of a variety of distribution channels for sanitary ware products. According to Frost & Sullivan, sanitary ware products in China are broadly distributed through five key channels: (1) nationwide home renovation and furniture shopping mall chains such as Red Star Macalline; (2) regional home renovation and furniture markets; (3) wholesale markets for construction projects; (4) brand specialty stores; and (5) online stores. Nationwide home renovation and furniture shopping mall chains, regional home renovation and furniture markets and brand specialty stores are the three major retail distribution channels for sanitary ware products in China, with nationwide home renovation and furniture shopping mall chains being the most popular and effective channel due to their extensive geographical coverage, diversified product portfolio and the one stop shopping mall experience they offer.

Manufacturers of sanitary ware products compete in the areas of production expertise, design capabilities, brand strength, distribution network and sales and marketing skills. Compared to their international peers, local manufacturers have advantages in terms of lower manufacturing costs, better local market intelligence and competitive pricing.

Residential households are the largest target market for sanitary ware products in China. Commercial properties (such as hotels, business offices, shopping malls, cinemas, gymnasiums, restaurants and entertainment centers) and public buildings (such as government offices, hospitals, schools and transportation centers) are also key sources of demand for sanitary ware products in China.

Backed by economic growth, the urbanization process, rising disposable income and increasing demand for housing in China, the sanitary ware market in China has experienced a high level of growth in recent years. According to Frost & Sullivan, retail revenue from the sanitary ware market in China has significantly increased from RMB 39,259 million in 2006 to RMB 84,680 million in 2011, representing a CAGR of 16.6% over the period. Although the sanitary ware market in China has experienced rapid growth in the past few years, per capita spending on sanitary ware products in China still lags behind more developed regions such as the United States and Western Europe by a significant margin. According to Frost & Sullivan, per capita expenditure on sanitary ware products in China in 2011 was RMB 62.8, which represented 48.6% and 33.8% of the per capita expenditure on sanitary ware products in Western Europe and the United States, respectively, in 2011, implying significant growth potential for the sanitary market in China.

In addition, the increase in home renovation and upgrade activities is expected to drive growth in demand for sanitary ware products in China. According to Frost & Sullivan, renovation accounted for 18.3% of the total decoration volume in China in 2010. In contrast, renovation accounted for 51.4% of the total decoration volume in the United States. In line with increasing disposable income and expectations for enhanced living standards, it is expected that there will be more home renovation and upgrade activities in China with the replacement of old sanitary ware products with new products of better design, quality and functionality.

Driven by demand growth for housing and an increase in home renovation activities, the sanitary ware market in China is projected to grow to RMB 144,848 million by 2015, representing a CAGR of 14.4% over the period from 2011 to 2015.

Retail sales value of the ceramic sanitary ware market in China increased from RMB 18,963 million in 2006 to RMB 45,081 million in 2011 at a CAGR of 19.4%, outpacing the growth of the overall sanitary ware market in China during the same period. Frost & Sullivan forecasts that the ceramic sanitary ware market will grow to RMB 790,004 million by 2015, representing a CAGR of 14.4% during the period from 2011 to 2015.

According to Frost & Sullivan, China's ceramic sanitary ware market can be divided into three segments, the premium segment, mid-to-high end segment and low-end segment, based on a number of factors, including product quality, retail selling prices, product design, brand positioning and end application. The premium segment is defined as brands with an average retail selling of between RMB 9,000 and RMB 15,000 for a one-piece toilet; the mid-to-high end segment as brands with an average retail selling price of between RMB 1,200 and RMB 9,000 for a one-piece toilet; and the low end segment as brands with an average retail selling price of between RMB 500 and RMB 1,000 for a one-piece toilet. According to Frost & Sullivan, the definition of the premium segment, the mid-to-high end segment, and the low-end segment of the ceramic sanitary ware market in the PRC based on the average retail selling price of a one-piece toilet is commonly accepted and confirmed by most of the participants in the Chinese ceramic sanitary ware market. Roy's products fall within the mid-to-high end segment because the average selling price for a one-piece toilet is between RMB 1,200 and RMB 2,500.

In 2011, the low end, mid-to-high end and premium ceramic sanitary ware segments accounted for 46.2%, 47.1% and 6.7%, respectively, of the ceramic sanitary ware market in China, with a total retail sales value of RMB 21,283 million, RMB 21,714 million and RMB 3,083 million, respectively. While the current market dominance lies in the low and mid-to-high end segments of the ceramic sanitary ware market, the mid-to-high end market segment is expected to achieve higher growth with a projected CAGR of 18.5% from 2011 to

2015, outperforming the other two segments with each of the premium and low-end market set to grow at 15.4% and 9.7%, respectively, over the same period, according to the forecast by Frost & Sullivan. Apart from delivering better growth, the mid-to-high end market segment has become the largest segment in the sanitary ware market in China in 2011.

The ceramic toilet product segment is the largest product segment in the ceramic sanitary ware market in China, accounting for 46.0% of the ceramic sanitary ware market in 2011 with a retail sales value of RMB 21,211 million. According to Frost & Sullivan, the retail sales value of the ceramic toilet product segment is projected to grow at a CAGR of 15.9% from RMB 21,211 million in 2011 to RMB 38,292 million by 2015, and to account for 48.4% of China's ceramic sanitary ware market in 2015.

The ceramic basis product segment accounted for approximately 35.4% of the ceramic sanitary ware market in 2011 with a retail sales value of RMB 16,290 million. According to Frost & Sullivan, the retail sales value of the ceramic basin product segment is projected to grow at a CAGR of 15.0% from RMB 16,290 million in 2011 to RMB 28,456 million by 2015, and to account for 36.0% of China's ceramic sanitary market in 2015.

Other ceramic sanitary ware products, including urinals, squat pans, bidets, mop sinks and others, in aggregate accounted for 18.6% of the ceramic sanitary ware market in China in 2011.

2.1.3 Competition

The domestic competitor "Arrow" produces a full range of bathroom ceramic sanitary ware. Its market share in the PRC is about 6.8%. Arrow is manufacturing ceramic tiles in addition to bathroom amenities. Its production facilities are located in Foshan, PRC. Arrow is exporting its products to the African and European markets. The technology of Arrow is not as advanced as the production technology used by Roy.

Another domestic competitor is "Bolina" which manufactures the full range of bathroom ceramics sanitary ware. Its market share in the PRC is about 4.4%. Bolina is also manufacturing on an OEM basis for other brands. Its production facility is located in Zhangzhou City, Fujian Province, PRC. Its factory is not as advanced as Roy's factory and is more labour intensive.

The domestic competitor "Annwa", a Sino-Canadian joint venture, produces an extensive range of bathroom ceramic sanitary ware. Its market share in the PRC is circa 3.4%. Annwa is manufacturing ceramic bricks and tiles as well. It's production facility is located in Foshan. Annwa is not using high pressure casting technology.

The American competitor KOHLER produces an extensive range of bathroom ceramic sanitary ware and accessories. Its market share in the PRC is circa 8.0%. It is one of the oldest and largest privately owned companies in the U.S.A. KOHLER uses mainly American technology and concentrates on one piece toilet design without using high pressure casting.

Another foreign competitor is TOTO, based in Japan. TOTO produces all types of bathroom ceramic products. Its market share in the PRC is circa 6.7%. The Japanese company uses mainly Japanese technology. Its brand name is very well known internationally.

The foreign competitor ROCA produces also a full range of bathroom ceramic products and ceramic tiles. Its market share in the PRC is 2.5%. ROCA uses Spanish technology and has fewer choices of one piece toilet designs. Its production facilities are not as advanced as Roy's.

The Company believes that Roy has positioned itself as a brand for luxury bathroom equipment and as such has achieved a remarkable success in the Chinese market in recent years. The current position is a good basis for the future development and expansion of Roy's business. The key factors in Roy's success are in particular its sustainable low cost structure due to a simplified corporate hierarchy compared with domestic competitors and a highly automated production process. Further, Roy had a very early focus on its brand building and has an efficient and quality distributor network. Roy's products are of an unrivalled quality amongst domestic manufacturers due to the use of German production technology which is also highly cost efficient.

Roy will further develop and strengthen its brand and make it visible on an international level. Roy will also further improve the marketing channels of its products and also further develop the designs and capability of its products.

2.2 Roy Economics

The Company believes that Roy has positioned itself as a brand for luxury bathroom equipment and as such has achieved a remarkable success in the Chinese market in recent years, creating a good basis for the future development and expansion of Roy. The Company believes that it will benefit from the growing buying power and a growing affinity of the Chinese people to luxury products and equipment and brand awareness as well as from the future marketing of its products in other countries where customers can be offered high quality products at very competitive prices compared with prices of Western manufacturers of comparable goods.

The following information generally is provided by the Company's own view apart from the parts particularly marked otherwise.

2.2.1 Sustainable low cost structure

Roy recorded a gross profit margin of 39.9% in the FY 2011, 38.4% in the FY 2012 and 39.7% in the FY 2013 and 37.9% in the FY 2014. This is comparable to the gross profit margins of Roy's competitor Toto of 37%, 36.6% and 36.3 from 2011 to 2013

The reason for these competitive cost advantages are according to Roy's observations mainly a more simplified corporate hierarchy than other domestic competitors. In Roy's view many of its competitors have inherited the inefficiency of bureaucracy due to their original state-owned or state investment background which might lead to a bigger need for time and effort for their decision making as well as the execution of such decisions. Compared to such competitors Roy is believed to have a more flexible corporate hierarchy which allows it to enjoy a high operating efficiency and sustainable cost advantages.

Further, the ceramic production of Roy is highly automated which enables Roy to save labour costs compared with local competitors, who comparatively employ more employees in the manufacturing process.

2.2.2 Experienced Management Team

Roy has a highly educated, experienced and dedicated management team, which is led by Ms. Yang Lei, director of SFC and SFE; Mr. Ji Gang, CEO of SFC, Mr. Sikun Jiang, technical director and quality control of SFC; Mr. Gao Zhi Gang, production manager of SFC; Ms. Huang Xing Hua, sales director SFC and SFE; Ms. Lily Fang, marketing director SFC and SFE.

2.2.3 Early Focus on Brand Building

Roy believes that it has positioned its brand and philosophy to reflect luxury and exclusiveness through innovative designs and high quality standard of its products. The Roy brand is targeted in particular to luxury hotels, high quality houses, official and commercial buildings, property developers, retail outlets, architects and design houses.

Priced well below international luxury brands, Roy developed a domestic brand throughout China in the past 20 years. The Roy brand does not merely bring Western designs to China (such as other luxury brands), but also adapts the newest Western and Asian design expectation to the specific Chinese taste. Roy has a proven success history in developing its unique bathroom designs, created by highly experienced multinational design teams. At the same time, Roy uses its high degree of flexibility in design innovation, brand management, marketing and promotional strategies to stay on the forefront of ever changing design requirements. Roy has a strong position vis-à-vis its distributors and the privilege of selling its products at competitive prices. With continuous urbanization, a steadily growing middle and upper-class, increasing tourism and an increasing spending power of public authorities and institutions, Roy believes in the continuing success of the Chinese market, but also in big business opportunities in overseas markets due to its high quality products and competitive prices.

2.2.4 Efficient and high quality distributor network

Roy sells its products through its distributors, careful to maintain the quality of the sales network, by choosing its distributors in key locations through a stringent selection and appointment process. Roy's distributors are contractually bound to sell only Roy's products.

Roy's retail outlets are mostly located strategically in shopping malls in major cities which specialize in selling home furnishings, bathroom and kitchen equipment.

2.2.5 Innovative and Creative Design Department

Roy's innovative and creative in house design team takes inspirations from Mr. Enrico Taranta's unique design concepts. Mr. Taranta graduated from the Construction University of Rome, Italy, designed the Cloud for the EU Conference Building and worked on the "Water Cube" for the 2008 Beijing Olympics. Roy's design team creates products that combine Mr. Taranta's imaginative concepts with modern functionality, beauty and reliability. For example Roy's acrylic bathtub design is inspired by a giant pearl, Roy's water urinal design is inspired by a bamboo, Roy's bathroom basin design is inspired by the magnolia leaf and Roy's intelligent toilet design is inspired by the mushroom shape.

2.2.6 Products

Roy develops, designs, produces and markets a complete set of ceramic sanitary ware bathroom amenities and accessories in the PRC. Roy's products include a full range of different kinds and styles of toilets, urinals, washbasins, showers and bidets. These ceramics products are marketed with all accessory fixtures and fittings.

2.2.7 Awards and Recognitions

Date	Award/Certificate	Awarding Body
3rd February 2004 – 3rd Feburary 2009	Certificate for China Green Materials Labelling	China Timber Distribution Association
20th September 2004 – 19th September 2009	Quality Management System Certificate ISO 9001:2000	Zhongdahuayuan Certification Centre
2010	Roy was selected above seven foreign competitors as the official sanitary ware provider for the Shanghai World Expo	Shanghai World Expo Organizing Committee

2.3 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 of Roy for the financial years ended 31 December 2014 and ended 31 December 2013.

The financial data is presented in the text below primarily in millions of Euro and in the tables below 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%.

2.3.1 Results of Operations

The following table presents consolidated income statement data of Roy for the financial years ended 31 December 2014 and ended 31 December 2013.

Selected Comprehensive Income Statement Data:

	Year ended 31/12/2014 kEUR	**Year ended 31/12/2013 kEUR**
Revenue	103,457	79,431
Cost of sales	64,228	47,909
Gross profit	39,229	***31,522***
Other income	151	124
Distribution and selling expenses	9,032	6,972
Administrative expenses	9,128	7,359
Income tax expenses	6,489	4,949
Profit for the year	**14,731**	**12,366**
Exchange differences arising on translation	24,480	-313
Total comprehensive income for the year	**39,211**	**12,053**

2.3.2 Revenue

Roy's revenues are derived from Roy's two operating Chinese companies, SFC and SFE. Revenue represents the amount received and receivable for sale of sanitary ware products and accessories, net of sales related taxes.

The increase in Roy's revenues of 30% from FY 2013 to FY 2014 is largely attributable to the aggressive marketing campaign in the PRC supported by continued growth in franchised outlets and increase in distributors and sales and marketing personnel covering most major cities in the PRC. Major projects with property developers and resort projects such as the Hainan White Horse Holdings Limited's property development on Hainan Island continued to drive the growth in revenues.

2.3.3 Cost of Sales

The main components of Roy's cost of sales are 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.

The costs of sales for the period under review are as follows:

	FY 2014		FY 2013	
	kEUR	**%**	**kEUR**	**%**
Raw materials	10,935	17	8,403	18
Labor costs	1,870	3	1,572	3
Manufacturing overhead costs	14,754	23	16,811	33
Non-ceramic goods and accessories	35,345	55	22,123	46
Write down of Inventories	1,324	2		
TOTAL	**64,228**	**100**	**47,909**	**100**

Raw materials comprise mainly clay, clay ball, kaolinite, quartz and feldspar and account for 17% of cost of sales in FY 2014 compared with FY 2013. Similarly labour costs are relatively static at 3% of cost of sales in FY 2014 and FY 2013. Manufacturing overhead costs reduced from 33% in FY 2013 to 23% of cost of sales in FY 2014 as more non ceramics accessories were sold in FY 2014. This also explained the increase in non-ceramics goods and accessories from 46% in FY 2013 to 55% in FY 2014. An inventory write down provision was made in FY 2014 based on a detailed review of slow moving finished goods held in stock at the end of 2014.

2.3.4 Gross profit and gross profit margin

The following tables show a breakdown of gross profit and gross profit margin for the financial years ended 31 December 2014 and ended 31 December 2013.

	FY 2014 kEUR (unaudited)	FY 2013 kEUR (unaudited)
Gross profit	39,229	31,522
Gross profit margin	37.9%	39.7%

Gross profit margin for FY 2014 of 37.9% was slightly lower than FY 2013 of 39.7% due to slightly tougher market conditions in Roy's main market in the PRC.

2.3.5 Other Income

Other income consists of bank interest income which increased slightly from Keur 124 in FY 2013 to Keur 151 in FY 2014 due to higher bank balances maintained in 2014.

2.3.6 Distribution and selling expenses

Distribution and selling expenses comprise 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.

Distribution and selling expenses amounted to Keur 9,032 in FY 2014 compared with Keur 6,972 in FY 2013, an increase of 29% which was consistent with the increase in revenues generated.

2.3.7 Administrative Expenses

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 not relating to manufacturing equipment, amortization of prepaid lease for the factory land, utilities, repairs and maintenance, rental, office expenses, transportation expenses and provision for impairment loss on trade and other receivables.

Administrative expenses amounted to Keur 9,128 in FY 2014 compared with Keur 7,359 in FY 2013. The increase of 24% was attributable to the expansion of business in the PRC and some additional costs incurred for the application to list the Company's shares on the Frankfurt Stock Exchange.

2.3.8 Income tax expenses

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 are 25%.

	2014 kEUR	2013 kEUR
Current tax:		
PRC Enterprise Income Tax ("EIT")	6,489	4,949

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:

	2014 kEUR	2013 kEUR
Profit before tax	21,220	17,315
Tax at the applicable tax rate of 25 % (2013: 25 %)	5,305	4,329
Tax effect of non deductible expenses	1,184	620
Income tax expense for the year	6,489	4,949

The Group's effective tax rate is 30,6% (2013: 28,6%). Under the law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately kEUR 6,630 (2013: kEUR 4,902) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The Group has no unprovided deferred tax liabilities during the year or at the end of the reporting year.

2.4 Balance Sheet Data of Roy

	Year ended 31 December	
	kEUR	
	2014	**2013**
ASSETS		
Non-current assets		
Property, plant and equipment	120,656	111,701
Prepaid lease payments	7,492	6,939
Prepayments	962	1,617
Total non-current assets	**129,110**	**120,257**
Current assets		
Bank balances and cash	34,888	21,375
Trade and other receivables	59,300	42,985
Inventories	15,399	11,813
Amount due from director	1,047	709
Prepaid lease payments	254	227
Total current assets	**111,058**	**77,109**
Total assets	**240,168**	**197,366**
EQUITY and LIABILITIES		
Capital and reserves		
Share capital	13,110	91,317
Reserves	183,794	67,974
Non-controlling interests	30,389	28,471
Total equity	**227,293**	**187,762**
Current liabilities		
Trade and other payables	10,785	8,269
Income tax payable	2,090	1,335
Total liabilities	**12,785**	**9,604**
Total equity and liabilities	**240,168**	**197,366**

2.4.1 Non-current assets

Non-current assets comprise property, plant and equipment, prepaid lease payments and prepayments.

There were no significant movements during the year.

Property, Plant and Equipment

	Buildings held for own use	Leasehold improvements	Machineries	Office equipment	Motor vehicles	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
At Cost or valuation						
At 1 January 2013	13,357	3,925	127,918	876	1,060	147,137
Currency Adjustments	-3	-3	-28	0	0	-34
Additions	0	155	0	0	0	155
At 31 December 2013	13,354	4,077	127,890	876	1,060	147,258
Currency Adjustments	1,553	474	14,871	101	123	17,122
Additions	0	0	0	0	0	0
At 31 December 2014	14,907	4,552	142,761	977	1,183	164,379
Accumulated depreciation						
At 1 January 2013	9,558	1,670	20,145	352	242	31,967
Provided for the year	257	224	2,909	95	194	3,679
Currency Adjustments	-8	-5	-69	-4	-4	-90
At 31 December 2013	9,807	1,889	22,985	443	432	35,556
Provided for the year	257	240	2,912	95	195	3,698
Currency Adjustments	1,163	241	2,936	60	68	4,469
At 31 December 2014	11,227	2,371	28,833	598	695	43,724
Carrying values						
At 31 December 2013	3,547	2,188	104,905	433	628	111,701
At 31 December 2014	3,679	2,181	113,928	379	489	120,656

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

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

Prepaid Lease Payments

Prepaid lease payments for land use rights held in the PRC are amortised over the remaining lease period. The increase in Keur terms from FY 2013 to FY 2014 was due to the strengthening of the Remninbi compared to the Euro currency in 2014.

Prepayments

Prepayments decreased from Keur 1,617 in FY 2013 to Keur 962 in FY 2014 due mainly to the release of the prepaid consultancy fee to Luck Connection Ltd during 2014.

2.4.2 Current Assets

Bank Balances and Cash

As at December 31, 2014, kEUR 213 (2013: kEUR 0) of the bank balances were denominated in Euro and approximately kEUR 95 (2013: kEUR 172) of the bank balances and cash of the Group were denominated in Hong Kong Dollars, the remaining balances were denominated in RMB.

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 of trade receivables and other receivables.

	2014 kEUR	2013 kEUR
Trade receivables	30,807	21,766
Other receivables	10,795	7,455
Prepayments	20,646	16,561
	31,441	24,016
Less: Impairment loss recognized	-1,986	-1,180
Other receivables and prepayment, net	29,455	22,836
Less: prepayments classifies as non current assets	-962	-1,617
	28,493	21,219

Trade and other receivables	59,300	42,985

The Group generally allows a credit period ranging from 180 days to 360 days to its project customers. Payment in advance is normally required for new customers and distributors. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2014 kEUR	2013 kEUR
Within 180 days	28,498	10,829
181 to 365 days	2,309	8,217
1 year to 2 years	-	2,720
Total	30,807	21,766

Trade receivables that were neither past due nor impaired are related to a wide range of customers for whom there was no recent history of default.

As at December 31, 2013, included in the Group's trade receivables balances were debtors with aggregate carrying amount of approximately kEUR 2,720 which were past due as at the reporting date for which the Group had not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on payment pattern of the customers of the Group, the management believes that no impairment loss is necessary in respect of these balances as they are generally collectible. The Group does not hold any collateral over these balances.

As at December 31, 2014, there were no trade debtors past due.

Roy generally allows a credit period ranging from 180 days to 360 days to its project customers. Payment in advance is normally required for new customers and distributors.

Inventories

Inventories comprise of raw materials, work in progress, and finish goods products in stock.

	2014 kEUR	2013 kEUR
Raw materials	165	152
Finished goods	15,234	11,661
	15,399	11,813

Inventories management is strictly controlled. Inventories represent 88 days cost of sales for FY 2014 compared with 90 days cost of sales in FY 2013.

Prepaid Lease payment

	2014 kEUR	2013 kEUR
Analysed for reporting purposes as:		
Non-current asset	7,492	6,939
Current asset	254	227
	7,746	7,166

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases. The prepaid lease payments are amortised over a period of 50 years on a straight-line basis.

2.4.3 Capital and Reserves

	Share Capital 2014 k€
As at founding	120
Increase in Share capital	12,990
As at 31 December 2014	13,110

The share capital amounts to € 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. The Company made a capital increase which was executed against contribution in kind. The contribution in kind comprises the transfer of 12,990,000 shares in LLH by its shareholders. After this transaction the Company had 48 minority shareholders who own approximately 35 % of the shares. The majority of 65 % are owned by Shine Eagle Trust Reg.

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 represents amounts transferred from profit after taxation of the Group established in the PRC in accordance with the PRC laws and regulations.

- Capital reserve includes the increase of the share capital of the parent company (kEUR 200) and the contribution in kind (Keur 78,327) 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.

2.4.4 Current Liabilities

Trade and other payables

Trade payables mainly comprise of the trade and invoices payable to suppliers of raw materials, office supplies and consumables, and non-ceramics accessories. Other payables and accruals include receipts in advance from distributors and franchisees, accrued payroll and staff welfare related expenses, utilities and other tax payables.

	2014 kEUR	2013 kEUR
Trade payables	4,851	4,473
Other payables	1,972	819
Receipts in advance	2,388	1,818
Accrued payroll and staff welfare expenses	165	128
Other tax payables	1,409	1,031
	5,934	3,796
Trade and other payables	10,785	8,269

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

	2014 kEUR	2013 kEUR
Within 180 days	4,679	3,795
181 to 365 days	172	636
1 year to 2 years	-	42
Total	4,851	4,473

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.

Income tax payable

Income tax payable relating to PRC Enterprise Income Tax increased from Keur 1,335 to Keur 2,090 as profits of the business in China increased in 2014.

2.5 Cash Flow of Roy

	2014 kEUR	2013 kEUR
Operating activities		
Profit before taxation	21.220	17.315
Adjustments for		
Amortisation of prepaid lease payments	233	233
Depreciation	3.698	3.679
Write down of inventories	1.324	0

Impairment loss on trade and other receivables	613	245
Non-cash consultancy fee	773	763
Operation cash inflow before changes in working capital	27.861	22.235
Decrease (increase) in inventories	-3.586	8.909
Increase in trade and other receivables	-16.315	-14.906
Increase in amount due from a director	-338	-709
(Decrease) Increase in trade and other payables and accruals	2.454	-294
Decrease (increase) in amounts due from a related party	-170	0
Decrease in amount due to a director	0	-68
Cash generated from operations	9,906	15.167
Income tax paid	-5.734	-4.792
Net cash generated from operating activities	4,172	10.375
Investing activities		
Interest received	151	124
Purchase of property plant and equipment	0	-155
Cash acquired on acquisition of subsidiaries	0	0
Net cash used in investing activities	151	-31
Financing activities		
Proceeds from issue of shares	0	0
Net cash generated from financing activities	0	0
Changes in cash and cash equivalents due to first-time consolidation*	213	0
Net increase in cash and cash equivalents	4.536	10.344
Adjustments due to currency translation	8.977	-514
Cash and cash equivalents at beginning of the year	21.375	11.545
Cash and cash equivalents at end of the year, representing bank and cash balances	34.888	21.375

* analogous application of the principles of the reverse acquisition in 2014

The Group continued to manage its cash and working capital resources effectively in 2014 with net increase in cash and cash equivalents of Keur 4,536 in 2014 and a healthy cash balance at the end of 2014 of Keur 34,888. The increase in trade and other receivables of Keur16,315 in FY 2014 was due to the 30% increase in revenues in FY 2014 compared with FY 2013.

2.5 Other Factors that Impacted on Results

2.5.1 Research and Development

Roy has a dedicated team of 15 experienced personnel concentrating on research and design development including product development and improvement of production technology and processes.

Design concepts introduced by Mr. Enrico Taranta are refined into functional product designs by Roy's in house engineering design team using the latest CAD software. The completed designs drawings are vetted and passed to the factory for manufacturing assessment including any new molds and components.

Two to three series of new products are developed every year. There is a dedicated mold development centre on the factory site in Beijing concentrating on improving production methods.

Several requests for patents have been filed in the PRC including the universal outlet adaptor for Roy's toilets (patent application date: 23 January 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 threefold:

- 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 3 years to perfect and the patent application has recently been filed in the PRC;

- 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).

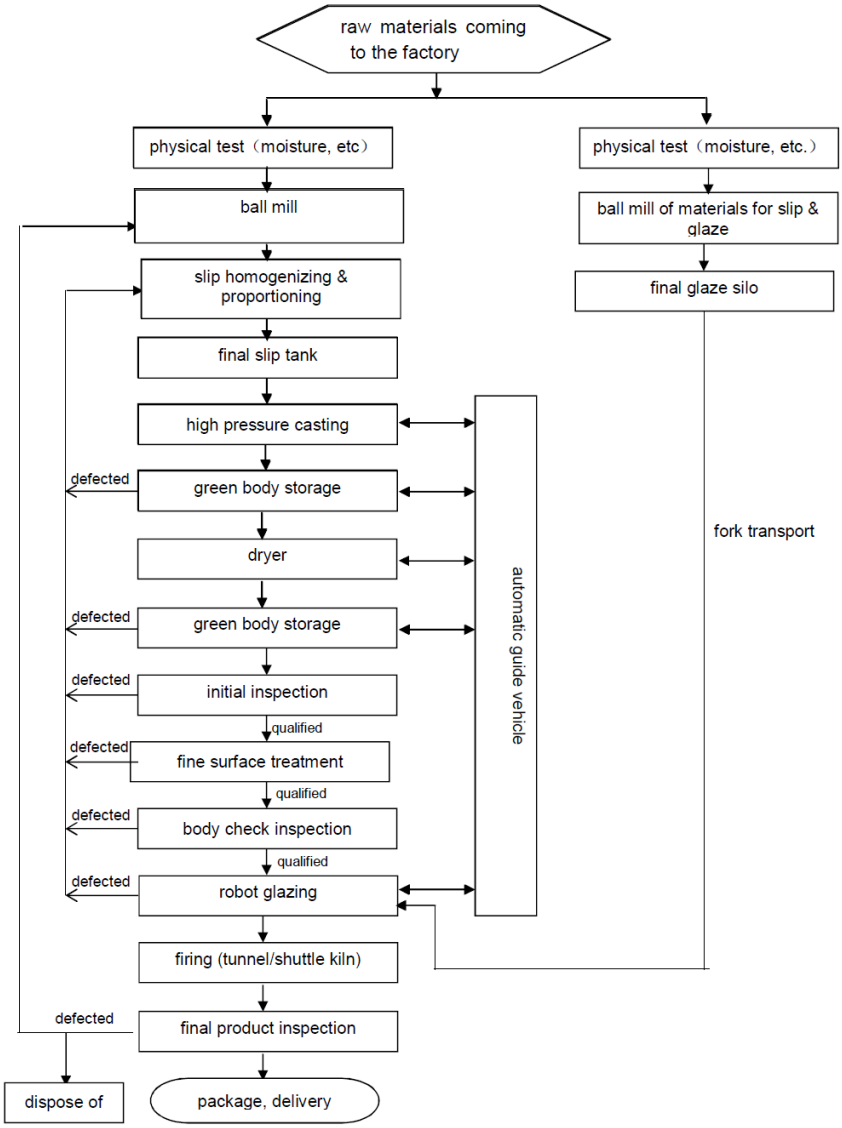
2.5.2 Production Facilities

Roy's production base is situated on an over 150,000 square metres site strategically located near the Beijing city centre, allowing easy access and transportation of products to key clients.

In the opinion of Roy, its manufacturing is highly efficient, based on state of the art technology including 17 high pressure injection molding machines imported from Germany and four production lines with a total production capacity of 1,200 sets of bathroom amenities per day at 330 days per year which gives an annual production capacity of around 400,000 sets of bathroom amenities per year. In the view of Roy, there are only three factories in the PRC that have a comparable level to Roy's state of the art machinery and technology for ceramics production. The Beijing plant uses the highest level of automation utilizing a combination of the best imported and locally made equipment. The production process includes equipment and systems for batch weighing and conveying imported from Germany; ball milling and blunging from the Tangshan Light Industry Ministry; high pressure casting systems from Dorst in Germany; dryers from Europe; Kilns from Heimsoth in Germany; robot glazing systems from GMF using Japanese Fanuc robots; an imported European mold making shop. Further the factory uses electric power from major transmission lines and natural gas and water.

2.5.3 Production Process

The following flow chart shows the production process within Roy's production site:



Raw materials arrive at the factory in Beijing normally in 25kgs bags and goods received are checked against purchase invoices for quantities and specifications. Physical inspection of raw materials includes weighing and moisture testing and sample firing to check before being passed fit for use in the production process.

Over 8 types of raw materials are then fed proportionally into the ball mill for the production slip and glazing process.

Homogenizing for the production process takes about 10 days whilst the mixture is also put into the final glaze silo for the finishing process from where it is transported by fork lift vehicle to the robot glazing process.

After the homogenizing process is complete the mixture is put into the final slip tank where some additives and water are added to adjust the mixture to the levels of fluidity and density

required. AGV vehicles then transport the mixture to the high pressure casting process which involves injection into the mold.

After the casting process is complete the green bodies are then checked for defects. Green bodies that pass the inspection are stored and then transported to the drying machines using AGV vehicles.

Green bodies are put in the drying machines at temperatures from 50 degrees Celsius to 80 degrees Celsius for durations of between 15 and 44 hours depending on the product.

Dried green bodies then go to storage to cool down.

After cooling green bodies are checked for cracks, deformations and distortions using kerosene and soft brush physical inspection. Defective green bodies are returned to the raw material workshop. Qualified green bodies that pass physical inspection are sent for fine surface treatment. After fine surface treatment there is another check on the surface. Qualified green bodies are then sent for final body check inspection prior to glazing.

Final body check inspection includes a check of all surfaces and holes and the underside as well as inside the toilet flushing tank.

Green bodies are then passed to the robot glazing machines which takes up to 6 minutes for the glaze coating to be completed. The robot glazing process ensures a very high quality of glazing with uniform consistency.

After the robot glazing process is complete the products are then sent for firing in either the tunnel or shuttle kilns. The tunnel kilns are 84 meters long and operate at a constant temperature with the products moving along the tunnel in cars, whereas the shuttle kilns are not moving but the temperature varies. The tunnel kilns operate at up to 1,182 degrees Celsius and the firing process takes between 20 and 40 minutes per car and 18 to 37 hours per cycle, whereas the shuttle kilns firing process can take up to 34 hours per cycle.

After firing and cooling there is a final product inspection from the quality control department before finished goods are sent for packaging and shipment from the warehouse.

Defective goods that fail the final product inspection are disposed of.

2.5.4 Marketing and Distribution of Roy's Products

Roy owns three flagship showrooms in Guangzhou, Shanghai and Hong Kong and has another circa 60 franchised retail outlets in 28 major cities in all major provinces in the PRC.

In addition Roy has currently circa 34 appointed distributors covering eastern East China, South China and West China and circa 160 marketing and sales representative in these regions.

East China region is headed by the Shanghai branch office, the South China region is headed by the Guangzhou branch office and North China region is headed by the Beijing office. The respective sales' teams report to the sales team leaders in Shanghai, Guangzhou and Beijing.

In order to maximize the market penetration, Roy intends to continue the expansion of its third party distribution network. Ms. Lily Fang is in charge of the development program targeting 200 stores and 100 distributors nationwide.

Roy's distributors are carefully selected and recruited after due diligence procedures including previous experience and the provision of business licenses for each point of sale. Each distributor agreement is negotiated separately and can vary from rolling one year contracts to five year contracts. The products are supplied by Roy as ordered for delivery to points of sale at predetermined discounts to recommended retail prices. The achievement of previously agreed target sales generates a partial rebate for the distributor.

2.5.5 Major Suppliers

For raw material supplies for the factory in Beijing, these are sourced from several key suppliers in China and feldspar is sourced from Finland. Molds for toilet seats and bidet seats are sourced from NCM Co. Ltd, Korea and high quality accessories such as copper faucets are imported from suppliers in Italy. Other non-ceramics accessories such as shower heads, faucets, infra-red sensors, non-ceramic bath tubs and others are ordered from several domestic manufacturers in China.

In general, Roy selects its suppliers based on their product quality, reliability, production capacity, price, designs, availability and reputation.

None of Roy's Directors, Executive Officers or shareholders or any of their associates has any interest direct or indirect, in any of the major suppliers. To the best knowledge and belief of the Company's management, there are no arrangements or understandings with any suppliers pursuant to which any of Roy's directors and Executive Officers was appointed.

As of the date of this prospectus, Roy's business or profitability is not materially dependent on any single supplier.

2.5.6 Major Customers and Sales Chain

Major customers of Roy include Hainan White Horse Holdings Limited, Starwoods Hotels and Resorts, Shanghai Expo, Greentown, Citic Real Estate, Henderson Land, R&F, Times Property, Country Garden, Sheraton Group, Poly Real Estate and others.

There are many different types of sale for Roy's products in the PRC. The main categories in this respect are:

- Direct sales to customers from owned flagship showrooms
- Direct sales from the factory
- Sales from franchised outlets
- Sales through distributors to end users
- Sales to property developers, hotels, commercial developers, government buildings etc. on major projects

Products are not always sold directly to end users. There are ongoing sales to distributors and franchisees as long as such agreements are in force.

2.5.7 Intellectual Property Rights

2.5.7.1 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 arch 2022

2.5.7.2 Patents

The Company's indirect subsidiary SFC has applied for a patent (Patent name: "A kind of a toilet") for a universal toilet adaptor on 23 January 2014. The patent has been authorized on 05 November 2014. By 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 305mm and 400mm or any other non-standard rough-in through different sizes of PVC pipes. For a toilet with 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:

Patentee / Holder	Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd.
Patent Name	A kind of toilet
Inventor	Mr. Siegfried Lee, Mr. Sikun Jiang
Patent Number	ZL 2014 2 0044813.6
Territory	PRC
Patent Application Date	23 January 2014
Authorization Proclamation Date	05 November 2014
Term of Protection until	23 January 2034

2.5.7.3 Domains

www.royceramics.de

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

2.5.7.4 Production Process

The intellectual property regarding the production process is a secret formula and process which is closely guarded by SFC although not as yet legally protected. SFC is in the process of filing with patent agents in China the high pressure injection molding process and the universal adaptor design which makes Roy's toilets unique in the marketplace allowing both horizontal and vertical fitting arrangements thereby also complying with both European and American standards. 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.

2.5.8 Employees

As of 31 December 2014, Roy employed, in addition to the managing director of the Company, a total of 495 employees. SFC employs a number of 290, SFE a number of 195 and LLH a number of 10 employees.

During the business years of 2011 – 2014, the entities of the current Roy group employed the following numbers of employees (year end figures):

Business year 2014: 495
Business year 2013: 455
Business year 2012: 426
Business year 2011: 371

Roy's employees are employed in separate departments as follows as at 31 December 2014:

Department	N° of employees
Research and design development	16
Sales and marketing	182
Management and administration	85
High pressure and micro casting	60
Raw materials	18
Glazing and finishing	25
Quality control and testing	25
Molding workshop	15
Equipment maintenance	13
Boiler	9
Electricity and natural gas	14
Cleaning	11
Internal security	10
Guards	12
Total	**495**

All employees in the PRC are subject to social insurance payments.

Roy is an equal opportunity employer. All employees undergo training and regular evaluations. The working conditions in the Beijing factory are reasonable and Roy's terms and conditions of the working contracts are in accordance with local legislation in the PRC. Roy provides dormitory facilities and a canteen on the factory site. Roy has recognized the difficulty of retaining key employees and treats its staff accordingly.

The employees do not belong to any labor union. There has been no labor or industrial dispute between the employees and management. There has not been any significant employee turnover in the last few years.

2.5.9 Business Locations, Property, Plant and Equipment, Inventory

2.5.9.1 Production Facilities

The production facilities of Roy are owned and operated by SFC on the factory site in Beijing. The factory site is situated on a 150,000 square meter site just outside central Beijing, located at 5 Huagong Road, Zhaoyang District, Beijing, PRC. SFC has obtained land use rights for the factory site for 50 years from 28 June 1993 to 27 June 2043.

2.5.9.2 Equipment and Inventory

The factory buildings include raw material storage, raw material processing-slip production, glaze preparation, mold modelling department, casting departments, clayware drying systems, clayware inspection, glazing department, kilns, finished goods and refire preparation. SFC has invested over USD 132,000,000 in the factory plant and equipment which includes state of the art equipment for the factory such as batch weighing and conveying, German imported equipment and systems, high pressure injection casting from Dorst in Germany, dryers from Europe, kilns from Heimsoth in Germany, robot glazing machinery using systems from GMF in the USA and Japanese Fanuc robots, and an imported European mold making shop.

As such the factory is very highly automated and not heavily labour intensive and therefore compared with most competitors it is more efficient and has less variation in quality of finished goods.

Nova Appraisals Limited, Hong Kong, a recognized and independent evaluator has carried out on-site inspection at the Beijing Factory of SFC in February and March 2014. Nova Appraisals Limited has appraised the fair value of the equipment and machinery owned by SFC in accordance with the International Valuation Standards issued by the International Valuation Standards Committee as of 31 December 2013 at RMB 920,417,000 (EUR 109,344,000). The valuation report was completed on 1 April 2014.

2.5.9.3 Leases

LLH as lessee and Hong Kong Science and Technology Parks Corporation as landlord concluded a real estate lease contract dated 11 March 2013 for the office premises of LLH at Units 601B and 601C, 6th Floor, InnoCentre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon for a term of three years, commencing on 25 January 2013 and expiring on 24 January 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 management fee of HKD 13,362 (EUR 1,364) per month.

SFE Shanghai Branch as lessee and Ms. Lan Fang as lessor entered into a lease contract dated 18 December 2012 for the office premise of Room 106 Building 3, No. 333 Yishan Road, Shanghai, PRC, for a term of five years commencing on 18 December 2012 and expiring on 17 December 2017. The monthly rent for the first three years shall be RMB 38,192 (EUR 4,897) and for the fourth year RMB 42,011 (EUR 5,386) and for the fifth year RMB 46,213 (EUR 5,924).

Moreover, SFE Shanghai Branch as lessee and Shanghai Industry Co., Ltd. as lessor entered into a lease contract dated 18 January 2013 for the office premise of Room 105 Building 3, No. 333 Yishan Road, Shanghai, PRC, for a term of 5 (five) years commencing on 18 January 2013 and expiring on 17 January 2018. The monthly rent for the first three years shall be RMB 33,233 (EUR 4,260) and for the fourth year RMB 36,556 (EUR 4,687) and for the fifth year RMB 40,212 (EUR 5,155).

Furthermore, SFE Guangzhou branch as lessee and Guangzhou Junhe Planning Limited as lessor entered into a lease contract dated 30 April 2014 for the office premises of unit 1115 and unit 1116, Mahui Furniture Eastern District, Huacheng Avenue East, Zhujiang Newtown, Tianhe District, Guangzhou, for a term of two years commencing on 1 May 2014 and expiring on 30 April 2016. The monthly rental for the first year shall be RMB 70,423 (EUR 9,027) and for the second year RMB 77,466 (EUR 9,931).

Moreover, LLH as Lessee and Supreme Town Investment Co. Ltd. as lessor entered into a lease contract on 27 March 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 HK $ 9,500 (EUR 969).

3 Report on Events after the Reporting Period

On 26 March 2015 the Company submitted a Prospectus to BaFin for admission to trading on the regulated segment of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) and a Public Offering in the Federal Republic of Austria of all the Company's issued non-par value shares. The Prospectus has been approved by BaFin and application for admission to the Frankfurt Stock Market has been filed.

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. Despite setbacks, an uneven global recovery continues. The IMF said poorer prospects in China, Russia, the Euro area and Japan will hold world GDP growth to just 3.5% in 2015 and 3.7% in 2016.

The forecasts were lower than the 3.8% and 4.0% growth for 2015 and 2016 respectively given in the previous World Economic Outlook in October. The cut underscored the steady deterioration of the economic picture for many countries, due to sluggish investment, slowing trade and falling commodity prices.

4.1.1.2 Economic Development in China

According to the IMF the economy of China, the second largest economy in the world, is expected to grow 6.8% in 2015, the IMF said and 6.3% in 2016. Whereas the State-owned lender, Bank of China Ltd., predicts the 2015 growth rate to be 7.2%.

According to Bank of China Ltd. (BOC), Consumer Price Index (CPI) growth will remain low due to the economic downturn, slowdown in domestic demand and over capacity. The bank estimated that CPI will grow 2.4% in 2015, up 0.4 percentage point from 2014.

On Nov 22 2014, the central bank cut the one-year benchmark lending rate by 40 basis points to 5.6% and the one-year benchmark deposit rate by 25 bps to 2.75%. Other benchmark deposit and lending rates were lowered accordingly. And according to a report released by the lender, China "is very likely to cut the benchmark interest rates again in 2015" and "lower banks' reserve requirement ratio further once or twice". Many economists expect the central bank to continue using and innovating monetary policy tools as well as taking targeted measures to fine-tune the economy.

According to the BOC, growth of exports in 2015 is expected to improve slightly to 7% from a forecast 6% given in 2014.

4.1.2 Future Business Environment

Based on these general economic parameters, the Chinese sanitary-ware industry is expected to continue to grow in 2015 and beyond.

In November 2014 the BSRIA's China Bathroom Study 2014 was published. According to this study the mid-term until 2018, the taps and mixer market segment is expected to reach annual value growth rates of 5.6%. The growth rates for the other segments of the ceramics sanitary-ware market are predicted at around 4.8%, for shower enclosures around 9.0% and bathroom cabinets around 7.5%. Further the UK based Business Research Group (BRG) in their June 2014 publication 'The Asian Bathroom Product Markets -2014 Update – China', on the same time scale, they estimate the value growth rates in the ceramics sanitary-ware market at 4.7%, but do not offer value based growth forecasts in other major segments. At the time of approval by the administrative board, no other reliable source of data was available for a more recent outlook. Roy, however, believes that the analysis shown above is reasonable, in line with Roy's expectations and therefore applicable. With regard to Chinese consumer patterns, in the mid-range segment, market trends are continuing to shift towards purchasing the whole bathroom suite from one brand, whereas the premium segment retains a single-item choice preference.

According to IHS Inc, a USA-based consultancy, the global construction investment CAGR will be 3.4% between 2014 and 2028. Although the global economic outlook indicates slow growing European markets, growing markets in North America, and uncertain economic perspectives in many other foreign regions for 2015, Roy believes that those foreign markets will provide reasonable business opportunities to support the Group's growth strategy on a selective basis.

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 Increase of the Group's turnover and the gross profit margin for the FY 2014 compared to the FY 2013

In the FY 2014 the turnover and the gross profit of the Group increased compared to the FY 2013. The group's turnover achieved for the FY 2014 at Keur 103,457 represented an increase of 30% form FY 2013. Whilst The gross profit margin achieved in FY 2014 of 37.9% was slightly lower than FY 2013 in a very competitive market. The turnover increase particularly is related to an increase in order entry as well as an increasing number of employees and an aggressive marketing strategy in the PRC.

4.1.3.2 Further strengthening of the Roy brand

Plans to further strengthen the brand in the PRC include appointments of Roy brand ambassadors, ensuring consistent marketing and promotional activities in key markets and involvement at high profile events such as the 2010 Shanghai Expo.

A new showroom was opened in Hong Kong in May 2013 to improve brand awareness in Hong Kong and commence sales to Hong Kong and Macau markets as well as export sales from 2015.

The Roy website has also been redeveloped and improved under the domain name www.royceramics.de, designed in line with new promotional brochures, leaflets and catalogues. Roy continues to also provide good relationships with customers by delivering to order on time, providing quality after sales service and regular updates to existing clients.

Roy plans its attendance at high profile trade fairs in Europe and the U.S.A. from 2015 and will also start to promote the Roy brand to a much wider network of customers.Further Expansion in the PRC and advertising and promotion initiatives

In 2014 Roy's business has continued to expand in the PRC which has remained the main focus of attention in 2014. Roy will continue to focus on expansion in the PRC and plans to open another five new self-operated flagship showrooms in Chengdu, Changsga, Chongqing, Shenyang and Shenzhen by the end of 2016.

Roy will intensify advertising and promotion initiatives, including TV commercials as well as advertisements on screens in prime office buildings and on mobile phone networks and sponsoring of public events, and intends to continue with this strategy in the future.

Further Roy is in the process of listing on the Frankfurt Stock Exchange and the Vienna Stock Exchange, which will also have a positive impact on the Roy brand in the European market.
The listing is seen as a possible avenue for Roy to enter the European market either through either selective showrooms or an ecommerce platform. These initiatives will be followed up after the listing of the Company's shares on the Frankfurt Stock Exchange.

4.1.3.3 Further improvement of the marketing of products

Roy will continue to focus on expansion in the PRC and plans to open five new self-operated flagship showrooms in Chengdu, Changsga, Chongqing, Shenyang and Shenzhen to display Roy's branded products and enable retail consumers, designers and developers to view Roy's products in a suitable environment. Roy also plans to increase the number of franchised retail outlets from 60 stores to over 100 stores in key cities of major provinces throughout the PRC. In addition Roy aims to expand the distributor agreements from 34 to 60 and the number of marketing and sales representatives from the current circa 160 to over 260.

Roy intends to intensify advertising and promotion initiatives, including TV commercials using 15 seconds commercial slots on CCTV2 network with catchment areas covering 1st tier cities, outdoor billboard displays organized by Whitehorse media launching billboard and scrolling screen displays at public transportation hubs in 22 key cities.

Roy has also engaged Focus On Media to place advertisements on large LED screens in prime office buildings, on mobile phone networks and sponsoring of public events.

4.1.3.4 Potential movement of part of the factory

Roy's factory is presently located in a prime area suitable for real estate development on the outskirts of Beijing. As such the land upon which the factory sits could be more profitably utilized for residential or commercial development rather than ceramics manufacturing. There is also the possibility that in the future environmental legislation may change to preclude this site being used for factory purposes. Accordingly, management may consider moving part of the factory to a location in Southern China that might be more suitable for manufacturing ceramics. Furthermore, in the future an overseas manufacturing location could also be considered where local infrastructure, energy and labor costs and sales markets for ceramics products would be advantageous to the business.

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. The order in which the following risks are listed does not contain any statement about the probability that they will occur or the extent of any financial impact in case of any occurrence. 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.

4.2.1 Market Risks

4.2.1.1 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.

4.2.1.2 Import restrictions on Roy's products

Roy is planning to sell its products also in other countries as there is an expanding demand for Roy's products overseas according to Roy's observation.

As of the date Roy is not aware of any import restrictions on Roy's products in countries where Roy's products are sold. However, there is a certain risk that the competent authorities of overseas foreign countries might impose import restrictions in the future, which could materially and adversely affect Roy's business and its net assets, financial conditions and results of operations.

4.2.1.3 Economic, political and legal environment in China

As the entire production process and the main part of all sales are conducted in the PRC, investors have to be aware that Roy's business and operations is subject to greater risks, in particular legal, economic and political risks, compared with similar businesses in more developed markets. Even though that China today is one of the fastest growing emerging markets it has to be kept in mind that investments in companies which are operating in such markets are generally exposed to additional risks due to the fast development and rapid changes. For example information set out in emerging markets or legal frameworks can become outdated quickly. Investments in companies based and operating in emerging markets are generally only suitable for sophisticated investors who can fully recognize the significance of risks involved.

4.2.1.4 Fluctuations in the market

Roy's production facilities are located in the People's Republic of China (in the following "**PRC**"). Roy sells its products mainly in the PRC and therefore also derives the main part of its revenues from the PRC.

Therefore, the success of Roy depends on the conditions and continued growth and demand for its goods at the moment on the Chinese market. The Chinese consumer market is strongly connected with the world economy. Many factors take influence on consumer spending, as for example interest rates, currency exchange rates, recession, inflation, deflation, political instability and so forth.

A lower growth than expected or even negative development in the market of sanitary ceramic products may have a material adverse effect on the assets, financial conditions and/or results of Roy and thus on the issuer.

4.2.1.5 Dependency on price fluctuations with respect to raw material procurement

Roy is subject to significant price fluctuations with respect to raw material procurement. Since Roy has highest demands on the quality of its products the Group is dependent on high quality raw materials as well as the respective suppliers. In general, Roy selects its suppliers based on their product quality, reliability, production capacity, price, designs, availability and reputation. There is a risk that some raw materials might be rare in general or in the desired quality or that suppliers are not able to deliver the necessary raw materials for various other reasons. This might lead to higher prices for raw material procurement or even a lack of raw materials for the continuation of the production process.

4.2.1.6 Dependency on energy costs

Roy is dependent from the costs for energy, in particular the costs for oil and gas. Particularly oil and gas prices are subject to worldwide market fluctuations. Therefore, the costs for energy necessary for the maintenance of Roy's operating business, especially the production process, might increase in the future. There is a risk that unstable energy costs could lead to a significant and unforeseen financial burden for the Company with respect to the Group's energy supply. To the date of this Prospectus no hedging transactions have been concluded in this regard.

4.2.1.7 Dependency on certain supplies of core components

Roy's ceramic production is dependent on certain supplies of core components and therefore of the respective suppliers. Particular the two operative subsidiaries of the Company, SFC and SFE, can only uphold their production process (SFC) and the import /export and sales

procedures (SFE) in case it can be relied on the suppliers of the respective (core) components, which are partly located outside of China.

4.2.1.8 Dependency on major customers and projects

In 2014 Roy's top 10 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.

4.2.1.9 Fluctuation of trends and customers' preferences

The bath room 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 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.

4.2.1.9 Risks of a slowdown in new property and building projects in the PRC

Should there be a slowdown in new property development projects in the PRC this could have a material adverse impact on Roy's business as the continuous growth in Roy's turnover is dependent to a large extent on bulk orders for ceramic bathroom amenities from major new property developments and commercial projects. This would consequently have a detrimental effect on Roy's business, profitability and cash flows.

4.2.1.10 Risks of property ownership pertaining to land use rights

A very substantial portion of Roy's business assets comprises the factory land and buildings and machineries built on and located on the prepaid land use rights acquired in a prime area for potential real estate development on the outskirts of Beijing. In the event that the land use rights relating to the factory were to be altered or changed then this would put at risk a very substantial portion of Roy's assets and the manufacturing process until the factory could be relocated.

4.2.1.11 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 is an important factor 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.

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 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 in the PRC. The brand recognition and goodwill associated with the brand may even decrease which could lead to loss of customer's confidence and reduced sales.

4.2.1.12 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.

4.2.1.13 Risks resulting from the marketing of products

Roy has three flagship owned showrooms in Guangzhou, Shanghai and Hong Kong together with franchised retail outlets in key cities of all the major provinces in the PRC. The new flagship showroom in Hong Kong was opened in May 2013 to focus on the Hong Kong and Macau markets and commence export sales in 2014. The marketing of Roy's branded products in the PRC is conducted through a network of retail outlets in 28 major cities with 34 distributors and circa 160 marketing and sales representatives. Distributor agreements typically have a one year term and will expire unless extended. Termination or inability to extend these distributor agreements could have a material adverse impact on our distribution network and hence sales in the PRC. In order to manage expected growth in demand for Roy's products in the PRC, Roy intends to increase the number of retail outlets, distributors and sales representatives to cover all provinces, autonomous regions and municipalities in the PRC. It is not certain that Roy will be able to secure suitable distributor agreements on commercially acceptable terms or that Roy will have sufficient funding to meet expansion plans and implement and manage new points of sale. There is no guarantee that the intended growth of Roy's distribution network will be achieved or that the distribution network will remain profitable. Any of these risks could have a material and adverse effect on Roy's business, financial condition and profitability.

4.2.1.14 Risks of failure regarding the expansion plans and management of growth

Roy's business expansion was significantly in the last years. For its financial year ("**FY**") 2011, FY 2012, FY 2013 and FY 2014, Roy attained total sales of kEUR 27,812, kEUR 57,584, kEUR 79,431 and Keur 103,457 respectively. Roy aims to further continue this growth, in particular by expanding the markets for Roy's products and its brand publicity. To achieve these objectives Roy intends to open new flagship showrooms in major cities in China, to complement the network of retail outlets in southern, western, northern and eastern regions of the PRC by finding 30 additional franchise partners; to enter into at least 30 new distributor agreements and further an additional 100 new sales representatives shall cover all regions of the PRC. Roy further intends increased investments in marketing and promotional

campaigns, including outdoor advertising, media advertising and the appointment of Roy brand ambassadors. Roy wants to commence sales in the Hong Kong and the Macau markets in 2015 and begin with an international brand development program and export sales in the European and U.S. markets. However, there is no assurance that these planned measures can be realized. If Roy should not be able to realize these plans, Roy might fail to execute its expansion plans successfully.

4.2.1.15 Risks of employees' 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.

Roy employs local as well as migrant workers from other parts of the PRC. Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. ("**SFC**") and Siu Fung Expo (Beijing) Investment Company Limited ("**SFE**") are as PRC companies exposed to potential high employee turnover rates in particular regarding migrant workers who go back to their hometowns during Spring Festival travel season (Chunyun period) and do not return to work.

Also a high fluctuation of employees contains the risk of loss of know-how and might cause severe internal problems in the production process, for example through a shortage of production stuff.

4.2.2 Tax Risks

The current rules and their interpretation relating to an investment in the Company may be subject to significant changes in the future. For example the applicable tax rates might change.

Further none of the entities of Roy has undergone in the past a special tax investigation from the relevant tax authorities. A future tax investigation or tax review may reveal that the tax authorities have views on tax regulations and circumstances that are different from those of Roy. In particular, the possibility cannot be excluded that the Company or its subsidiary will be required to make additional tax payments.

Under the tax laws of the PRC, any entity is subject to a late payment fee for any delay in tax payment at 0.05% of the unpaid tax for each delayed day. Taxpayers with underpaid tax may also be subject to penalties ranging from 50.0% to 500.0% of the underpaid tax. Taxpayers who fail to withhold and pay tax may be subject to penalties ranging from 50.0% to 300.0% of the tax not withheld.

In addition of any additional tax payments, there is also an interest risk as, typically after a grace period, interest must be paid on additional tax payments. Furthermore, there is a risk that tax penalties could be triggered.

There is a risk that the Company might not benefit from certain tax exemptions under the German Trade Tax Act. Dividend distributions from LLH, Cayman Islands, to the Company are inter alia subject to German trade tax at the level of the Company. A portion of 95% of these dividends might be exempted from German trade tax, if certain requirements are met; *inter alia* that LLH and the underlying subsidiaries are deriving so-called active income in the

meaning of the German rules on Controlled Foreign Corporations ("**CFC rules**") (Foreign Tax Act).

Since the Company is holding indirectly its participations in SFC and SFE through intermediate holding companies established in low tax countries, there is a risk that the income derived at lower levels will be attributed to the Company and taxed in Germany. This will increase the tax burden and tax liability payable at the Company's level.

4.2.3 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 has no effective legal mean 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.

4.2.4 Risks regarding necessary approvals and licenses

SFC and SFE have the necessary operating licenses to conduct its respective business in the PRC. The licenses are subject to an annual check by the competent authorities which requirements regarding the standards of compliance may change. SFC and SFE are subject to the supervision of the authorities, each of which may be able to revoke or refuse to grant and/or to extend the licenses.

If any of the activities carried out by Roy fails to meet the requirements of current rules or regulations and Roy is held liable or responsible, or if Roy fails to obtain the grant or renewal of the required licenses or approvals, such failure and any potential penalties could have a material and adverse effect on Roy's business and its net assets, financial condition and results of business.

4.2.5 Risks related to warranty and product liability

Roy might be subject to warranty and product liability risks in case any of the goods and/or products delivered might be defective. Due to Roy's high production volume there does exist an increased error risk throughout the production process. Warranty risks particularly would arise in case the delivered goods or products have a lack or deficiency. Product liability risks could be even more severe, e.g. in case personal injuries would arise due to a defective product.

4.2.6 Risks of fluctuations in foreign exchange rates

Fluctuations in foreign exchange rates of the Renminbi currency may materially and adversely affect Roy's future financial conditions and results of operations in particular because its operating currency is Renminbi ("**RMB**") whilst its consolidated financial statements are prepared in EUR.

The consolidated financial statements of LLH contained in this Prospectus were prepared in Euro ("**EUR**"). The future consolidated financial statements of LLH will also be prepared in

EUR. However, the operating currency of Roy is RMB with the exception of the import of minor items to be paid in EUR. The RMB is currently not a freely convertible currency. Rather the value of RMB is controlled by PRC authorities.

A devaluation of the RMB against the EUR would have an adverse currency translation effect on the Company's consolidated financial statements and the value of the potential dividend payments by the Company to its shareholders in the future. Otherwise a strong RMB may harm the competitiveness of PRC exporters as the prices of products produced in the PRC will be relatively higher than good produced in other countries.

4.2.7 Risks related to Conducting Business in the PRC

4.2.7.1 Risks of changes in the PRC's political and economic policies

The economy of the PRC differs in many respects from the majority of economies of other developed countries. For example the level of government involvement, the growth rate, the level of development, the control of foreign exchange and allocation of resources differs significantly.

The economy of the PRC has been transitioning from a planned economy to a more market oriented economy in the last decades during which the government of the PRC has implemented economic reform measures promoting the effects of market forces in the development process. The PRC's government continues to play a very significant role in regulating industries by imposing industrial policies.

Even if the economy of the PRC has been grown significantly in the last three decades, this growth has been uneven geographically among various sectors of the economy and during different periods. There can be no assurance that the economy of the PRC will continue to grow like in the past or that such growth will be steady and uniform.

Although the Company believes that the continuing economic reforms will have a positive effect on the PRC's overall and long-term development, the Company cannot exclude any changes in the political, economic and social conditions in the PRC which could have in turn a material adverse effect on the current or future business of Roy, its operational results or financial conditions.

4.2.7.2 Risks of changes in the economic, political and legal environment and developments

Investors should considerer in connection with the aforementioned risks that all of Roy's business operations are conducted in the PRC and that therefore all revenues are generated by SFC and SFE. Investors should be aware that Roy's business is therefore subject to greater risks that businesses are in more developed markets, including significant legal, economic and political risks. Moreover, emerging economies like the economy of the PRC are subject to rapid changes and the information set out herein may become outdated quickly. Investments in emerging markets or in companies which are operating in emerging markets are generally exposed to additional risks and are generally only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisors before making an investment into the Company.

4.2.7.3 Risks of fluctuation in the global economy

Further the economy of the PRC is vulnerable to market downturns and to economic slowdowns elsewhere in the world as it is strongly export-oriented. As seen in the past, financial crisis and/or the perceived risks associated with investments in the PRC or in

emerging economies in general could decelerate foreign investments in the PRC and the consequence could be severe liquidity problems of many businesses.

4.2.7.4 Rising labor costs in the PRC

The workforce of Roy is located in the PRC. As at 31 December 2014 Roy employed 495 staff which consists mainly of sales staff stationed across the PRC and factory workers at the ceramics manufacturing plant in Beijing. Labor costs comprise wages, social security contributions and other welfare benefits. The average monthly wage per capita of Roy's staff in the PRC was EUR 342 in FY 2011 EUR 473 in FY 2012, EUR 655 in FY 2013 and EUR778 in FY 2014, and is likely to increase in FY 2015 and subsequent years.

According to the general increases of the salary standards for workers in the PRC, Roy must pay higher salaries in order to remain an attractive employer. In addition, new obligations imposed on employers and enhanced employee protection measures, such as restrictions on the dismissal of employees, and the requirement to pay a severance payment in case of prior termination of an employment agreement may also lead to an increase in Roy's labor costs.

In the future, labor costs could continue to increase significantly and additional legislation could be enacted that further increases on employer's obligations to pay employee benefits.

4.2.7.5 Possible restrictions upon foreign control of PRC companies

In the context of the PRC's accession to the World Trade Organization ("**WTO**") in 2001, the PRC undertook to eliminate certain trade-related investment measures and to open up certain industry sectors that had been closed to foreign investment before. Even if the PRC has complied most of its WTO commitments, foreign investors still encounter barriers in practice as some of the newly enacted or modified laws and regulations are enforced in an inconsistent manner by different authorities. Further, there is a risk that the government of the PRC could tighten its attitude towards foreign investors in other areas not covered by the WTO commitments of the PRC.

The Ministry of Commerce ("**MOFCOM**") and the National Development and Reform Commission ("**NDRC**") have issued the Foreign Investment Industry Guidance Catalogue that divides certain investment projects into three categories: encouraged, restricted and prohibited, with industries and sectors that are not mentioned or listed deemed to be permitted. The Foreign Investment Guidance Catalogue is regularly revised. It has last been amended in December 2011 and became effective on 30 January 2012. Should the ceramic production industry in particular be subject to restrictions or prohibitions in the course of this revisions or any further revision, this could have material adverse effects on the business, financial condition and results of operations of Roy.

4.2.7.6 Changes in environment laws and regulations

The business operations of Roy in the PRC are subject to environmental laws and regulations applicable in the PRC. The Chinese environmental laws and regulations require Chinese enterprises engaged in the manufacturing that may cause environmental wastes to adopt effective measures to control and properly dispose industrial wastes. If pollution is caused though failures to comply with such laws and regulations the relevant environmental authorities may levy material fines on the respective polluter. Further the governmental authorities have the discretion to cease or close down any operation in case of failure to comply with such laws and regulations seriously. There is also the risk that the Chinese environmental protection laws and regulations are tighten in the future which could lead to additional costs for Roy which could lead in turn to higher prices of the products of Roy and therefore less ability to compete.

4.2.7.7 Uncertainties and inconsistencies of the legal system of the PRC

The legal system of the PRC is based on written statues, prior legal decisions and judgments have only limited precedential value. The legal system of the PRC is still considered to be underdeveloped compared with the legal systems in some western countries. The process of developing a comprehensive statutory framework in the PRC is still in progress.

Since the Cultural Revolution the legislative bodies of the PRC have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. Since then, there has been a tendency in legislation towards increasing protection of foreign investors and significant progress has been made in the legal system of the PRC.

However, even if significant improvements of the legal system are recognizable, the PRC still does not have a comprehensive system of laws. For example the enforcement of existing laws and regulations may be uncertain or inconsistent and the interpretation of laws and regulations may change from time to time.

Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local governments, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Depending on the government agency or how an application or a case is presented to such agency, Roy may receive less favorable interpretations of law than its competitors. In addition, any litigation in the PRC may be protracted and result in substantial legal costs and diversion of resources and management attention. Also legal uncertainty in the PRC may limit the legal protection available to potential litigants.

4.2.7.8 Risk of changes of the tax status

The currently applicable tax rules and their interpretation relating to an investment in Roy may be subject to adverse changes in the future. The applicable tax rates may change in the future. Any changes in Roy's tax status, in taxation legislation or its interpretation could affect the value of the investments held by the Company, its ability to provide returns to shareholders and/or alter the post-tax returns to shareholders. Statements in this Prospectus concerning the taxation of Roy and the Company's investors are based on current tax laws and practices which are subject to change. Further, the taxation regime in the PRC may change again and could have an adverse impact on the after-tax profits of Roy.

As all operational profits are generated by SFC and SFE, which are subject to the tax legislation of the PRC, the materialization of the above mentioned risks could have a material and adverse effect on Roy's business, net assets, financial condition and results of operation.

4.2.7.9 Risks resulting from difficulties with the enforcement of court decisions

The judicial system of the PRC may not be as independent and immune to economic, political and nationalistic influences as for example judicial systems in European jurisdictions. The court system in the PRC is largely understaffed and underfunded. Since courts in the PRC are financially dependent on the respective local government, judges tend to favor the economic interest of the municipalities or provinces and the enterprises located there. The independence of judges is further undermined by the fact that Chinese judges are only appointed for a limited period of time and may be dismissed during their term of office. Many older judges have not had any prior legal education. Judges and courts in the PRC are often inexperienced in the area of business law. Not all PRC legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. Enforcement of court orders can, in practice, be very difficult in the PRC. Additionally, court

decisions are often used for the encouragement of political and commercial aims. Roy might be sued, subject to such claims, by competitors or other parties and may not be able to receive a fair hearing in the course of the respective trial or legal procedure. Judicial decisions can also be unpredictable and may not provide effective remedies. Such uncertainties also extend to property rights. It cannot be ruled out that any expropriation or nationalization of any of PRC subsidiaries, their assets or portions thereof, might happen, potentially without adequate compensation.

4.2.8 Risk Management

Roy is exposed in particular to risks from movements in exchange rates as well as liquidity risk, price and credit risks that may affect the Group's assets, liabilities and forecast transactions as well as the operational risks of predominantly doing business in the PRC which have been addressed above.

Financial risk management aims to mitigate these risks through ongoing operational and finance activities.

As over 95% of the Group's revenues are denominated in RMB, most of the Group's transactions are settled in RMB, and most of the Group's trade and other receivables and bank balances are held in RMB. As such there is negligible foreign currency risk from operational activities and therefore no requirement for foreign currency hedging. There is however exposure to foreign currency risk in the preparation of the financial statements of the Group 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.

The following table approximates the sensitivity to a reasonably possible change in the foreign currency RMB (from a presentation currency Euros perspective) at the end of the reporting period with all other variables held constant:

	2014 Keur	2013 Keur
Effects on profit after taxation		
RMB/EUR strengthened by 10%	1,473	1,236
RMB/EUR weakened by 10%	(1,473)	(1,236)

Credit risks are mitigated by careful vetting procedures on non- retail customers and close follow up of trade receivables.

Operational risk of doing business in the PRC are mitigated by the close day to day management of Roy's experienced management team in the PRC.

As Roy has no bank borrowings or financial instruments the interest rate risk is considered to be negligible.

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 has an internal control system in place. In addition, Roy has a risk management system under which appropriate structures and processes for (Group) accounting and financial reporting are defined and implemented throughout the organisation. This system is designed to guarantee timely, uniform and accurate accounting for all business processes and transactions. It ensures compliance with statutory regulations, accounting and financial reporting standards, which is binding upon all the companies included in the consolidated financial statements. The relevance and consequences for the consolidated financial statements of any amendments to laws, accounting or financial reporting standards or other pronouncements are continually analysed.

Apart from defined control mechanisms such as system-based and manual reconciliation processes, the fundamental principles of the internal control system include the segregation of duties and compliance with directives and operating procedures. The accounting and financial reporting process for Roy is managed by the Accounting Department of Roy and an external German service provider supporting the IFRS-based financial reporting.

The Group companies prepare their financial statements locally and transmit them with the aid of a data model that is standardised throughout the Group. The Group companies are responsible for their compliance with the directives and procedures applicable throughout the Group and for the proper and timely operation of their accounting-related processes and systems. The employees involved in the accounting and financial reporting process receive regular training, and the Group companies are supported by an external service provider. As part of the process, measures are implemented that are designed to ensure the regulatory compliance of the consolidated financial statements. These measures serve to identify and evaluate risks, and to limit and monitor any risks that may be identified. For example, material new contractual relationships are systematically tracked and analysed.

The consolidated financial statements are prepared by a German external service provider centrally on the basis of the data supplied by the included subsidiaries. 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. At least one additional check by a second person is carried out at every level. Defined approval procedures must be observed at all stages in the accounting process.

6 Remuneration System

6.1 Remuneration of the Managing Director

The current managing director is Mr. Harald Paul Goldau, who is also a member of the administrative board of Roy Ceramics SE. Mr. Goldau 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. Goldau may only be withdrawn for cause.

The Company has conducted an agreement with the managing director with respect to this position within the Company. According to this agreement, the managing director is entitled to a remuneration of EUR 8,000 per month.

The current managing director has no shareholdings in the Company and no options to shares in the Company.

As the current managing director is neither directly nor indirectly shareholder in the Company, he does not have any personal interest in the development of the value of the shares.

6.2 Remuneration of the Members of the Administrative Board

The current administrative board of the Company has the following members:

Name	Member since
David Adamson Hirst	18 September 2014
Surasak Lelalertsuphakun	18 September 2014
Dipl. Ing. Harald Goldau	Incorporation

Each member of the administrative board is entitled to an annual fee of EUR 18,000.00, the chairperson to an annual fee of EUR 24,000.00 and the deputy chairperson to an 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.

Since Mr. Goldau is both, managing director and also a member of the administrative board he receives no additional compensation for his membership in the administrative board beyond his service contract as a managing director.

The shareholding interests of the members of the administrative board are as follows:

Mr. Surasak Lelalertsuphakun is a beneficiary to the extent of 47.2% of Shine Eagle Trust reg., which is the biggest shareholder of the Company owning 65.0% of the shareholding interest of the Company. Mr. Surasak Lelalertsuphakun is a mere beneficiary of Shine Eagle Trust reg. and has no direct or indirect shareholdings in the Company or options to shares in the Company.

Mr. David Adamson Hirst directly owns 163,875 shares of the Company.

Mr. Harald Paul Goldau owns neither directly nor indirectly a shareholding interest of the Company.

Apart from these shareholdings no other shares are held by any member of the administrative board or by the managing director and no other share options exist.

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 (*gezeichnetes 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.

The Company was established with a registered share capital of EUR 120,000 divided into 120,000 no par value ordinary bearer shares (Inhaber-Stückaktien).

On 21 November 2014 the share capital was increased by shareholders' resolution through contribution in kind (*Sacheinlage*) where all shareholders of LLH contributed or arranged for the contribution of all shares in LLH, i.e. 12,990,000,000 shares of US$ 0.01 each, against the issuance of 12,990,000 no par value ordinary bearer shares (*Inhaber Stückaktien*) each with a notional amount of EUR 1.00. The share capital increase became effective on 15 December 2014 with the registration in the commercial register of the local court (Amtsgericht) of Munich.

The Company's current share capital, amounting to EUR 13,110,000 and divided into 13,110,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) with a notional amount of EUR 1.00 each, is fully paid in.

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 to the Company's individual financial statements.

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 programme 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 represents 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. 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. 2 of the articles of association of ROY Ceramics SE, the administrative board of the Company has three 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 1 January 2019, 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 1,311,000. The new shares are entitled to a dividend from the beginning of the Company's financial year in which they are issued.

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, laims 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 ten percent of the registered capital of the Company at the moment of registration with the commercial register of this authorized capital nor in total exceeds ten percent 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.

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

The Management Board of Roy Ceramics SE has prepared a report on the relations of the Company to affiliated enterprises pursuant to Section 312 Para 1 Sentence 1 of the Stock Corporations Act. The Management Board of Roy Ceramics SE declares as follows:

“Based on the circumstances known to us at the time when the transactions were entered into, Roy Ceramics SE has received adequate consideration in each transaction described in the report on the relations to affiliated enterprises. There have not been any reportable other measures during the reporting period.”

9 Outlook

The outlook for the Roy group in 2015 remains positive with continued emphasis on building the successful business in the PRC.

Expectations of the administrative board are for FY2015 revenues to increase by 10 to 15% from 2014 levels and for Profit and EBITDA for the FY 2015 to be approximately 10% higher than for 2014.

This forecast estimate are base on the assumption that PRC economic will continue to grow at between 6% to 7% in 2015 and that property development project in the PRC in 2015 will be at similar level to 2014.

ROY CERAMICS SE

CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 1 TO DECEMBER 31, 2014

ROY CERAMICS SE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2014

ASSETS	Notes	31/12/2014 kEUR	31/12/2013 kEUR
I. Current assets			
1. Bank balances and cash	20	34,888	21,375
2. Trade and other receivables	17	59,300	42,985
3. Inventories	16	15,399	11,813
4. Amount due from a director	18	1,047	709
5. Prepaid Lease payments	15	254	227
6. Amount due from a related company	19	170	0
Total current assets		111,058	77,109
II. Non-current assets			
1. Property, plant and equipment	14	120,656	111,701
2. Prepaid lease payments	15	7,492	6,939
3. Prepayments		962	1,617
Total non-curent assets		129,110	120,257
Total Assets		240,168	197,366

LIABILITIES AND EQUITY	Notes	31/12/2014 kEUR	31/12/2013 kEUR
I. Current liabilities			
1. Trade and other payables	21	10,785	8,269
2. Income tax payable		2,090	1,335
3. Amount due to a director	18	0	0
Total liabilities		12,875	9,604
II. Capital and reserves			
1. Share Capital*	22	13,110	91,317
2. Reserves	23	183,794	67,974
3. Non-controlling interests	30	30,389	28,471
Total equity		227,293	187,762
Total liabilities and equity		240,168	197,366

ROY CERAMICS SE

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

		Notes	2014 kEUR	2013 kEUR
1.	Revenue	8	103,457	79,431
2.	Cost of sales		-64,228	-47,909
3.	Other Income	9	151	124
4.	Distribution and selling expenses		-9,032	-6,972
5.	Administrative expenses		-9,128	-7,359
6.	Income tax expenses	13	-6,489	-4,949
7.	Profit for the year		14,731	12,366
8.	Exchange differences arising on translation		24,480	-313
9.	Total comprehensive income for the year		39,211	12,053
	Total comprehensive income for the year attributable to:			
	Owners of the Company		37,293	10,453
	Non-controlling interests		1,918	1,600
			39,211	12,053

ROY CERAMICS SE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Share capital* kEUR	Capital reserve kEUR	Translation reserve kEUR	Statutory reserve kEUR	Retained earnings kEUR	Total kEUR	Non-controlling interest kEUR	Total kEUR
At January 1, 2013	90,497	21,968	20,757	556	14,938	148,716	26,993	175,709
Exchange differences arising from translation of foreign operations	0	0	-313	0	0	-313	0	-313
Profit for the year	0	0	0	0	10,766	10,766	1,600	12,366
Total comprehensive income for the year	0	0	-313	0	10,766	10,453	1,600	12,053
Transfer	0	0	0	506	-384	122	-122	0
Issued by capitalisation of contributed surplus (Note 21)	820	-820	0	0	0	0	0	0
At December 31, 2013	91,317	21,148	20,444	1,062	25,320	159,291	28,471	187,762
At January 1, 2014	91,317	21,148	20,444	1,062	25,320	159,291	28,471	187,762
Exchange differences arising from translation of foreign operations	0	0	24,480	0	0	24,480	0	24,480
Profit for the year	0	0	0	0	12,813	12,813	1,918	14,731
Total comprehensive income for the year	0	0	24,480	0	12,813	37,293	1,918	39,211
Transfer	0	0	0	649	-649	0	0	0
Paid Share Capital at founding 8 May 2014	120	0	0	0	0	120	0	120
Increase of Capital Stock contribution payments	0	200	0	0	0	200	0	200
Increase of Capital Stock contribution in kind	12,990	0	0	0	0	12,990	0	12,990
Arising from contribution in kind **	-91,317	78,327	0	0	0	-12,990	0	-12,990
At December 31, 2014	13,110	99,675	44,924	1,711	37,484	196,904	30,389	227,293

ROY CERAMICS SE
CONSOLIDATED CASH FLOW STATEMENT
For the year from 1 January until 31 December 2014

	2014 kEUR	2013 kEUR
Operating activities		
Profit before taxation	21,220	17,315
Adjustments for		
Amortisation of prepaid lease payments	233	233
Depreciation	3,698	3,679
Write down of inventories	1,324	0
Impairment loss on trade and other receivables	613	245
Non-cash consultancy fee	773	763
Operation cash inflow before changes in working capital	27,861	22,235
Decrease (increase) in inventories	-3,586	8,909
Increase in trade and other receivables	-16,315	-14,906
Increase in amount due from a director	-338	-709
(Decrease) Increase in trade and other payables and accruals	2,454	-294
Decrease (increase) in amounts due from a related party	-170	0
Decrease in amount due to a director	0	-68
Cash generated from operations	9,906	15,167
Income tax paid	-5,734	-4,792
Net cash generated from operating activities	4,172	10,375
Investing activities		
Interest received	151	124
Purchase of property plant and equipment	0	-155
Cash acquired on acquisition of subsidiaries	0	0
Net cash used in investing activities	151	-31
Financing activities		
Proceeds from issue of shares	0	0
Net cash generated from financing activities	0	0
Changes in cash and cash equivalents due to first-time consolidation*	213	0
Net increase in cash and cash equivalents	4,536	10,344
Adjustments due to currency translation	8,977	-514
Cash and cash equivalents at beginning of the year	21,375	11,545
Cash and cash equivalents at end of the year, representing bank and cash balances	34,888	21,375

ROY CERAMICS SE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. General information

Roy Ceramics SE (the "Company") is the parent company of the Group. The Company is a European stock corporation, founded on 8 May 2014, recorded in the commercial register (HRB 211752) of Munich, Germany, with business address at Bockenheimer Landstraße 17/19, 60325 Frankfurt am Main. The Shine Eagle Trust Reg., Balzers, Liechtenstein was the sole shareholder at the founding of the company.

On 5 and 14 November 2014 all shareholders of LION LEGEND HOLDINGS LIMITED (LLH), incorporated in the Cayman Islands, entered into a contribution agreement with the Company whereby they undertook to transfer and arrange for the transfer of all issued shares in LLH, 12,990,000,000 shares of USD 0.01 each, to the company against the issuance of 12,990,000 no par value ordinary bearer shares in the Company in proportion to their stakes in the share capital of LLH. The contribution agreement and the capital increase by way of contribution in kind was approved by an extraordinary shareholders' resolution dated 21 November 2014 and has been registered with the commercial register of the local court of Munich on 15 December 2014. The new no par value ordinary bearer shares in the company were issued to the former shareholders of LLH. The total notional value of the newly issued shares in the amount of EUR 12,990,000 is to be booked as registered share capital of the company. Shine Eagle Trust Reg. now holds 65 % of the Company's shares.

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 29.

Since in December 2014, the Company acquired 100% of the shares in LLH by a contribution in kind while the relative percentage of ownership in the Company as compared with the relative percentage ownership in LLH has not changed with this transaction, the transaction is to be considered a transaction under common control within the meaning of IFRS 3.B1, for which IFRS 3 is not applicable. The accounting as a reverse acquisition in terms if IFRS 3.B19

is also not applicable, because the presence of a business of Roy Ceramics SE prior to the transaction would have been required to apply the rules of IFRS 3.B19. The contribution of the shares of LLH into the Company has been recognised, considering the economic substance of the transaction analogous to a reverse acquisition, as described in the chapter for significant accounting policies (b) business combinations.

The consolidated financial statements are presented in thousand units of Euro (EUR). The functional currency of the Group is Renminbi (RMB). Rounding differences may arise when individual amounts or percentages are added together.

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

2014 Profit or loss and comprehensive income items: 8.1566 RMB to 1 Euro, and

2014 Statement of Financial Position: 7.479 RMB to 1 Euro.

The consolidated financial statements were authorised for issue by the Managing Director to the Administrative Board on 29th April 2015.

2. Basis of preparation

These consolidated financial statements have been prepared in 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.

Comparative figures for 2013 relate to the 2013 audited consolidated financial statements of Lion Legend Holdings Limited.

3. Application of new and revised International Financial Reporting Standards ("IFRS")

In the current year, the Group has applied the following new and revised IFRSs and interpretations for the first time:

Amendments to IFRS 10, IFRS 12 and IFRS 27	Investment Entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC 21	Levies

Except as explained below, the application of the new and revised IFRSs and interpretations in the current year has no material impact on the Group's consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an

investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at January 2014), the application of the amendments has had no impact on the disclosures or the amount recognised in the Group's consolidated financial statements.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to

which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset of a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The Group had applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amount recognized in the Group's consolidated financial statements.

IFRIC 21 *Levies*

The Group has applied IFRIC – Int. 21 Levies for the first time in the current year. IFRIC – Int. 21 addresses the issue as to when to recognize a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability as the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operation in a future period.

IFRIC – Int. 21 has been applied retrospectively. The application of the Interpretation has had no material impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[6]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Safe or Contribution of Assets between an investor and its Associate or Joint Venture[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]

1 *Effective for* annual periods beginning *on or* after 1 January 2018, with earlier application permitted – EU endorsement expected
2 *Effective for first* annual IFRS financial statements beginning o*n or* after 1 January 2016, with earlier application permitted – no decision about EU endorsement applicable
3 Effective *for* annual periods beginning o*n or* after 1 January 2017, with earlier application permitted – EU endorsement expected
4 Effective *for* annual periods beginning *on or* after 1 July 2014, *with* earlier application permitted
5 Effective *for* annual periods beginning *on or* after 1 January 2016, with earlier application permitted - EU endorsement expected
6 Effective *for* annual periods beginning *on or* after 1 July 2014, *with* earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for

the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments:* Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not hold for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of Instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- The directors of the Company anticipate that the application of IFRS 9 in the future may have a material Impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 *Revenue* from *Contracts with Customers*

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contacts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contact
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments stake that the relevant principles an accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a Cash generating unit to which goodwill an acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business Is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning an or alter 1 January 2016. The directors of the Company do not anticipate that the application of

these amendments to IFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The Amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The directors of the Company do not anticipated that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.
For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost
- In accordance with IFRS 9 *Financial Instruments* (or IAS 39 Financial Instruments: *Recognition and Measurement* for entities that have not yet adopted IFRS 9), or
- Using the equity method as described in IAS 28 *Investment in* Associates and *Joint Ventures.*

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an Investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to IAS 27, there are consequential amendments to IAS 28 to avoid a potential conflict with IFRS 10 *Consolidated* Financial Statements and IFRS 1 First-time *Adoption of International* Financial *Reporting Standards.*
The directors of the Company do not anticipate that the application of these amendments to IAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 *Sole or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IAS 28:
The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's financial statements.
A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for a single transaction.

The amendments to IFRS 10:
An exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

New guidance has been introduced requiring that gains or losses resulting from those transactions are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of those amendments to IFRS 10 and IAS 28 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The *Annual Improvements to IFRSs 2010-2012 Cycle* include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for `performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial Instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘similar economic characteristics’; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to IFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The *Annual Improvements to IFRSs 2011-2013 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and

(b) the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The *Annual Improvements to IFRSs 2012-2014 Cycle* include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to IFRS 7 Disclosure - Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 *Interim Financial Reporting*.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognized in retained earnings at the beginning of that period.

The amendments to IAS 34 clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments required that such Information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial

report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated 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 goods.

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; and
- 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. The contribution of shares of LLH in the Company has been accounted for applying the merger accounting for common control business combinations as follows.

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. The merger accounting as described was applied in the financial statements of the Group regarding the contribution in kind of the shares in LLH, the major transaction for the Group in 2014 as described in Notes 1 (General Information) and summarized as follows from an accounting

policy point of view. In December 2014 ROY CERAMICS SE acquired 100% of the shares in LLH by a contribution in kind. Since the relative percentage of ownership of the shares in ROY CERAMICS SE after the transaction has not changed as compared with the relative percentage ownership in LLH before the transaction, the transaction is to be considered a transaction under common control within the meaning of IFRS 3.B1, for which IFRS 3 is not applicable. The accounting as a reverse acquisition in terms if IFRS 3.B19 is also not applicable, because the presence of a business of ROY CERAMICS SE prior to the transaction would have been required to apply the rules of IFRS 3.B19. The contribution of the shares of LLH into the Company has been recognised, considering the economic substance of the transaction **analogous to a reverse acquisition** within the principles of merger accounting.

Additional information on business combination:
On 5 and 14 November 2014 all shareholders of Lion Legend Holdings Limited ("LLH") entered into a contribution agreement with the Company whereby they undertook to transfer and arrange to transfer all the issued shares in LLH to the Company. This contribution agreement and the capital increase in the Company by way of contribution in kind was approved by an extraordinary shareholders' resolution dated 21 November 2014 and was formally registered with the commercial register in the Munich local court on 15 December 2014. Consequently the effective date of acquisition of LLH is considered to be 21 November 2014.
The primary reason for the acquisition of the LLH Group by the Company is for the purpose of acquiring the ROY ceramics business in the PRC owned by LLH and thereby facilitating the listing of the Company's shares on the regulated market segment of the Frankfurt Stock Exchange.
Effective from the acquisition date of 21 November 2014 the Company acquired 100% of the assets and liabilities of LLH which included LLH's 100% shareholding in Kingbridge Investment Limited (which owns 67.11% of the shares issued by Siu Fung Ceramics (Beijing) Sanitary Ware Co., Ltd. and LLH's 100% shareholding in Hillmond International Holdings Limited (which owns 10.89% of the shares issued by Siu Fung Ceramics (Beijing) Sanitary Ware Co.,Ltd. and 100% of the shares issued by Siu Fung Expo (Beijing) Investment Company Limited).

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 transferred by the

Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. 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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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 remeasured 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 remeasured 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 reporting 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 recognised, 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.

(c) Investements 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.

Significant accounting policies (con't)

(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 accumulated 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.

Significant accounting policies (con't)

(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 financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in profit or loss.

Significant accounting policies (con't)

(h) Financial instruments (con't)

Financial assets

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

Effective interest method

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

Significant accounting policies (con't)

(h) Financial instruments (con't)

Financial assets (con't)

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 and bank and cash balances) 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 re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Significant accounting policies (con't)

(h) Financial instruments (con't)

Financial assets (con't)

For certain categories of financial asset, such as trade and other receivables, assets 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.

Significant accounting policies (con't)

(h) Financial instruments (con't)

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.

Significant accounting policies (con't)

(h) Financial instruments (con't)

Financial liabilities and equity instruments (con't)

Other financial liabilities

Other financial liabilities including trade and other payables (excludes accruals and other tax payables) and amount due to a director are subsequently measured at amortised cost, using the effective interest 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.

Significant accounting policies (con't)

(h) Financial instruments (con't)

Financial liabilities and equity instruments (con't)

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

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

(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 estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

Significant accounting policies (con't)

(i) Impairment losses of tangible assets (con't)

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 represents amounts receivable for goods sold in the normal course of business, net of discounts 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; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Significant accounting policies (con't)

(j) Revenue recognition (con't)

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 environment 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

Significant accounting policies (con't)

(l) Foreign currencies (con't)

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 exchange 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.

Significant accounting policies (con't)

(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.

Significant accounting policies (con't)

(p) Taxation (con't)

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

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

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

Significant accounting policies (con't)

(p) Taxation (con't)

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).

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.

Critical judgements in applying the entity's accounting policies

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.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

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

Critical accounting judgements and key sources of estimation uncertainty (con't)

Write down of inventories

Key sources of estimation uncertainty (con't)

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. An allowance for obsolete items of approximately kEUR 1,324was provided as at December 31, 2014 (2013: 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, 2014, the carrying amount of the trade and other receivables net of provision for impairment loss of approximately kEUR 30,807 and kEUR 29,455 (2013: kEUR 21,766 and kEUR 22,836) respectively. During the year ended December 31, 2014, impairment loss in respect of trade and other receivables was recognised in the consolidated statement of profit or loss amounting to kEUR 613 (2013: kEUR 245).

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.

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.

	2014 kEUR	2013 kEUR
Net debt (totally composed by positive	34,888	21,375
Equity attributable to owners of the company	196,904	159,291

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

Categories of financial instruments

	2014 kEUR	2013 kEUR
Financial assets		
Loans and receivables (including trade and other receivables, prepayments, amount due from a director and bank and cash balances):	95,659	65,296
Financial liabilities		
Liabilities measured at amortised cost (including trade and other payables, excluding accruals and other tax payables, and amount due to a director):	9,149	7,110

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

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Other than certain bank balances and deposits, most of the Group's financial instruments such as trade and other receivables are denominated in RMB. In terms of the Group's operating activities over 95% of all revenues and expenses are denominated in RMB which is the functional currency of the operating subsidiaries in China. 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 RMB (from a presentation currency EUR perspective) at the end of the reporting period, with all other variables held constant.

	2014 kEUR	2013 kEUR
Effects on Profit after Taxation		
RMB/EUR - strengthened by 10%	1,473	1,236
- weakened by 10%	(1,473)	(1,236)

The Group currently does not have a foreign currency hedging policy. 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 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.

Financial instruments (con't)

Financial risk management objectives and policies (con't)

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.

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

The Group has a concentration of credit risk since 9% and 28% of total trade receivables were due from the Group's largest customer and the five largest customers respectively.

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 Group has no covenants with banks for the banking facilities granted.

Financial instruments (con't)

Financial risk management objectives and policies (con't)

Liquidity risk (con't)

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.

	On demand or within one year kEUR	Total discounted cash flows kEUR	Carrying amount kEUR
At 31 December 2014			
Non-derivative financial liabilites:			
Trade and other payables	9,149	9,149	9,149
	9,149	9,149	9,149
At 31 December 2013			
Non-derivative financial liabilites:			
Trade and other payables	7,110	7,110	7,110
	7,110	7,110	7,110

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. Other income

	2014 kEUR	2013 kEUR
Bank interest income	151	124

10. Profit before tax

The Group's profit before tax is arrived at after charging:

	2014 kEUR	2013 kEUR
Auditor's renumeration	50	22
Amortisation of prepaid lease payments	233	233
Depreciation	3.698	3.679
Impairment loss on trade and other receivables	613	245
Write down of inventories (included in cost of sales)	1.324	0
Minimum operating lease payments in respect of rented premises	391	251
Staff costs:		
Salaries and allowances (including director's emoluments)	4.621	3.577

11. Directors' emoluments

	2014 KEUR	**2013** KEUR
Directors' fees-fixed	64	0
Administrative Board fees-fixed	32	0

Directors' fees relate to fees paid to the Managing Director.

12. Finance costs

No finance cost incurred in both years.

13. Income tax expense

	2014 kEUR	2013 kEUR
Current tax:		
PRC Enterprise Income Tax ("EIT")	6,489	4,949

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 are 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:

	2014 kEUR	2013 kEUR
Profit before tax	21,220	17,315
Tax at the applicable tax rate of 25 % in the PRC (2013: 25 %)	5,305	4,329
Tax effect of non deductible expenses	1184	620
Income tax expense for the year	6,489	4,949

The Group’s effective tax rate is 30,6% (2013: 28,6%). Under the law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately kEUR 6,630 (2013: kEUR 4,902) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The Group has no unprovided deferred tax liabilities during the year or at the end of the reporting year.

14. Property, plant and equipment

	Buildings held for own use	Leasehold improvements	Machineries	Office equipment	Motor vehicles	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
At Cost or valuation						
At 1 January 2013	13,357	3,925	127,918	876	1,060	147,137
Currency Adjustments	-3	-3	-28	0	0	-34
Additions	0	155	0	0	0	155
At 31 December 2013	13,354	4,077	127,890	876	1,060	147,258
Currency Adjustments	1,553	474	14,871	101	123	17,122
Additions	0	0	0	0	0	0
At 31 December 2014	14,907	4,552	142,761	977	1,183	164,379
Accumulated depreciation						
At 1 January 2013	9,558	1,670	20,145	352	242	31,967
Provided for the year	257	224	2,909	95	194	3,679
Currency Adjustments	-8	-5	-69	-4	-4	-90
At 31 December 2013	9,807	1,889	22,985	443	432	35,556
Provided for the year	257	240	2,912	95	195	3,698
Currency Adjustments	1,163	241	2,936	60	68	4,469
At 31 December 2014	11,227	2,371	28,833	598	695	43,724
Carrying values						
At 31 December 2013	3,547	2,188	104,905	433	628	111,701
At 31 December 2014	3,679	2,181	113,928	379	489	120,656

Property, plant and equipment (con't)

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

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

15. Prepaid lease payments

	2014 kEUR	2013 kEUR
Analysed for reporting purposes as:		
Non-current asset	7,492	6,939
Current asset	254	227
	7,746	7,166

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases. The prepaid lease payments are amortised over a period of 50 years on a straight-line basis.

16. Inventories

	2014 kEUR	2013 kEUR
Raw materials	165	152
Finished goods	15,234	11,661
	15,399	11,813

17. Trade and other receivables

	2014 kEUR	2013 kEUR
Trade receivables	30,807	21,766
Other receivables	10,795	7,455
Prepayments	20,646	16,561
	31,441	24,016
Less: Impairment loss recognized	-1,986	-1,180
Other receivables and prepayment, net	29,455	22,836
Less: prepayments classifies as non current assets	-962	-1,617
	28,493	21,219
Trade and other receivables	59,300	42,985

The Group generally allows a credit period ranging from 180 days to 360 days to its project customers. Payment in advance is normally required for new customers and distributors. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2014 kEUR	2013 kEUR
Within 180 days	28,498	10,829
181 to 365 days	2,309	8,217
1 year to 2 years	-	2,720
Total	30,807	21,766

Trade and other receivables (con't)

Trade receivables that were neither past due nor impaired are related to a wide range of customers for whom there was no recent history of default.

As at December 31, 2013, included in the Group's trade receivables balances were debtors with aggregate carrying amount of approximately kEUR 2,720 which were past due as at the reporting date for which the Group had not provided for impairment loss. Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on payment pattern of the customers of the Group, the management believes that no impairment loss is necessary in respect of these balances as they are generally collectible. The Group does not hold any collateral over these balances.

As at December 31, 2014, there were no trade debtors past due.

18. Amount due from (to) a director

The amounts are unsecured, non-interest bearing and repayable on demand.

19. Amount due from a related company

The amount due from a related company relates to an amount due from Siu Fung Concept Ltd which is owned and controlled by Surasak Lelatersuphakun, a director of the Company.

The amount is unsecured, non-interest bearing and repayable on demand.

20. Bank balances and cash

As at December 31, 2014, kEUR 213 (2013: kEUR 0) of the bank balances were denominated in Euro and approximately kEUR 95 (2013: kEUR 172) of the bank balances and cash of the Group were denominated in Hong Kong Dollars, the remaining balances were denominated in RMB.

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.

21. Trade and other payables

	2014 kEUR	2013 kEUR
Trade payables	4,851	4,473
Other payables	1,972	819
Receipts in advance	2,388	1,818
Accrued payroll and staff welfare expenses	165	128
Other tax payables	1,409	1,031
	5,934	3,796
Trade and other payables	10,785	8,269

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

	2014 kEUR	2013 kEUR
Within 180 days	4,679	3,795
181 to 365 days	172	636
1 year to 2 years	-	42
Total	4,851	4,473

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.

	31 Dec 2014	Additions	Claims	31 Dec 2013
Other payables:				
Quality retention fees	1,910	1,910	658	658
General payables	-	-	153	153
Missing invoices	11	3	-	8
Fees for Administrative Board	15	15	-	-
Accountancy and audit fees	36	36	-	-
Total	1,972	1,964	811	819

22. Share capital

	Share Capital 2014 k€
As at founding	120
Increase in Share capital	12,990
As at 31 December 2014	13,110

The share capital amounts to € 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.

The Company made a capital increase which was executed against contribution in kind. The contribution in kind comprises the transfer of 12,990,000 shares in LLH by its shareholders.

After this transaction the Company had 48 minority shareholders who own approximately 35 % of the shares. The majority of 65 % are owned by Shine Eagle Trust Reg.

For details on the capital increase please refer to note 1 General Information.

The number of shares issued upon the founding of the company was 120,000 non-par value bearer shares. 12,990,000 new non-par value bearer shares were issued during the year as approved by an extraordinary shareholders meeting dated 21 November 2014. The total number of issued shares as at 31 December 2014 is 13,110,000.

Under the Company's Articles of Association, The Administrative Board is authorized to increase the registered share capital of the Company until 1 January 2019, by way of issuance of new non-par value bearer shares, in return for contributions in kind, once or several times, up to an aggregate amount of Euros 1,311,000.

Earnings per share:	2014	2013
Weighted average basis	8.00	6.71
Fully diluted basis	1.12	0.94

The calculation of earnings per share on the weighted average basis is based on the weighted average number of ordinary shares which was 1,840,897 during the period 8 May 2014 until 31 December 2014. The fully diluted basis is calculated on the 13,110,000 shares issued as at 31 December 2014. In order to provide a meaningful comparison the same number of shares issued has been applied to the 2013 earnings per share calculation. Exchange differences arising on translation are excluded from the earnings per share calculations.

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 1 January 2019, 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 1,311,000. The new shares are entitled to a dividend from the beginning of the Company's financial year in which they are issued.

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, laims 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 ten percent of the registered capital of the Company at the moment of registration with the commercial register of this authorized capital nor in total exceeds ten percent 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 represents amounts transferred from profit after taxation of the Group established in the PRC in accordance with the PRC laws and regulations.

Capital reserve: Capital reserve includes the increase of the capital of the parent company (kEUR 200) and the contribution in kind (Keur 78,327) 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. For further details on the transaction please refer to note 1 General Information.

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. Major non-cash transactions

(a) During the year, a non-cash consultancy fee amounting to kEUR 773 (2013: kEUR 763) was charged to profit or loss. Pursuant to board resolutions of LION LEGEND HOLDINGS LIMITED (LLH) passed in 2012, 500,000,000 LLH-ordinary shares of USD 0.1 each in LLH were allotted and issued, credited as fully paid at par, as the consideration for the consultancy services rendered to the Group for a period of five years commencing on 1 March 2012.

(b) Regarding the issuance of the shares in the parent company ROY CERAMICS SE, please refer to the details in Note 1 General information and to Note 4 Significant Accounting Policies (b) Business Combinations - Merger accounting for common control business combinations. This major non cash transaction consists in the issuance of shares in the parent company to the owners of LLH, which contributed in kind their shares in LLH into the parent company ROY CERAMICS SE. As described in Note 4 Significant Accounting Policies (b) Business Combinations - Merger accounting for common control business combinations, this transaction is to be treated analogous to the principles of a reverse acquisition.

25. Capital commitments

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

26. Retirement benefits schemes

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by the local social security bureau in the PRC. The Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund 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 contributes 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

During the year ended December 31, 2014, the total retirement benefit scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income amounted to approximately kEUR 745 (2013: kEUR 607).

27. 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:

	2014 kEUR	2013 kEUR
Within one year	372	193
in the second to fifth year inclusive	485	420
Total	857	613

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.

28. Related party transactions

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

	2014 kEUR	2013 kEUR
Consultancy fee paid to:		
- Hi Scene Industrial Ltd.	78	175
- Siu fung Concept Ltd.	21	82
- Luck Connection Limited	786	763

[1] Hi Scene Industrial Ltd is a shareholder of the Company and is controlled by a key management of SFE.

[2] Siu Fung Concept Ltd is a shareholder of the Company and is controlled by Surasak Lelalertsuphakun, a director of LLH and a member of the Administrative Board of the Company.

[2] Luck Connection Limited is a shareholder of the Company and is controlled by Deng Yun, who is also a director of LLH.

In addition as at 31st December 2014 there was an amount due from Siu Fung Concept Ltd of Keur 170 (2013:Keur Nil).

The above transactions were entered into with normal commercial terms.

29. Principal subsidiaries

Particulars of the Company's principal subsidiaries as at December 31, 2014 and 2013 are as follows:

Name of subsidiary	Place of operations and incorporation / established	Nominal value of issued ordinary share/ registered capital	Proportion of ownership interest and voting power held by the Company	Principal activity
Lion Legend Holdings Limited	Cayman Islands	USD 129,900,000	100% directly own	Investment holding
Kingbridge Investment Limited	BVI	USD 50,000	100% Indirectly own	Investment holding
Hillmond International Holdings Limited	BVI	USD 50,000	100% Indirectly own	Investment holding
Siu Fung Ceramics (Beijing) Sanitary Ware Company Limited ("SFC") (Note) 兆峰陶瓷(北京)潔具有限公司	The PRC	USD100,000,000	78% Indirectly own	Manufacturing and sales of ceramic sanitary wares and accessories
Siu Fung Expo (Beijing) Investment Company Limited ("SFE") 兆峰世博(北京)投資有限公司	The PRC	RMB100,000,000	100% Indirectly own	Sales of ceramic sanitary wares and accessories

Note: The entity is a sino-foreign joint venture established in the PRC.

30. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below details of non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of operations and established	Proportion of ownership interest and voting power held by non-controlling interest	Profit allocated to non-controlling interests	Accumulated non-controlling interests
Siu Fung Ceramics (Beijing) Sanitary Ware Company Limited 兆峰陶瓷(北京)潔具有限公司	The PRC	22%	kEUR 1,918 (2013: kEUR 1,600)	kEUR 30,389 (2013: kEUR 28,471)

Details of non-wholly owned subsidiaries that have material non-controlling interests (con't)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2014 kEUR	2013 kEUR
Current assets	67,594	47,979
Non-current assets	118,468	116,226
Current liabilities	6,161	4,658
Equity attributable to owners of the company	139,773	124,446
Non-controlling interests	30,389	28,471
Revenue	58,721	45,735
Expenses	49,930	38,461
Profit and total comprehensive income attributable to the owner of the company	7,656	5,673
Profit and total comprehensive income attributable to the non-controlling interests	1,918	1,600
Profit and total comprehensive income for the year	9,574	7,273
Net cash flow from operating acitivities and total net cash flow	5,847	7,298

31. Average number of employees:

The average number of employees of the Group during the year was as follows:
2014:475 and 2013:455.

32. Post Balance Sheet Event

On 26th March 2015 the Company submitted a Prospectus to BaFin for admission to trading on the regulated segment of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) and a Public Offering in the Federal Republic of Austria of all the Company's issued non-par value shares. The Prospectus has been approved by BaFin and application for admission to the Frankfurt Stock Exchange has been filed.

29 April 2015

Date Signature Mr. Goldau

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.

Frankfurt, April 30

The Administrative Board

Independent Auditors' Report (Translation)

We have audited the consolidated financial statements prepared by ROY Ceramics SE, München, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes, together with the group management report, to the consolidated financial statements, for the fiscal year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the group management report 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 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 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 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. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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 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.

Munich, April 30, 2015

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

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