ROY CERAMICS SE

Half-year Financial Report 2018

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

The newly formed Real Estate segment generated its first significant leasing income in the first half of 2018. Leasing income in the first half of the year totalled EUR 1.432 million. Despite this increase, a net loss of EUR 6.108 million was recorded for the first half of 2018. This substantial continuing loss was primarily attributable to scheduled depreciation of EUR 5.591 million on tangible assets, kEUR 410 of which stemmed from real estate activities.

In addition to further expansion of real estate projects, we are working to build up sanitary ware production again. Specific measures were taken to support our OEM partner in Thailand by providing ROY staff. A detailed feasibility study is also now underway to evaluate the prospects for building up ceramic sanitary ware production in Europe and the German market in particular. The final decisions will be taken as soon as a proper financial analysis and feasibility study has been completed for the ceramic sanitary ware project. Having production in Europe will enable us to focus on Europe's growing smart toilet seats market. In the meantime, there is little business activity in the ceramic sanitary ware field. The OEM producer in Thailand expects to record initial revenues soon, once it has built up capacity in accordance with our specifications and quality requirements.

In the growing real estate business we have further improved our position by concluding contracts for Jurupa Valley and 3300 Main to fill our real estate project pipeline. As is typical of development projects, these two projects are longer-term, with substantial revenues from both expected in 2021. We anticipate initial revenue from sales and leasing from the development of the six single-family homes in Houston as early as 2019. The corporate objective is to grow the real estate business into a stable income source for the ROY Group. We are aggressively moving forward on other promising real estate development projects.

In parallel we are working with financing partners on real estate project funding. We are utilizing the EB-5 programme and focusing our activities on the Hong Kong market.

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

Kind regards,

Dr. h.c. Siu Fung Siegfried Lee
CEO of Roy Ceramics SE

CONDENSED MANAGEMENT REPORT OF THE ROY CERAMICS SE GROUP FOR THE FINANCIAL HALF YEAR FROM 1 JANUARY 2018 TO 30 JUNE 2018

1. GROUP PROFILE

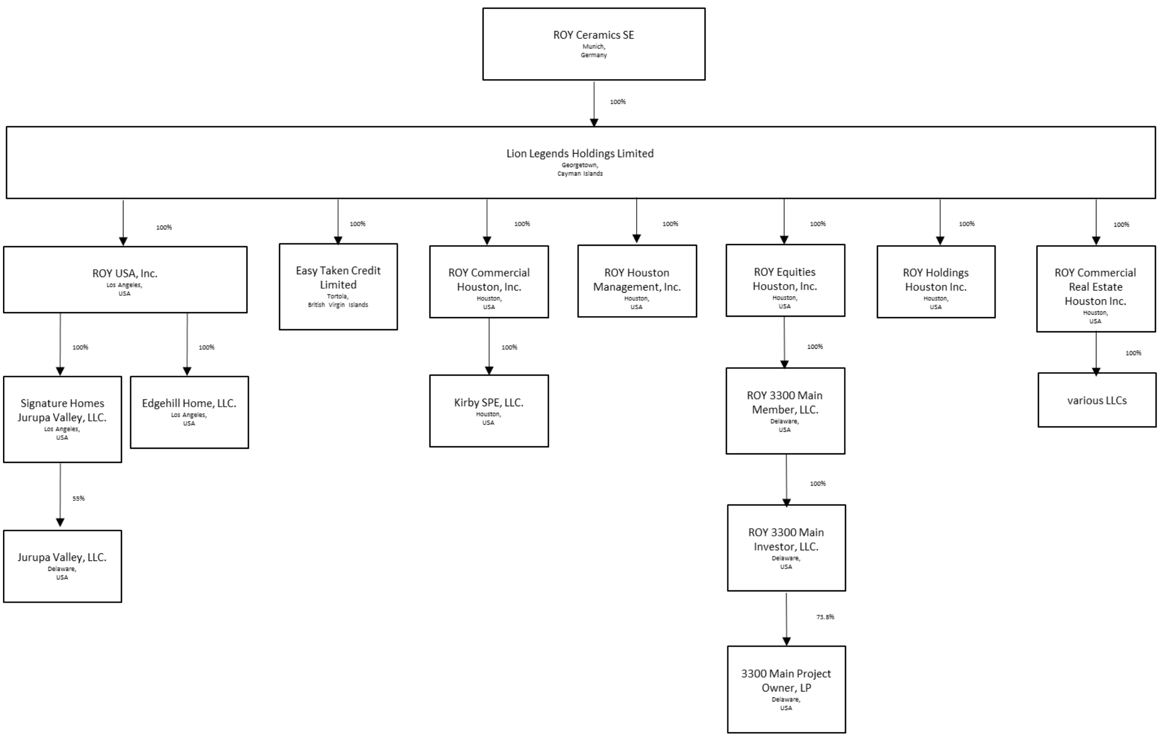
1.1 General information

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

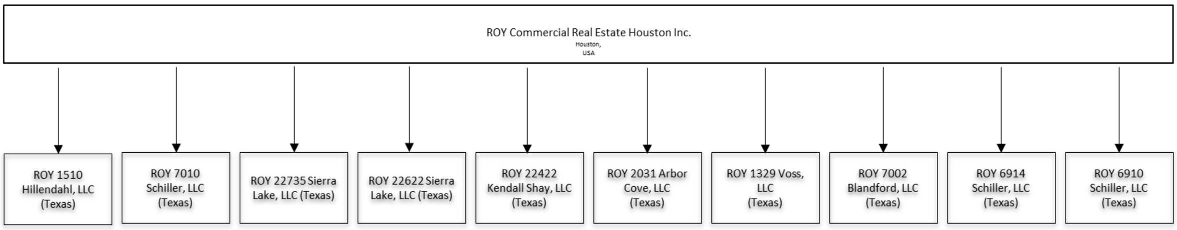
On 30 April 2015, the shares of ROY Ceramics SE were listed on the Prime Standard of the Frankfurt Stock Exchange (Germany) for the first time and simultaneously on the unregulated market (third segment) of the Vienna Stock Exchange (Austria). The shares are traded under the Security Identification Number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

1.2 Group structure

The Group structure changed in the first half of 2018. New companies were formed in Houston and Los Angeles, largely as a result of the real estate transactions carried out and planned in the USA. The ROY Group plans to establish a separate company for each new real estate transaction. In a restructuring, Easy Taken Credit Limited was reclassified within the Group. The company Siu Fung Concept Ltd. (BVI) was then sold at a loss of kEUR 41. Siu Fung Concept Ltd. (BVI) had no significant assets at the time of the sale. As at 30/06/2018 the Group structure was as follows:



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



2. ECONOMIC REPORT

2.1 Growth Report and Business Review

The discussion and analysis of the ROY earnings and balance sheet by management is based on the ROY Group IFRS consolidated financial statements for the financial half-years ended 30 June 2018 and 30 June 2017 (comparison period).

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

Comparisons between the results and key financial performance indicators for H1 of 2018 and 2017, respectively, are not especially meaningful due to the closure of the ROY plant and suspension of distribution since the third quarter of 2015. The real estate segment was established in 2017. Activities in this business segment include development projects in Houston, Texas and Los Angeles, California, leasing of single-family dwellings and lease optimization of a commercial property. Overall, business went well under the given circumstances despite delays which postponed the White Horse payments to the fourth quarter of 2017, beyond the expected short horizon of June 2017, and thus postponements in the planned projects. This circumstance had unfavourable consequences on all Group results. Once the payment was made however, the 3300 Main and Jurupa Valley projects were begun. In addition, leasing income of EUR 1.432 million was recorded in the first half of 2018, as compared to revenue of kEUR 8 in the first half of 2017.

2.1.1 Earnings

The table below shows selected figures from the ROY consolidated statement of comprehensive income for the periods 1 January - 30 June 2018 and 1 January - 30 June 2017.

Selected data from the consolidated statement of comprehensive income:

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017	Change in %
Revenue	**1,432**	**8**	**17,800**
Cost of sales	410	0	n/a
Gross profit	**1,022**	**8**	**12,675**
Gain from the sale of investment properties	0	0	0
Loss from the disposal of fixed assets	0	0	0
Distribution expenses	0	0	0
Administrative expenses	7,375	7,604	-3
Other income	690	44	1,468
Operating earnings/EBIT	**-5,663**	**-7,552**	**-25**
Financial income	13	0	n/a
Financial expenses	347	19	1,726
Results from associates and joint ventures carried at equity	-5	0	n/a
Earnings before taxes	**-6,002**	**-7,571**	**-21**
Deferred taxes	0	0	0
Income taxes	106	-1	-10.700
Net earnings in the reporting period	**-6,108**	**-7,572**	**-19**
Gross profit margin in %	*n/a*	*n/a*	*n/a*
EBIT margin in %	*n/a*	*n/a*	*n/a*
Net profit margin in %	*n/a*	*n/a*	*n/a*

pp = percentage points

n/a = The Group did not have any regular business operations in the first half of 2017, thus the key performance indicators of gross margin, EBIT margin and net profit margin do not have any meaningful indicative value.

2.1.2 Revenue

In the first half of 2018 the first significant leasing income was realized from Kirby SPE, LLC (Kirby Interchange), from four other properties in Houston on lots purchased in 2017 which were leased, and from a leased property in California. Leasing income in the first half of 2018 totalled kEUR 1,432 (H1 2017: kEUR 0). No revenue was recorded for the sanitary ware business.

2.1.3 Gross profit and gross profit margin

The table below shows a breakdown of the gross profit and gross profit margin for the first half of 2017 and 2018, respectively.

in kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017

Gross profit	1,022	8
Gross profit margin	n/a	n/a

The Group had only limited business operations in the first half of 2017, and gross profit was largely attributable to leasing income in the first half of 2018, thus gross profit margin has no indicative value as a KPI. Accordingly, we have not reported the figure.

2.1.4 Administrative and other operating expenses

Administrative and other operating expenses totalled kEUR 7,375 in the first half of 2018 as compared to kEUR 7,604 for H1 2017. The slight decrease in the first half of 2018 versus H1 of the previous year was chiefly due to one-off expenses in H1 2017 for the transport of tangible assets from the former production plant in China. Scheduled depreciation of kEUR 5,181 of machinery in the first half of 2018 was lower than the depreciation recorded for H1 of the year prior (H1 2017: kEUR 5,746), due principally to currency effects.

2.1.5 Net earnings

The net earnings recorded for the first half of 2018 rose to kEUR -6,108 from kEUR -7,572 in H1 2017. This was primarily due to higher real estate leasing income.

2.2 Net assets

Balance Sheet of ROY (Group)

The table below illustrates the condensed ROY Group balance sheet as of 30/06/2018 and 31/12/2017.

kEUR	**30/06/2018**	**31/12/2017**
Assets		
Total non-current assets	103,178	76,548
Total current assets	17,694	47,139
Total assets	**120,872**	**123,687**
Equity and liabilities		
Total equity	105,467	109,673
Total liabilities	15,404	14,014
Total equity and liabilities	**120,872**	**123,687**

2.2.1 Non-current assets

The non-current assets chiefly involved property, plant and equipment in Germany, Thailand and the USA, and real estate in the USA.

The robust increase in non-current assets in the first half of financial year 2018 since 31/12/2017 was mainly due to investments in real estate projects in the USA.

Segment-related investment information

On 30 June 2018, several pieces of real estate of the Group were in the USA. One piece of real estate is pledged as collateral for the promissory note liabilities of the Group and is encumbered with a land charge. The other real estate holdings serve as income properties.

2.2.2 Current assets

Cash and cash equivalents

As at 30 June 2018, the Group had total account balances of kEUR 6,368 (31/12/2017: kEUR 25,690). The change primarily resulted from investments in real estate.

Trade receivables and other receivables

Trade receivables and other receivables chiefly comprise a receivable from the trustee for the credit balance of the ROY Group in China (approx. USD 9 million/EUR 7.6 million) which is being held in reserve for the purchase of construction material for planned projects in the USA.

2.2.3 Non-current liabilities

Financial liabilities chiefly comprise a loan of USD 15.5 million (EUR 13.2 million) taken out by Kirby for the purchase of a property.

2.3 Other factors relevant to results

Apart from the existing real estate projects in Houston, Texas, the ROY Group has become involved in another real estate project at the registered office of ROY USA, Inc. in Los Angeles, California. The project in Jurupa Valley has a total investment volume of USD 61.8 million and it is planned to erect 97 single-family homes and 118 multi-family homes on a property of approx. 10 hectares, distributed over several construction phases and a period of three years. ROY is investing USD 5 million in equity in the project in exchange for a 55% majority stake in the project company. The company is considered an associate because the ROY Group is only able to appoint two out of the five members of company’s executive board, which makes all important decisions. The Roy Group thus does not control the company, but does have significant influence over it.

On 1 May 2018, the ROY Group entered into a joint venture agreement with a US project partner for the development of a tower of flats. This project represents a further step in expanding the presence of ROY Ceramics SE in the US and continuing to strengthen the real estate business. The project involves the construction of a high-rise building with approx. 328 apartments and approx. 1,380 sqm of commercial space. The building lies in a central location in Houston, Texas. The construction period until completion is estimated to take two years and the achievement of a substantial occupancy is expected within two years after completion. The total project cost is approx. USD 130 million, for which ROY has contributed USD 29 million in equity, holding a majority stake of approx. 74%. This company is not a subsidiary but rather a joint venture, thus all decisions are made jointly by the partners. The construction costs are secured via a guaranteed maximum price contract. ROY Ceramics SE has contracted with leading real estate project developers in Houston with a proven track record with similar projects, and with a large American civil engineering and design firm. Plans are to sell this property to an investor after completion when the project reaches a substantial leasing percentage. Leasing of the residential units is expected to commence in the fourth quarter of 2019, and a substantial leasing percentage is expected to be attained by the second quarter of 2021.

Respecting other earnings-relevant factors, please see the comments in the condensed management report dated 31/12/2017, which is essentially still accurate.

3. REPORT ON OUTLOOK, OPPORTUNITIES AND RISKS

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

For further information respecting the outlook and opportunities and risks, see the discussion in the condensed management report dated 31/12/2017, which is essentially still accurate.

3.1 ROY Group outlook

ROY had to suspend business operations after the sale of its subsidiaries in China. ROY will thus only have a small workforce and no sales revenues from ceramic sanitary ware until the start of the next development phase.

Initial sales revenues in the ceramic sanitary ware business are expected in Q4 2018 or Q1 2019. In the annual report dated 31/12/2017, initial sanitary ware sales revenues were expected in 2018. We do not expect these sales revenues to cover ongoing costs in 2018 and 2019 in the USA, Hong Kong and Germany – general administrative costs, in particular. For 2018 as a whole we project a slightly lower net loss than in 2017, which will be primarily attributable to the operational overhead, but which will be offset by increasing real estate rental income in the USA. We do not expect any further sales revenues until the OEM plant in Thailand has produced sufficient high-quality ceramic ware meeting our quality requirements.

In its real estate business, ROY generates leasing income from existing properties. ROY will be intensifying its leasing efforts and expects a modest increase in monthly leasing income in the second half of 2018. Also, large cash outflows are expected for the other development projects, which will negatively impact the ROY Group’s liquidity in 2018.

Furthermore, we are also planning for an overall loss for the ROY Group in financial year 2018, which will be defined in particular by the costs of resuming and expanding operating activities in the ceramic sanitary ware segment and new real estate projects. We expect further costs – mainly project lead costs –but are projecting slightly positive earnings in subsequent years.

3.2 Report on opportunities and risks

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

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

For further information on opportunities and risks please see the comments in the condensed management report dated 31/12/2017, which is essentially still accurate.

CONDENSED GROUP INTERIM REPORT DATED 30 JUNE 2018

ROY Ceramics SE, Munich

CONSOLIDATED BALANCE SHEET

ASSETS	Note	**30/06/18 in kEUR**	**31/12/2017 in kEUR**
I. Current assets			
1. Cash and cash equivalents		6,368	25,690
2. Trade receivables and other receivables	11	9,089	20,149
3. Inventories		0	0
4. Receivables from a managing director	12	2,237	1,300
Total current assets		17,694	47,139
II. Non-current assets			
1. Goodwill		113	110
2. Investment properties	16	27,041	23,871
3. Property, plant and equipment		47,476	51,516
4. Non-current loans		0	612
5. Deferred tax assets		465	440
6. Investments in associates and joint ventures carried at equity	5	28.082	0
Total non-current assets		103,178	76,548
Total assets		120,872	123,687

LIABILITIES AND EQUITY	Note	**30/06/18 in kEUR**	**31/12/2017 in kEUR**
I. Current liabilities			
1. Trade payables and other liabilities	13	1,744	1,119
2. Amounts owed to a managing director		0	0
Total current liabilities		1,744	1,119
II. Non-current liabilities			
1. Financial liabilities	15	13,534	12,753
2. Deferred tax liability		126	142
Total non-current liabilities		13,660	12,895
III. Equity			
1. Subscribed capital	14	18,109	18,109
2. Reserves		87,358	91,564
Total equity		105,467	109,673
Total liabilities and equity		120,872	123,687

ROY Ceramics SE, Munich

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

	Q2 2018 in kEUR	Q2 2017 in kEUR	H1 2018 in kEUR	H1 2017 in kEUR
1. Revenue	767	8	1,432	8
2. Cost of sales	228	0	410	0
3. Gross profit	**539**	**8**	**1,022**	**8**
4. Other income	690	33	690	44
5. Loss from disposals of tangible assets	0	0	0	0
6. Gains from sales of investment properties	0	0	0	0
7. Distribution costs	0	0	0	0
8. Administrative and other operating expenses	3,927	4,510	7,375	7,604
9. Operating result	**-2,698**	**-4,469**	**-5,663**	**-7,552**
10. Financial income	1	0	13	0
11. Financial expenses	208	2	347	19
12. Result from associates and joint ventures carried at equity	-5	0	-5	0
13. Earnings before taxes	**-2,910**	**-4,471**	**-6,002**	**-7,571**
14. Income tax income/expense	69	0	106	-1
15. Loss	**-2,979**	**-4,471**	**-6,108**	**-7,572**
Result to be reclassified to the income statement in the subsequent period:				
16. Exchange differences from currency translation	1,576	-7	1,902	-1
17. Other comprehensive income	**-1,403**	**-4,478**	**-4,206**	**-7,572**
18. Total comprehensive income	**-1,403**	**-4,478**	**-4,206**	**-7,572**
19. Total earnings, attributable to:				
Owners of the Company	-1,403	-4,478	-4,206	-7,572
20. Loss, attributable to:				
Owners of the Company	-1,403	-4,478	-4,206	-7,572
Earnings per share				
Weighted average:	-0.08	-0.25	-0.23	-0.42

ROY Ceramics SE, Munich

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Subscribed capital in kEUR	Capital reserve* in kEUR	Translation reserve in kEUR	Profit/loss carried forward in kEUR	Total in kEUR
Balance as at: 1 Jan. 2017	13,110	78,527	30,994	13,040	135,670
Exchange rate difference from translation	0	0	-10,426	0	-10,426
Profit/Loss	0	0	0	-7,572	-7,572
Total comprehensive income	0	0	-10,426	-7,572	-17,998
Capital increase through share offering	4,999	0	0	0	4,999
Balance as at: 30 June 2017	18,109	78,527	20,568	5,468	122,671
Balance as at: 1 Jan. 2018	**18,109**	**78,527**	**14,591**	**-1,554**	**109,673**
Exchange rate difference from translation	0	0	1,902	0	1,902
Profit/Loss	0	0	0	-6,108	-6,108
Total comprehensive income	0	0	1,902	-6,108	-4,206
Balance as at: 30 June 2018	**18,109**	**78,527**	**16,493**	**-7,662**	**105,467**

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

ROY Ceramics SE, Munich

CONSOLIDATED CASH FLOW STATEMENT

	Note	01/01/-30/06/2018 in kEUR	01/01/-30/06/2017 in kEUR
Operating activities			
Earnings before taxes		-6,002	-7,571
Adjusted by			
(interest income) / interest expense		334	-19
Loss/(gain) from the disposal of tangible assets and investment properties		0	0
Depreciation/amortisation		5,591	5,746
Impairments on tangible assets		0	0
Other non-cash expenses	19	0	392
Operating cash flow before change in current assets		**-77**	**-1,452**
Decrease / (increase) in inventories		0	7
Decrease / (increase) in trade receivables and other receivables	11	-105	19,329
Decrease / (increase) in receivables from a director	12	-937	-981
(Decrease) / increase in trade payables, other liabilities and financial liabilities	13	625	-357
Cash flow from operating activities		**-494**	**16,546**
Income tax paid		-8	0
Net cash flow from operating activities		**-502**	**16,546**
Investment activities			
Interest received		12	0
Outflows for investments in investment properties	17	-3,171	0
Outflows for investment in property, plant and equipment		-580	-3,493
Inflows from disposal of subsidiaries in previous years		12,176	0
Inflows from sales of investment properties		0	0
Investments in associates and joint ventures carried at equity		-28.728	0
Cash flow from investing activities		**-20,291**	**-3,493**
Financing activities			
Interest paid	9	-347	0
Inflows from equity injection by shareholders of the parent company		0	4,999
Payments due to majority share holder		0	-1,256
Inflows from borrowing		408	0
Net cash flow from financing activities		**61**	**3,743**
Net increase/(decrease) in cash and cash equivalents		**-20,732**	**16,796**
Currency translation effects		1,410	-1
Cash and cash equivalents at beginning of period		25,690	967
Cash and cash equivalents at the end of the period		**6,368**	**17,762**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

1. GENERAL INFORMATION

ROY Ceramics SE (hereinafter referred to as the "Company") is the parent company of the Group. The Company is a European joint stock company founded on 8 May 2014 and entered in the commercial register in Munich (HRB 211752), Germany, with its registered office (business address) at Gießener Strasse 42, 35410 Hungen, Germany.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) include manufacturing and selling of ceramic sanitary hardware and accessories and buying and selling of real estate, as well as property development and property investing activities. The Company acts as an investment holding company.

The consolidated half-year financial statements are presented in thousands of euros (kEUR).

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

- Income statement and other comprehensive income items for H1 2018: HKD 9.4863 to EUR 1 and items of the balance sheet dated 30/06/2018: HKD 9.1468 to EUR 1.
- Income statement and other comprehensive income items as at 31/12/2017: HKD 8.8045 to EUR 1 and items of the balance sheet dated 31/12/2017: HKD 9.372 to EUR 1.

The figures in the tables have been exactly calculated and totalled. The figures shown are rounded. This can cause rounding differences in the totals.

The interim report has not been audited or been subjected to an accounting review.

2. BASIS OF PREPARATION

These condensed consolidated half-year financial statements dated 30 June 2018 have been prepared in accordance with IAS 34 as published by the IASB and as applicable for interim financial reports in the EU. They are to be read in connection with the published consolidated financial statements as of 31 December 2017.

The applied accounting and valuation methods are fundamentally in line with the methods applied in the notes to the consolidated financial statements dated 31 December 2017, with the exception of the new applicable standards that are explained briefly in the following.

See section 1.2 of the interim management report respecting the change in the scope of consolidation.

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

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

a) First-time adoption of new and revised IFRS in the 2018 financial year:

Several new and amended standards went into effect in the current reporting period. See section 3.1 respecting the effects of initial application of the new standards per IFRS 9, "Financial Instruments".

Other standard changes did not have a significant impact on the Group's accounting practices, including particularly IFRS 15, "Revenue from Contracts with Customers".

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

The Directors of the Company are currently assessing the implications of the adoption of IFRS 16. The existing operating leases under IAS 17 are expected to require additional accounting treatment of assets and liabilities under IFRS 16 and a consequent reduction in the equity ratio. As at 30 June 2018, the scope of the affected operating leases in the Group was still relatively insignificant (see Note 16 Lease commitments). As a result of the resumption of operating activities and, in particular, the expansion of real estate activities, this can change significantly by the time IFRS 16 is adopted for the first time. The Company as the lessor does not anticipate any material changes at this time.

The managing directors believe that the adoption of the other new IFRS will not have a material impact on the Company's financial statements.

3.1 Impact of IFRS 9, "Financial Instruments"

The former accounting standards "Classification and Measurement", "Impairment" and "Hedge Accounting" are now combined in IFRS 9. ROY is applying IFRS 9 from 1 January 2018, the date of initial applicability of the new standard. Figures from the comparison period have not been adjusted because the effects are insignificant. The effects on the interim consolidated financial statements dated 30 June 2018 are as follows:

Classification and measurement: The new classification and measurement rules have no quantitative impact on ROY Ceramics SE because the instruments carried at amortised cost per IAS 39 are still classified as amortised cost under IFRS 9.

Impairment: The financial assets of ROY Ceramics SE measured at amortised cost fall under the new impairment rules per IFRS 9, i.e. the "expected credit loss" model, which replaces the previous "incurred loss" model under IAS 39. ROY Ceramics SE applies the simplified impairment method for trade receivables, for which a risk provision must be recorded during the remaining term of all instruments, irrespective of credit quality, in the amount of the expected losses. For other financial instruments falling within the scope of application of the expected credit loss model, the general impairment method per IFRS 9 is applied. Initial application of the expected credit loss model on 1 January 2018 did not result in any significant changes.

Hedge accounting: ROY Ceramics SE currently does not utilize hedge accounting, thus there was no effect in this regard from initial application of IFRS 9.

Overall the effect of initial application of IFRS 9 has been minimal for ROY Ceramics SE.

4. FINANCIAL INSTRUMENTS

	as at 30/06/2018		as at 31/12/2017	
kEUR	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables (including trade receivables, other receivables, non-current loans and receivables from a managing director)	11,326	11,326	22,061	22,061
Total	**11,326**	**11,326**	**22,061**	**22,061**
Financial liabilities				
Liabilities measured at amortised cost (including liabilities to a managing director, trade payables and other liabilities, excluding payroll and staff cost liabilities and social security and other tax liabilities)	14,186	14,186	12,942	12,942
Total	**14,186**	**14,186**	**12,942**	**12,942**

5. Investments in associates and joint ventures carried at equity

Jurupa Valley LLC, Delaware was formed on 16 March 2018. The ROY Group holds a 55% stake in the company, and is able to appoint two out of five members of its executive committee. This constitutes significant influence, thus Jurupa Valley is included in the financial statements as an associate carried at equity.

3300 Main Project Owner, LP, Delaware, was formed on 12 April 2018. The ROY Group holds a 74.3% stake in the company. The ROY Group jointly manages the company with a partner company. 3300 Main Project Owner, LP is thus included in the financial statements as a joint venture carried at equity.

The changes in the carrying amount of investments in associates and joint ventures carried at equity in the first half of financial year 2018 were as follows:

kEUR	01/01 - 30/6/2018
Carrying amount 1 January	0
Additions	28,087
Result for the period	-5
Dividend payments	0
Carrying amount at 30 June	**28,082**

6. REVENUE

Revenue includes proceeds or receivables from the sale of sanitary ware and accessories less sales-related taxes and regular leasing income from real estate properties.

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017
Revenue from sanitary ware	0	8
Revenue from real estate activities (leasing income)	1,432	0
	1,432	**8**

7. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The administrative expenses include the following expenses:

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017
Auditor's fee	50	14
Building management fee	7	0
Depreciation/amortisation	5,181	5,746
Write-downs on trade receivables and other receivables	0	0
Impairments on tangible assets	0	0
Minimum payments for operating leases for rented premises	145	69
Personnel costs:		
Salaries and expenses (including the remuneration of managing directors)	374	254
Fees and property tax paid*	296	0
Legal and advisory costs	303	54
Currency differences	331	696

Repair and maintenance expenses	141	0
Other administrative expenses	547	771
Total	**7,375**	**7,604**

* Fees and property taxes paid in 2018 in the US were primarily in connection with the purchase of a property by Kirby Interchange.

8. SEGMENT REPORTING

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

- The sanitary ware segment covers the area of development, production and marketing of high-quality sanitary ware. The activities in this business segment are currently dormant.
- The real estate business segment covers property development and property sales and letting. In the year under review, this business segment mainly comprised an investment property with leased office space and properties in Houston and California, which are developed and owned by ROY.

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

The transfer prices between the business segments are determined on the basis of third-party market conditions.

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

The Real Estate business segment was only formed in the 2017 financial year, thus there are no comparison figures from the first half of 2017. All figures for the first half of 2017 are fully attributable to the Sanitary segment.

Adjustments

Financial income and expenses and gains and losses on financial assets measured at fair value are not allocated to the individual operating segments because the underlying financial instruments are managed at the Group level.
Actual taxes, deferred taxes and certain financial assets and financial liabilities are not allocated to the individual business segments because they are managed uniformly across the Group.

Investments relate to additions to property, plant and equipment, intangible assets and investment property, including assets from the acquisition of subsidiaries. Proceeds from transactions with other segments are eliminated for consolidation purposes.

01/01 - 30/06/2018 / H1 2018	Sanitary ware	Real estate	Total business segments	Other	ROY Group
	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenue	0	1,432	1,432	0	1,432
Total cost of sales	0	-410	-410	0	-410
Other income / (expenses)	-92	-1,512	-1,603	140	-1,464
Personnel costs	-189	-106	-295	-84	-379
Depreciation/amortisation	-5,102	-73	-5,175	-6	-5,181
Segment result before tax	**-5,383**	**-669**	**-6,052**	**50**	**-6,002**
Total assets	58,140	44,560	102,700	18,172	120,872
Total liabilities	-216	-14,872	-15,088	-316	-15,404

Financial year 01/01 - 30/06/2018	Sanitary ware	Real estate	Total business segments	Other	ROY Group
	kEUR	kEUR	kEUR	kEUR	kEUR
Other disclosures					
Investments	0	3,171	3,171	0	3,171
Investments “at-equity”	0	28,728	28,728	0	28,728

Reconciliation of the result	01/01 - 30/06/2018 / H1 2018 "Sanitary Ware"	01/01 - 30/06/2018 / H1 2018 "Real Estate"	01/01 - 30/06/2018 / H1 2018 "Business segments"	01/01 - 30/06/2018 / H1 2018 "Other"	01/01 - 30/06/2018 / H1 2018 Total
	kEUR	kEUR	kEUR	kEUR	kEUR
Segment result					
Financial income	0	0	0	13	13
Financial expenses	0	347	347	0	347
Earnings before taxes	**-5.383**	**-669**	**-6.052**	**50**	**-6,002**
Reconciliation of assets					
Assets of the business segment	58,141	16,478	74,619	15,467	90,086
Loans to members of the Company's management	-	-		2,237	2,237
Borrower's note loan	-	-		467	467
Investments in associates and joint ventures carried at equity	-	28,082	28,082	-	28,082
Total assets	**58,141**	**44,560**	**102,701**	**18,171**	**120,872**
Reconciliation of liabilities					
Liabilities of the business segment					

Interest-bearing loans	-	-13,175	-13,175	-	-13,175
Other	-216	-1,697	-1,913	-316	-2,229
Total liabilities	**-216**	**-14,872**	**-15,088**	**-316**	**-15,404**
Information about geographical areas					
Revenue from external customers					
Asia	-	-	-	-	-
Europe	-	-	-	-	-
US	-	1,432	1,432	-	1,432

9. FINANCIAL EXPENSES

In the first half of 2018 the Group incurred financial expenses of kEUR 347, mainly in connection with a bank loan financing the purchase of Kirby Interchange. Financial expenses in the first half of 2017 totalled kEUR 19.

10. PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2018, the Group owned one property in the US that serves as collateral for a promissory note of ROY USA, Inc. (land charge), and one property that is mortgaged.

Following the sale of the Chinese operating subsidiaries to White Horse effective 30 September 2015, moveable tangible assets previously used by the Beijing plant were transferred to LLH. These tangible assets are carried on the balance sheet at net book value and are amortised on a straight-line basis over a ten-year useful life. Straight-line depreciation of tangible fixed assets in the first half of financial year 2018 totalled kEUR 5,175 (H1 2017: kEUR 5,746).

11. TRADE AND OTHER RECEIVABLES

kEUR	**30/06/2018**	**31/12/2017**
Trade receivables	189	100
Other receivables	8,492	19,689
Prepayments	408	360
	9,089	**20,149**
Other receivables and prepayments, net	9,089	20,149
Less: Prepayments classified as non-current assets	0	0
Trade receivables and other receivables	9,089	20,149

Other receivables of the Group as at 30 June 2018 include an unsecured receivable from a Hong Kong-based company in the amount of kUSD 9,000 (kEUR 7,626; 31 December 2017:

kUSD 23,256/kEUR 19,231). The funds are managed by a trustee on behalf of ROY in a Chinese mainland account. The nominal value of the receivables corresponds to the fair value.

12. RECEIVABLES FROM A MANAGING DIRECTOR

kEUR	30/06/2018	31/12/2017
Receivables from a managing director	2,237	1,300

As at 30/06/2018 and 31/12/2017 there was a current receivable from Siu Fung Siegfried Lee, which is unsecured, interest-free and repayable at any time upon demand.

13. TRADE PAYABLES AND OTHER LIABILITIES

kEUR	30/06/2018	31/12/2017
Trade payables	17	22
Security deposits received	249	153
Other liabilities	743	2
Liabilities from salary and staff costs as well as costs for social benefits	216	843
Other tax liabilities	140	87
Liability to majority shareholder	379	12
Trade payables and other liabilities	**1,744**	**1,119**

14. SHARE CAPITAL

kEUR	Share capital as at 30/06/2018
As at 1 January 2018	18,109
Change in 2018	0
As at 30 June 2018	18,109

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

15. FINANCIAL LIABILITIES

The purchase of properties by Kirby Interchange was partly financed via a bank loan. As at 30 June 2018, the Group had a floating rate bank loan of kEUR 13,175 (kUSD 15,549, as at

31 December 2017: kEUR 12,404 (15,000 kUSD)) with Midfirst Bank. The interest is LIBOR plus 3%, and it will become due on 1 September 2020. The loan is secured by the property. Further a promissory note in the amount of kEUR 359 (kEUR 349 as at 31 December 2017) is outstanding.

16. INVESTMENT PROPERTIES

The item "Investment properties" comprised thirteen existing properties as at 30 June 2018 (twelve existing properties as at 31 December 2017).

A property was purchased in the first half of 2018. The total purchase price for these properties was USD 2.2 million, which was fully funded from equity. It is planned that the undeveloped land, as well as the land with a house that is set for demolition, will be redeveloped and rented out or sold at a profit to generate a return for the Company.

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017
Leasing income from investment property	1,432	0
Direct operating expenses (including repairs and maintenance) connected with generating leasing income	-410	0
Direct operating expenses (including repairs and maintenance) not connected with generating leasing income	0	0
Result from financial investments measured at fair value	1,022	0

17. LEASE COMMITMENTS

<u>As lessee and tenant</u>

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

kEUR	30/06/2018	31/12/2017
Within one year	150	154
From second to fifth year inclusive	288	633
Beyond the fifth year	195	0
Total	633	787

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

<u>As lessor</u>

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

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017
Kirby Interchange	1,378	0
Houston single-family homes	40	0
California	14	0
Total	1,432	0

At the close of the reporting period the Group had receivables for future payments on non-terminable lease contracts from the Kirby Interchange property, the six currently leased properties in Houston and the leased property in California, which were due as follows:

kEUR	30/06/2018	31/12/2017
Within one year	2,226	2,048
From second to fifth year inclusive	4,028	4,428
Beyond the fifth year	196	367
Total	6,450	6,843

18. RELATED PARTY TRANSACTIONS

In addition to the transactions indicated under Note 12, the Group conducted the following related party transaction in the first half of the financial year:

A non-cash consulting fee in the amount of kEUR 0 was recorded in the half-year period (H1 2017: kEUR 148) on the income statement. This relates to the consultancy fees paid to Luck Connection Limited.

kEUR	01/01 - 30/06/2018	01/01 - 30/06/2017
Advisory fee paid by subsidiaries to: Hi Scene Industrial Ltd.*	0	173
Rent for property in California, paid to: Hi Scene Industrial Ltd.*	35	0

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

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

19. EVENTS AFTER THE BALANCE SHEET DATE

At a meeting held on 15 July 2018, the Board of Directors resolved to de-appoint Mr Robert Huyck as Managing Director with effect from 1 April 2018.

Ms Wen has transferred the patent and ROY trademarks by way of contract dated 06th September back to ROY Ceramics SE.

Ms Lei Yang has declared her resignation from her position as managing director with effect from 24th September 2018.

RESPONSIBILITY STATEMENT BY THE STATUTORY REPRESENTATIVES

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

Munich , 26th September 2018

ROY Ceramics SE

Managing directors

Dr. h.c. SIU FUNG SIEGFRIED LEE	MATTHIAS HERRMANN	SURIYA TOARAMRUT
CEO	CFO	TECHNICAL DIRECTOR

INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are based on the current assumptions and estimates by the corporate management of ROY Ceramics SE. Forward-looking statements are characterised by the use of words such as expect, intend, plan, foresee, assume, believe, estimate and similar formulations. These statements should not be construed as guarantees that these expectations will prove to be correct. The future development and the events actually achieved by ROY Ceramics SE and its affiliated companies depend on a number of risks and uncertainties and can therefore deviate substantially from the forward-looking statements. Many of these factors are outside of ROY Ceramics SE's area of influence and cannot be estimated precisely, such as the future economic environment and the conduct of competitors and other market participants. ROY Ceramics SE does not commit to any updating of the forward-looking statements, and this is also not planned.

COMPANY AND LEGAL INFORMATION

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FINANCIAL CALENDAR 2018

Publication of the 2017 annual report
30 April 2018

2018 Q1 Report
31 May 2018

Annual general meeting of shareholders 2018
15 August 2018

Publication of the 2018 Half-Year Report
28 September 2018

2018 Q3/9-Months Report
30 November 2018

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