Group Financial Statements 2009

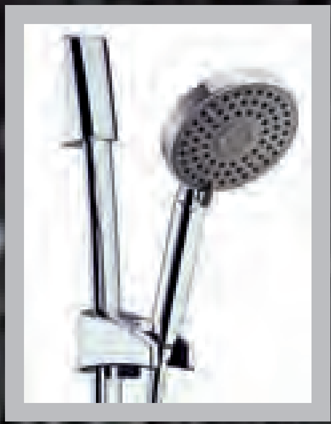
Guo Jingjing is brand ambassador of Joyou. She has won four Olympic gold medals in diving.

JOYOU · 中宇卫浴

Enjoy Harmony with Water
尊荣水生活

Products/Produkte

bathroom faucets
Wasserhähne für das Bad



shower products
Produkte für Duschen

other bathroom products
Sonstige Badezimmerprodukte

kitchen products
Küchenprodukte

other faucets and sanitary hardware
Sonstige Wasserhähne und Sanitärprodukte

Joyou AG

Group Management Report 2009

Content

1. General information on the group

Joyou AG is a German stock corporation operating under German law whose financial year is the calendar year (i.e. 1 January through 31 December).

The Company was founded on 30 June 2008 by a contribution in kind consisting of all shares in Hong Kong Zhongyu Sanitary Technology Limited ("Joyou Hong Kong"). The completion of the formation became legally effective by registration in the commercial register of the local court of Hamburg on 28 August 2008. On 8 June and 16 October 2009 Joyou Hong Kong issued preferred shares to investors unrelated with Joyou AG leading to a dilution of Joyou AG's voting rights in Joyou Hong Kong to approximately 59%. While all ordinary shares are held by Joyou AG, all preferred shares are held by four companies. Due to the preferential rights of those preferred shares issued they are to be accounted for as a financial liability under IFRS; therefore, Joyou AG does not disclose a non-controlling interest.

Joyou Hong Kong itself is an intermediate holding company for three legal entities located in Nan'an City, Quanzhou, Fujian Province, Peoples Republic of China ("China"), which carry out the operational business of Joyou: Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. ("Joyou Sanitation Technology"), Joyou Group Building Materials Co., Ltd. ("Joyou Building Materials") and Nan'an Joyou Galvanization Industrial Co., Ltd. ("Joyou Galvanization"). The sole shareholder of Joyou Galvanization and Joyou Building Materials is Joyou Sanitation Technology, the sole shareholder of which is Joyou Hong Kong. Therefore, Joyou group ("Joyou"), consists of Joyou AG, Joyou Hong Kong, Joyou Sanitation Technology, Joyou Building Materials and Joyou Galvanization.

Joyou designs, produces and sells faucets and other sanitary ware products in China under its brand name "Joyou" and is also engaged as a manufacturer of Original Equipment Manufacturing ("OEM") / Original Design Manufacturing ("ODM ") products for international sanitary ware companies, wholesalers and trading companies in the United States and Europe as well as certain emerging markets. In addition, Joyou sells components for faucets and copper semi-finished products to trading companies and sanitary ware companies in China. According to BSRIA's China Bathroom-Study 2009, Joyou is one of the leading single-brand manufacturers of bathroom, kitchen and other faucets in China in terms of revenues.

The development of the Chinese sanitary ware market is primarily driven by the construction industry both as a result of new construction activity and renovations. The level of demand for sanitary ware deriving from such projects in turn strongly depends on consumer preferences, which is influenced by changes in income levels caused by general economic growth, and, in particular, the growth of the Chinese gross domestic product ("GDP").

2. Business and operating environment

2.1. Overall Economic Development

With an average Gross Domestic Product ("GDP") increase of more than 8% annually since 1978, China has become a major player in the global economy. GDP increased from RMB 21,192 billion in 2006 to RMB 30,067 billion in 2008. Despite being affected by the worldwide financial crisis, China's GDP continued its growth by 8.7% year on year to RMB 33,535 billion in 2009 representing one of the highest GDP growth rates worldwide. China's GDP is expected to further grow with a compound annual growth rate ("CAGR") of 8.3% until 2012.

China's sustainable historic GDP growth was accompanied by rising income levels in particular for urban residents. During the period from 2001 to 2008, the annual disposable income of Chinese urban residents increased to RMB 15,781 from RMB 6,860 (giving a CAGR of 14.1%), leading to increased living standards. Furthermore, during recent decades there has been a strong connection between urbanization and economic development in China and it is anticipated that cities will be the major driver for China's continued GDP growth over the next two decades. For example, cities generated approximately 75% of Chinese GDP in 2005 and the percentage is expected to rise to over 90% in 2025.

In 2005, urban GDP in China amounted to RMB 12,000 billion. According to the study "Preparing for China's Urban Billion" published by McKinsey Global Institute in March 2008, the estimated annual growth rate is 8.5%, leading to an urban GDP which is expected to increase about five times to over RMB 60,000 billion by 2025. By the end of 2008, the urban population of China was 607 million residents and the number of Chinese cities had reached 655. Among them, there are 122 cities with a population of more than 1 million residents and 118 cities with a population of 0.5 million to 1 million residents.

The economic growth, the increasing disposable incomes, the growth of the Chinese population and the urbanization process are major factors contributing to a rapid development of China's building and construction industry. The floor space of buildings under construction in China increased from 4.17 billion square meters ("sqm") in 2006 by 20.4% to 5.02 billion sqm in 2007 while the floor space of buildings completed increased from 1.77 billion sqm by 10.9% to 1.96 billion sqm. Mainly, due to the worldwide economic recession the floor space of buildings sold decreased by 19.7% in 2008. The growth rates of China's construction sector are primarily attributable to a continuing strong urbanization trend in China accompanied by demand for increasing per capita floor space. Apart from the urbanization trend, demand for increasing per capita floor space and regular construction activities including renovations are major drivers for the Chinese building and construction industry. In addition, in November 2008, the PRC government announced an economic stimulus package in the amount of USD 584 billion, comprising USD 40.9 billion for low-income housing projects, USD 54.6 billion for improving people's living standards and infrastructure in rural areas and USD 146 billion for reconstruction in regions most adversely affected by the 12 May Earthquake.

2.2. Development of the Chinese Sanitary Ware Industry

2.2.1. Market development

The demand for sanitary ware products in China is mainly driven by the construction industry. Due to the expected urbanization in China, and the affordable housing program within the Economic Stimulus package, demand from project business will be of particular importance for the Chinese sanitary ware market.

In 2008, the overall value of the Chinese Sanitary Ware Market was at EUR 1,852 million with a volume of 95.29 million units sold. Total sales of units of sanitary ware products increased from 93.08 million units in 2007 by 2.4% to 95.29 million units in 2008. For 2009, the sales volume is expected to increase by 5.3% to 100,301 thousand units.

Price increases contributed significantly to the overall growth indicating a general shift in the market to higher quality and more expensive products. The overall value of sold sanitary ware products increased from EUR 1,809 million in 2007 by 2.4% to EUR 1,851.8 million in 2008. For 2009, the overall value of sold sanitary ware products is expected to significantly increase by 23% to EUR 2,278.5 million in 2009.

According to market studies by BSRIA Limited the relevant Chinese market for sanitary ware products consists of the following main segments: i) Faucets, such as taps and mixers for washbasins, kitchen, baths, showers, bidets and basins, ii) Ceramic and non-ceramic sanitary ware, such as basins, pedestals, water closets, cisterns, bidets and urinals and iii) Bathtubs.

Faucets

According to the BSRIA study “China Bathroom 2009”, the faucet market is divided into markets for pillars, one- and two handle mixers, thermostatic mixers and other taps which are produced for the following applications: bath and bath/shower, shower only, basin, bidets and kitchen. The Chinese market for faucets has grown to EUR 770.9 million in 2008 and is expected to increase by 20.3% to EUR 927.1 million in 2009. The volume of faucets sold increased from 37,037 units sold in 2007 by 19.5% to 44,257 units sold in 2008 and is expected to further increase by 5% to 46,470 units sold in 2009.

Ceramics and Non-Ceramic Sanitary ware

The market consists of ceramic and non-ceramic products including basins, pedestals, water closets, cisterns, bidets and urinals. According to the BSRIA study “China Bathroom 2009”, the value of ceramic and non-ceramic sanitary ware sold decreased slightly from EUR 754.8 million in 2007 by 2.1 % to EUR 738.9 million in 2008 but is expected to increase by 25% to EUR 949 million in 2009. The sales volume decreased from 50,836 thousand units in 2007 by 7.1 % to 47,228 million units in 2008 and is expected to increase by 5.6 % to 49,872.8 thousand units in 2009.

Bathtubs

Finally, the market for bathtubs represents the smallest segment of the entire Sanitary Ware Market in China. The segment does not have growth rates similar to the faucet segment. The segment is subdivided in to the categories bathtubs and hydro massage baths. In 2008, total sales in this segment accounted for EUR 342 million, EUR 297.5 million or 87% of which were generated in the bathtubs category, while sales in the hydro massage category accounted for 13% of the total sales value according to the BSRIA study “China Bathroom 2009”. Total sales in this segment are expected to increase by 17.7% to EUR 402.4 million with 3.96 million units sold in 2009.

2.2.2. Market competition

The Chinese Sanitary Ware Market is highly fragmented. A large number of domestic and international producers compete for market share. For example, according to BSRIA’s China Bathroom 2009 the leading players for taps and mixers in 2008, Jomoo, Huayi, Huida and Green Sun accounted for only 31.6% of the overall market share in China.

Most domestic companies service the low-end of the Sanitary Ware Market and compete mainly on price. International firms service the mid-market and the high-end market and differ from each other not only by pricing but also by their respective product image and branding.

According to BSRIA estimations Joyou's market share in 2008 for taps and mixers was 11.8% in sales volume and 8.1% in value of the taps and mixers sold. Although market data for 2009 is not available yet, we believe that Joyou has been able to improve its market position.

2.2.3. Distribution chains

The distribution for sanitary ware products in China is organized mainly through wholesalers but also through installers, retailers (including so called "do it yourself" (DIY) shops), direct supply to house builders and others such as commissioning agents. Wholesalers accounted for 95% of the distribution of sanitary ware products in China in 2008 whereas retailers and direct supplies accounted for approximately 2% each.

2.3. Development of Joyou

According to BSRIA’s China Bathroom-Study 2009, Joyou is one of the leading single-brand manufacturers of bathroom, kitchen and other faucets in China in terms of revenues. We position our own brand products in the medium-range segment of the Chinese sanitary ware market, targeting our sales mainly at private consumers of the growing Chinese middle class, as well as large-scale construction projects such as new hotels or other buildings of public use.

We manufacture faucets, valves and other bathroom accessories made of brass. Other finished products sold by us such as shower sets, showerheads, ceramic sanitary ware, bathroom cabinets and copper pipes used for bathroom accessories are sourced from a number of third-party producers that manufacture the finished products or components according to our design specifications.

Our own brand sales are currently focused on the Chinese market and are usually made through retail point of sale in our own retail distribution network operated and controlled by regional distributors and retail shop-owners. At the end of 2008, we had 1,999 retail points of sale and own brand sales of EUR 93.6 million or 69% of total revenues. In 2009, we have continued to develop our retail distribution network and added in total 528 retail points of sale increasing the number of retail points of sale by some 26%. As at 31 December 2009 we had 2,527 retail points of sale. At the same time, the own brand sales increased by EUR 31.7 million or 34 % to EUR 125.3 million or 73 % of total revenues.

In our OEM/ODM business, we sell finished sanitary ware products, such as faucets, thermostatic and electronic faucets, valves, and brass-made components for faucets or other sanitary ware products. In 2009, the OEM/ODM business contributed 21% or EUR 35.8 million to total revenues. In 2008, the OEM/ODM sales contributed 13% or EUR 17.8 million to total revenues. At the same time, component sales decreased significantly from EUR 23.6 million or 17% of total revenues in 2008 to EUR 11.2 million or 7% of total revenues in 2009. This decrease was mainly caused by allocating production resources to higher margin, own brand product manufacturing.

Despite the effects of the global financial crisis on the world and also the Chinese economy, Joyou increased its revenues to kEUR 172,327 and its profit for the period to kEUR 22,262 in 2009, as compared to revenues of kEUR 135,045 and a profit for the period of kEUR 16,133 in 2008. This increase mainly reflects the continued expansion of sales of our own brand products through our enlarged retail distribution network.

In June 2009, two investors invested in Joyou Hong Kong when said company issued preferred shares. In October 2009, with CRCI and Grohe Holding GmbH, two additional investors invested in Joyou Hong Kong, including a strategic investment by Grohe Holding GmbH. Grohe Holding GmbH is the controlling shareholder of the German based international sanitary ware producer Grohe and is ultimately controlled by shareholders of CRCI.

In connection with Grohe’s investment, we entered into a distribution agreement with Grohe under which we will act as distributor for certain Grohe branded products on the Chinese markets through unaffiliated regional distributors. With respect to certain agreed products manufactured and offered for sale by Grohe in the Asian market, we are granted exclusivity with regard to the distribution through retail distribution channels in China. The Grohe products are to be sold through regional distributors signed up by Joyou. We will sell the Grohe products in our own name and on our own account and will not receive any further compensation for our services in respect of the management of the distribution, sales and marketing of the Grohe products. The prices to be paid to Grohe will be agreed annually between Grohe and Joyou. The 2009 revenues have not been influenced by said contract.

In order to further increase the awareness for and the image of our “Joyou” brand, we entered into an agreement with the Chinese high-diving athlete Ms. Guo Jingjing in October 2009. Ms. Guo Jingjing, one of the most popular sports athletes in China, will act as brand ambassador for Joyou in China. She is engaged to be the image spokesperson for the sanitation products of Joyou and the relevant brands.

2.4. Strategic objectives of Joyou

The Chinese market for sanitary ware has grown significantly over the last few years and Joyou expects this growth to continue for the foreseeable future. In order to benefit from this growth, we will i) capture new market share through expanding our domestic distribution network, ii) further strengthen the recognition of our brand with consumers, distributors and retailers and also strengthen its project business iii) increase the technological content of products and production iv) engage in selective acquisition and consolidation activities. We believe that this expanded retail distribution network will substantially assist the increase in the domestic awareness of our brand and thereby increase domestic sales of our own brand products.

Currently we sell most of our products to the medium-range segment in the Chinese sanitary ware market, with only relatively few products sold to the high-end segment. Although we believe that the medium-range segment will be the fastest growing segment in the Chinese sanitary ware market, we also intend to increase our share of sales of high-end and premium products to capture the market potential resulting from the expected growth of the upper-middle classes of Chinese society. In October 2009, Joyou entered into a cooperation agreement with Grohe under which Joyou will act as exclusive distributor for certain Grohe branded products to retail customers on the Chinese markets. Joyou believes that the association of Joyou branded products with Grohe branded products will further foster Joyou's perception as a high-quality producer of sanitary ware products with domestic roots but close connections to a premium international sanitary ware brand like Grohe.

We anticipate a consolidation in the highly-fragmented sanitary ware market in China and expect that large manufacturers capable of supplying a complete range of products will have competitive advantages in this process because distributors generally prefer to cooperate with large manufacturers with a broad product offering. Therefore, we intend to become such a company that produces a complete range of sanitary ware products for bathroom and kitchen. In order to be able to reach this intended market position, we want to expand our production capabilities to manufacturing additional sanitary ware products in-house, in particular showerheads, ceramic sanitary ware and bathroom cabinets.

Internationally, we intend to continue our business as an OEM/ODM manufacturer at the current level in terms of sales. Such sales offer substantive indirect strategic value thereby allowing us to have a better global marketing knowledge which is essential for our domestic success. We are considering entering selected overseas markets in the medium-term to sell our own brand products, in particular European countries such as Germany and the United Kingdom, as well as selected emerging markets as we believe that there are business opportunities for high-quality products such as own brand products at competitive prices.

2.5. General Statement on the Business Environment

Despite the global financial and economic crisis, China has experienced quite good economic conditions. As the development in China, especially in those areas supporting the sanitary ware industry, are medium- to long-term effective mega-trends like urbanization and increasing average income of Chinese households, the business environment as still been good for Joyou's industry. As a leading manufacturer of sanitary ware products, Joyou has been able to benefit from those conditions. Market position and financial performance enabled Joyou to attract sufficient financing to support its continued growth. Overall, we believe that we have been enable to strengthen our market position.

3. Results of Operations, Financial position and Net assets

As Joyou Group was founded on 28 August 2008, prior year data consists only of the four month period September to December 2008. Therefore, a comparison of the development of business, financial position and result of operations would not be meaningful. Consequently, the following discussion compares the development in the business year 2009 with the 2008 figures of Joyou Sanitation Technology, Joyou Building Materials and Joyou Galvanization on a combined basis, which was derived from the audited Combined Financial Statements comprising combined financial information of Joyou Sanitation Technology, Joyou Building Materials and Joyou Galvanization.

3.1. Results of Operations

In order to present the business, financial condition and result of operations for the last two financial years in relation to the business of Joyou, the following table presents the consolidated income statement of Joyou AG for the year ended 31 December 2009 together with the combined income statement of Joyou Sanitation Technology, Joyou Building Materials and Joyou Galvanization for the year ended 31 December 2008 The table also presents results of operations as a percentage of revenue for the periods under review.

	2009		2008		Variance	
	kEUR	%	kEUR	%	kEUR	%
Sales revenues	**172,327**	**100%**	**135,045**	**100%**	**37,282**	**28%**
Cost of sales	- 125,464	-73%	- 99,738	-74%	- 25,726	26%
Gross profit	**46,863**	**27%**	**35,307**	**26%**	**11,556**	**33%**
Other operating income	500	0%	11,001	8%	- 10,501	-95%
Selling and distribution expenses	- 6,224	-3%	- 5,056	-4%	- 1,168	23%
Administrative expenses	- 2,135	-1%	- 5,246	-4%	3,111	-59%
Other operating expenses	- 50	0%	- 10,970	-8%	10,920	-100%
EBIT	**38,954**	**23%**	**25,036**	**18%**	**13,918**	**56%**
Financial results	- 8,308	-5%	- 3,025	-2%	- 5,283	175%
EBT	**30,646**	**18%**	**22,011**	**16%**	**8,635**	**39%**
Taxes on profit	- 8,384	-5%	- 5,878	-4%	- 2,506	43%
Annual profit	**22,262**	**13%**	**16,133**	**12%**	**6,129**	**38%**

3.1.1. Revenues

Revenues are generated from the sale of bathroom faucets, kitchen products, shower products, other bathroom products and accessories, other faucets and sanitary hardware and components and copper semi-finished products.
Most of Joyou's revenues are generated through its own brand business (domestic sales) and its OEM/ODM business (export sales). In addition, Joyou generates a portion of its revenues through the sale of components (domestic sales).

Revenues increased from kEUR 135,045 in the year ended 31 December 2008 by kEUR 37,282, or 28%, to kEUR 172,327 in the year ended 31 December 2009. Measured in RMB, revenues increased by 19% during this period. This increase resulted from an increase in sales volumes in respect of bathroom faucets, kitchen products, shower products, other bathroom products and accessories, whilst other faucets and sanitary hardware and components and copper semi-finished products reported a decline in their respective revenues.

The sale of bathroom faucets increased by kEUR 43,165 (a 109% increase over the year ended 31 December 2008), kitchen products by kEUR 9,401 (a 54% increase over the year ended 31 December 2008), shower products by kEUR 11,218 (a 107% increase over the year ended 31 December 2008) and other bathroom products and accessories increased by kEUR 11,506 (a 364% increase over the year ended 31 December 2008), whilst other faucets and sanitary hardware decreased by kEUR 14,614 (a 43% decrease compared to the year ended 31 December 2008) and components and copper semi finished products decreased by kEUR 23,394 (a 77% decrease compared to the year ended 31 December 2008).

3.1.2. Cost of Sales

Cost of sales comprise costs of purchasing copper, zinc, other metals and other parts (components made of plastic rubber and finished goods such as showerheads), labor costs (including salaries, wages and benefits) for personnel employed in production, depreciation of fixed assets used for production purposes, trading goods and others (mainly public utilities, maintenance costs and amortization of land use rights for land being used for production).

The following table shows a breakdown of costs of sales for the periods under review and as a percentage of total cost of sales for each category:

	2009		2008		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper [1]	68.737	55%	67.489	68%	1.248	2%
Zinc	9.053	7%	12.448	12%	- 3.395	-27%
Other metals	5.321	4%	2.524	3%	2.797	111%
Other parts [2]	10.127	8%	4.303	4%	5.824	135%
Labor costs	2.475	2%	3.864	4%	- 1.389	-36%
Depreciation	2.475	2%	2.014	2%	461	23%
Others [3]	7.572	6%	3.737	4%	3.835	103%
Outsourced products	19.704	16%	3.359	3%	16.345	487%
Total	**125.464**	**100%**	**99.738**	**100%**	**25.726**	**26%**

1 Including certain semi-finished copper based products sourced from external manufacturers. In 2009, certain amount of brass purchase was also included.
2 Comprises product components made of plastic rubber and shower heads.
3 Includes mainly costs for public utilities, maintenance costs and amortization of land use rights for land being used for production.

Cost of sales increased from kEUR 99,738 in the year ended 31 December 2008 by kEUR 25,726 or 26%, to kEUR 125,464 in the year ended 31 December 2009. The increase in cost of sales in the year ended 31 December 2009 resulted mainly from an increase in the cost for the purchase of outsourced products by kEUR 16,345 which was primarily the result of Joyou's broadening of its product portfolio, in particular relating to accessories, ceramic sanitary ware, bathroom cabinets and certain faucets for which the production was outsourced to external manufacturers.

3.1.3. Gross Margin

For the year ended 31 December 2009 the gross margin increased to 27%, compared to 26% for the year ended 31 December 2008.

3.1.4. Selling and distribution expenses

Selling and distribution expenses comprise advertising costs, costs for the transportation of products, port fees, exhibition expenses (expenses incurred in connection with the participation at trade fairs), provisions for future obligations/bonus payments to distributors, travel expenses and labor costs for employees engaged in the sales and marketing department.

Selling and distribution expenses increased significantly from kEUR 5,056 in the year ended 31 December 2008 by EUR 1,168 thousand, or 23%, to kEUR 6,224 in the year ended 31 December 2009. This increase resulted primarily from the growth of Joyou's operations, mainly its increased retail distribution network. Compared to 2008, selling and distribution expenses decreased from 4% to 3 % of sales revenues.

3.1.5. Administrative expenses

Administrative expenses comprise, among others, salaries of management and other employees with administrative functions (including social insurance payments starting in 2008), travel expenses and allowances for bad debt.

Administrative expenses decreased from kEUR 5,246 in the year ended 31 December 2008 by kEUR 3,111, or 59%, to kEUR 2,135 in the year ended 31 December 2009. The decrease in administrative expenses is principally attributable to movements in the allowance for bad debts, as this expense category includes a charge in the amount of kEUR 1,853 in respect of the increase in the bad debts allowance for the year ended 31 December 2008. This allowance was partially reversed in the year ended 31 December 2009, giving rise to a credit of kEUR 917 which was also reported under administrative expenses.

3.1.6. Other operating income and expenses

Other operating income decreased from kEUR 11,001 in the year ended 31 December 2008 by EUR 10,501 thousand, or 95%, to kEUR 500 in the year ended 31 December 2009. Correspondingly, other operating expenses decreased by kEUR 10,920 to kEUR 50. These variances primarily resulted from the fact that Joyou generated other operating income in 2008 by selling raw materials to third parties but did not do so in 2009. With cost of raw materials sold disclosed in other operating expenses in the year 2008, the change in other operating expenses is also caused by these transactions limited to 2008.

3.1.7. Finance result

Finance result comprises of finance income less finance expenses. Finance income comprises interest income on bank deposits and foreign exchange gains resulting mainly from the effects of fluctuations in the USD/RMB exchange rate on Joyou's USD denominated purchase obligations under supply agreements for copper. Bank deposits are used as collateral for banks that issue letters of credit for Joyou. Finance costs comprise interest expenses on preferred shares, shareholder loans, bank loans and bank charges on notes receivables provided by customers to Joyou.

Finance income decreased from kEUR 1,502 in the year ended 31 December 2008 by kEUR 1,048, or 70%, to kEUR 454 in the year ended 31 December 2009. This decrease resulted primarily from a decrease in foreign exchange gains from raw material purchase contracts denominated in USD, as most of the raw materials purchased in 2009 were denominated in RMB. Only 5% of Joyou's total raw materials purchased in 2009 were incurred in USD, as compared to 49% for the year 2008. Finance costs increased from kEUR 4,527 in the year ended 31 December 2008 by kEUR 4,235, or 94%, to kEUR 8,762 in the year ended 31 December 2009. This increase resulted primarily from the accounting treatment of the preferred shares issued by Joyou Hong Kong as a financial liability as described more details in section 3.3.4 of this group management report.

3.1.8. Taxes on profit

Taxes on profit increased from kEUR 5,878 in the year ended 31 December 2008 by kEUR 2,506, or 43%, to kEUR 8,384 in the year ended 31 December 2009. Joyou's effective income tax rate was 27% in the year ended 31 December 2008 as well as in the year ended 31 December 2009.

3.2. Financial position

	2009 kEUR	2008 kEUR	Variance kEUR
Cash flow from operating activities	- 20,247	6,625	- 26,872
Cash flow from investing activities	- 9,299	- 12,513	3,214
Cash flow from financing activities	53,012	- 8,735	61,747
Changes in cash and cash equivalents	23,466	2,847	20,619
Cash and cash equivalents at the start of the reporting period	11,762	8,514	3,248
Currency translation differences	- 937	401	- 1,338
Cash and cash equivalents at the end of the reporting period	34,291	11,762	22,529

Net cash generated from operating activities decreased from kEUR 6,625 in the year ended 31 December 2008 by kEUR 26,872, or 306%, to kEUR -20,247 in the year ended 31 December 2009. The decrease was mainly attributable to a significant increase in working capital as well as payments of taxes on profits. This was offset, in part, by an increase in profit before tax.
Cash flow used in investing activities decreased from kEUR 12,513 in the year ended 31 December 2008 by kEUR 3,214, or 26%, to kEUR 9,299 in the year ended 31 December 2009. This decrease is principally due to the purchase of land use rights in the prior year for the intended construction of a production facility.

Finally, cash flow from financing activities increased from kEUR 8,735 in the year ended 31 December 2008 by kEUR 61,747, or 707%, to kEUR 53,012 in the year ended 31 December 2009. This increase mainly resulted from the issue of preferred shares as described more details in section 3.3.4 of this group management report.

Joyou is required to deposit cash with certain banks to serve as collateral, mainly for letters of credit and notes payable, and therefore may not be used in the ordinary course of business of these companies; so-called "Restricted cash". Restricted cash as at 31 December 2008 and 2009 was kEUR 11,419 and kEUR 22,009 respectively.

3.3. Net assets

The asset and capital structure developed as follows: The balance sheet total increased from kEUR 140,835 by kEUR 45,123 to kEUR 185,958. This rise is principally attributable to an increase in other receivables and prepayments as well as cash and cash equivalents financed by the issue of preference shares, the profit for the year and an increase in short term payables.

	31 December 2009		31 December 2008		Variance	
	kEUR	%	kEUR	%	kEUR	%
Assets						
Intangible assets	22,605	12%	19,758	14%	2,847	14%
Property, plant and equipment	40,117	22%	38,544	27%	1,573	4%
Deferred tax assets	1,404	1%	976	1%	428	44%
Non current assets	**64,126**	**34%**	**59,278**	**42%**	**4,848**	**8%**
Inventories	22,679	12%	24,772	18%	- 2,093	-8%
Trade receivables	41,348	22%	35,815	25%	5,533	15%
Other receivables and prepayments	22,937	12%	7,720	6%	15,217	197%
Amounts due from related parties	577	0%	1,488	1%	- 911	-61%
Cash and cash equivalents	34,291	19%	11,762	8%	22,529	192%
Current assets	**121,832**	**66%**	**81,557**	**58%**	**40,275**	**49%**
Balance sheet total	**185,958**	**100%**	**140,835**	**100%**	**45,123**	**32%**
Equity and Liabilities						
Equity	**65,854**	**34%**	**45,003**	**32%**	**20,851**	**46%**
Preferred shares	42,474	23%	-	0%	42,474	100%
Other provisions	642	0%	138	0%	504	365%
Deferred tax liabilities	892	0%	301	0%	591	100%
Non current liabilities	**44,008**	**24%**	**439**	**0%**	**43,569**	**100%**
Short term payables	52,516	28%	31,097	22%	21,419	69%
Trade payables	968	1%	20,215	14%	- 19,247	-95%
Notes payable	19,167	10%	21,588	15%	- 2,421	-11%
Other payables and accruals	2,744	1%	7,689	5%	- 4,945	-64%
Amounts due to related parties	13	0%	7,845	6%	- 7,832	-100%
Income tax payable	688	0%	6,959	5%	- 6,271	-90%
Current liabilities	**76,096**	**41%**	**95,393**	**68%**	**- 19,297**	**-20%**
Balance sheet total	**185,958**	**100%**	**140,835**	**100%**	**45,123**	**32%**

3.3.1. Non-current assets

Intangible assets comprise almost exclusively land use rights. Intangible assets amounted to kEUR 19,758 as at 31 December 2008, and kEUR 22,605 as at 31 December 2009. Intangible assets increased to kEUR 22,605 thousand as at 31 December 2009 mainly as a result of additional prepayments for the acquisition of further land use rights.

Property, plant and equipment mainly comprise buildings, machinery and construction in progress. Property, plant and equipment increased by kEUR 1,573 to kEUR 40,117 as at 31 December 2009. This increase is attributable to construction costs and the purchase of machinery in respect of a new production facility, which have been offset, in part, by the depreciation charge for the year.

Deferred tax assets are temporary differences between IFRS and local tax values resulting from differences in the treatment of bad debt provisions and the fact that certain accrued expenses are not deductible for the purpose of determining taxable profits. Deferred tax assets increased by kEUR 428, or 44%, to kEUR 1,404 as at 31 December 2009. This increase resulted primarily from the recognition of increased bad debt provisions and accrued expenses under IFRS.

3.3.2. Current Assets

Inventories comprise raw materials and consumables, work in progress and finished goods. They decreased from kEUR 24,772 as at 31 December 2008 by kEUR 2,094, or 8%, to kEUR 22,678 as at 31 December 2009. This decrease in inventories resulted mainly from decreases in work in progress and finished goods as at balance sheet date, offset in part by an increase in raw materials and consumables.

Trade receivables increased by kEUR 5,533 thousand, or 15%, to kEUR 41,348 as at 31 December 2009. This significant increase was mainly due to increased sales as a result of Joyou selling more products through its distribution network in China.

Other receivables and prepayments comprise mainly short-term loans to other non-related companies, advances to suppliers and prepaid expenses. The increase from kEUR 7,720 as at 31 December 2008 by kEUR 15,217, or 197%, to kEUR 22,937 as at 31 December 2009 was mainly due to an increase of kEUR 12,728 in advances to suppliers.

Amounts due from related parties decreased by kEUR 911, or 61%, to kEUR 77 as at 31 December 2009. This decrease resulted primarily from the settlement of loans granted to Fujian Nan'an Pengxin Copper Co. Ltd. in connection with the restructuring of the land and factory properties and the acquisition of land use rights for the new factory Luncang.

Cash and cash equivalents mainly comprise bank deposits, cash on hand as well as security deposits for letters of credit, notes payable, bank loans and bank notes. A more detailed discussion of the development of cash and cash equivalents can be found in section 3.3.4 of this group management report.

3.3.3. Equity

Equity increased from kEUR 45,003 as at 31 December 2008 to kEUR 65,854 as at 31 December 2009 mainly due to a significant increase in retained earnings. This increase was partly offset by a decrease in the currency translation reserve as a result of RMB/EUR currency translation effects.

3.3.4. Non-current liabilities

In 2009, Joyou issued via Joyou Hong Kong in a series of financing transactions preferred shares with a book value as at balance sheet date of kEUR 42,474.

On 8 June 2009, Joyou Hong Kong executed a capital increase issuing new ordinary shares as well as a new series of preferred shares (the "**Series A Preferred Shares**"). The share capital of Joyou Hong Kong was increased by HKD 9,900.00 to HKD 10,000.00. Of the new total shares, shares representing a nominal amount of HKD 8,421 were allotted to Joyou AG and preferred shares representing a nominal amount of HKD 1,479 to two investors who had refinanced shareholder loans. Consequently, the voting rights of Joyou AG in Joyou Hong Kong were reduced to 85.21%. As agreed upon between all parties, the amounts due from the investors and the amounts due from Joyou to shareholders were settled by setting off the respective liabilities.

On 25 May 2009, Joyou Hong Kong had entered into a senior guaranteed and secured loan agreement with Bathware Limited, Virgin Islands, for USD 10,000 thousand. The parties agreed that this loan would be converted into preferred shares in Joyou Hong Kong with terms and conditions equal to those of the Series A Preferred Shares. On 16 October 2009 said loan was converted into preferred shares as part of a further capital increase of Joyou Hong Kong. Finance costs incurred between 25 May and 16 October 2009 for accruing interest was compensated by finance income in the same amount as the right to receive interest was lost with said conversion into Preferred Shares.

Finally, on 16 October 2009 Joyou Hong Kong executed a further capital increase issuing a new series of preferred shares (the "**Series B Preferred Shares**") to two companies, Bathware Limited and Grohe Holding GmbH. As part of this capital increase, the aforementioned senior guaranteed and secured loan was converted into preferred shares. The share capital of Joyou Hong Kong was increased to HKD 144,580. The Series A Preferred Shares and the Series B Preferred Shares qualify as a compound financial instrument with split accounting to be applied. Due to the terms and conditions of the financial liability component of the Series B Preferred Shares, the fair value of their conversion right and therefore the equity component was nil. The initial fair value of the financial liability component was subsequently recorded as a liability on an amortized cost basis until extinguished on conversion into ordinary shares or redemption of the preferred shares. Due to the amendment of the rights of the shareholders of Series A Preferred Shares the fair value of the financial liability component was to be adjusted. Dividends on all preferred shares are recognized in the statement of comprehensive income as interest expense.

Other provisions include provisions for the future cost of decommissioning plants on a discounted basis on the construction of those plants. The provision for the cost of decommissioning these production facilities at the end of the useful live of the land-use-rights on which the plants have been erected has been estimated using existing technology in China.

Deferred tax liabilities are mainly related to capitalized IPO cost to be deducted from new equity gained from the intended issue of new shares as part of Joyou's expected IPO in Germany in 2010.

3.3.5. Current liabilities

Short-term loans comprise primarily unsecured bank loans and, to a lesser extent, secured bank loans. They increased significantly from kEUR 31,097 as at 31 December 2008 by kEUR 21,419 to kEUR 52,516 as at 31 December 2009. This increase is mainly related to financing requirements caused by the increase in Joyou's working capital. This increase in working capital was caused, as described, by the increase in other receivables and prepayments, but also by the significant decrease in trade payables which decreased by kEUR 19,247 to kEUR 968 as at 31 December 2009. Trade payables comprise amounts payable to customers for the purchase of raw materials and products. The decrease resulted primarily from Joyou's payment of a number of its outstanding obligations for the purchase of raw materials (in particular for certain suppliers of copper) and products as a result of the improved liquidity of Joyou.

Notes payable arise from the issuance of notes payable to suppliers. The decreased slightly from kEUR 21,588 as at 31 December 2008 by kEUR 2,421 to kEUR 19,167 as at 31 December 2009. This decrease resulted primarily from the settlement of outstanding notes payable as at 31 December 2009.

Other payables and accruals mainly comprise advance payments received from customers, accrued payroll, VAT, accrued expenses and other tax payables (including business tax, stamp tax and real estate transfer tax). The decreased by kEUR 4,945, or 64%, to kEUR 2,744 as at 31 December 2009 results primarily from the reduction in the amount of value added tax due at the year end

Amounts due to related parties include short-term loans granted by related parties to Joyou and are therefore non-trade liabilities. Amounts due to related parties decreased from kEUR 7,845 as at 31 December 2008 to kEUR 13 as at 31 December 2009. The reason behind the marked reduction in this item is the conversion of the shareholder loan provided to preferred shares as described more details in section 3.3.4 of this group management report..

3.4. Segmental Reporting

The following table presents Joyou's revenues broken down by product categories for each of the two years ended 31 December 2008 and 2009. The table also presents each item as a percentage of total revenues.

	2009		2008		Variance		
	kEUR	%	kEUR	%		kEUR	%
Bathroom faucets	82,880	48%	39,715	29%		43,165	109%
Kitchen products	26,717	16%	17,316	13%		9,401	54%
Shower products	21,736	13%	10,518	8%		11,218	107%
Other bathroom products and accessories	14,668	9%	3,162	2%		11,506	364%
Other faucets and sanitary hardware	19,353	11%	33,967	25%	-	14,614	-43%
Copper semi-finished products	6,973	4%	30,367	22%	-	23,394	-77%
Sales revenues	**172,327**	**100%**	**135,045**	**100%**		**37,282**	**28%**

Bathroom faucets

All of the revenues for the periods under review were generated from the sale of basin faucets, bathtub faucets and bidet faucets which were manufactured by Joyou, except for limited sales of bathroom faucets during the last quarter of 2008 and for 2009, the production of which was outsourced to external manufacturers, each as described below.

Revenues from the sale of bathroom faucets increased from kEUR 39,715 in 2008 by kEUR 43,165, or 109%, to kEUR 82,880 in 2009. Measured in RMB, revenues from the sale of bathroom faucets increased by 94% during this period. This increase was mainly attributable to an increase in the number of basin faucets (own manufactured) from 2,300 thousand in 2008 to 3,008 thousand in 2009 and an increase in the number of bathtub faucets from 665 thousand in 2008 to 1,026 thousand in 2009. The increase in revenues from the sale of bathroom faucets resulted also from an increase in the average sales price per unit from RMB 114 to RMB 168 (EUR 11 to EUR 18) for basin faucets, from RMB 183 to RMB 215 (EUR 18 to EUR 23) for bathtub faucets and from RMB 148 to RMB 186 (EUR 14 to EUR 20) for bidet faucets. This increase in the average sales price per unit was due to an increase in sales of higher priced products, which was partly offset by higher discounts in the first quarter of 2009 provided to customers as a result of the decrease in copper prices. The increase was also attributed to higher brand recognition and market acceptance of Joyou's products. In addition, in 2009 Joyou sold 153 thousand basin faucets (as compared to 38 thousand basin faucets in 2008) and 8 thousand bathtub faucets (as compared to 14 thousand bathtub faucets in 2008) for which the production was outsourced to external manufacturers. The percentage of revenues from bathroom faucets to total revenues increased from 29% in 2008 to 48% in 2009.

Kitchen products

Kitchen products include kitchen faucets, basin faucets and kitchen basins. All faucets within this product category were manufactured by Joyou, except for limited sales of faucets during the last quarter of 2008 and for 2009, the production of which was outsourced to external manufacturers, each as described below.

Revenues from the sale of kitchen products increased from kEUR 17,316 in 2008 by kEUR 9,401, or 54%, to kEUR 26,717 in 2009. Measured in RMB, revenues from the sale of kitchen products increased by 44% during this period. This increase in revenues from the sale of kitchen products mainly resulted from an increase in the average sales price per kitchen faucet (own manufactured) during the period from RMB 83 to RMB 150 (EUR 8 to EUR 16) and by an increase in the quantities of basin faucets sold from 8 thousand basin faucets to 364 thousand basin faucets during this period. This increase was partly offset by a decrease in the quantities of kitchen faucets (own manufactured) sold from 2,021 thousand in 2008 to 884 thousand kitchen faucets in 2009 and a decrease in the average sales price per basin faucet from RMB 395 to RMB 206 (EUR 39 to EUR 22) in 2009. In addition, in 2009 Joyou sold 54 thousand kitchen faucets (as compared to 25 thousand kitchen faucets in 2008) and 45 thousand basin faucets (as compared to 0 thousand basin faucets in 2008) as well as 57 thousand kitchen basins (as compared to 1 thousand kitchen basins in 2008) during this period for which the production was outsourced to external manufacturers. The percentage of revenues from kitchen products to total revenues increased from 13% in 2008 to 16% in 2009.

Shower products

Shower products mainly comprise shower faucets and handheld showerheads. All faucets within this product category were manufactured by Joyou, except for limited sales of shower faucets during the last quarter of 2008 and for 2009, the production of which was outsourced to external manufacturers, each as described below.

Revenues from the sale of shower products increased from kEUR 10,518 in 2008 by kEUR 11,218, or 107%, to kEUR 21,736 in 2009. Measured in RMB, revenues from the sale of shower products increased by 93% during this period. This increase in revenues resulted from an increase in the number of shower faucets (own manufactured) sold from 605 thousand in 2008 to 815 thousand in 2009, an increase in the average sales price per shower faucet (own manufactured) from RMB 169 to RMB 200 (EUR 17 to EUR 21) during this period and the sale of 1146 thousand shower faucets in 2009 (compared to 16 thousand shower faucets in 2008) for which the production was outsourced to external manufacturers. This effect was offset by a decrease in the number of handheld showerheads sold from 141 thousand in 2008 to 75 thousand in 2009, whereas the average sales price per handheld showerhead increased from RMB 17 to RMB 84 (EUR 2 to EUR 9) during this period. The percentage of revenues from shower products to total revenues increased from 8% in the first ten months of 2008 to 13% in the first ten months of 2009.

Other bathroom products and accessories

Other bathroom products and accessories mainly comprise ceramic sanitary ware, bathtubs, bathroom cabinets and bathroom accessories

Revenues from the sale of other bathroom products and accessories increased from kEUR 3,162 in 2008 by kEUR 11,506 or 364%, to kEUR 14,668 in 2009. Measured in RMB, revenues from the sale of other bathroom products increased by 332% during the period. This increase resulted mainly from an increase in the number of other bathroom products sold from 268 thousand in 2008 to 1,134 thousand in 2009 primarily as a result of expanding the product range. The percentage of revenues from other bathroom products to total revenues increased from 2% in 2008 to 9% in 2009.

Other faucets and sanitary hardware

Other faucets and sanitary hardware comprises washing machine faucets, valves and unpolished products.

Revenues from the sale of other faucets and sanitary hardware decreased from kEUR 33,967 in 2008 by kEUR 14,614, or 43%, to kEUR 19,353 in 2009. Measured in RMB, revenues from the sale of other faucets and sanitary hardware decreased by 47% during this period. This decrease resulted mainly from a decrease in the number of washing machine faucets sold, unpolished products sold and valves sold and a decrease in the average sales price per valve. The quantities of washing machine faucets sold decreased from 4,765 thousand to 2,906 thousand during this period, the number of unpolished products sold decreased from 3,610 thousand to 2,464 thousand during this period and the number of valves sold decreased from 4,812 thousand to 1,513 thousand during this period. The average sales price per valve also decreased during this period from RMB 31 to RMB 20 (EUR 3 to EUR 2). The average sales price per unpolished product decreased during this period from RMB 15 to RMB 13 (EUR 1 to EUR 1). These effects were partly offset by an increase in the average sales price during the period of washing machine faucets from RMB 30 to RMB 42 (EUR 3 to EUR 4). The percentage of revenues from other faucets and sanitary hardware to total revenues decreased from 25% in 2008 to 11% in 2009.

Components and copper semi-finished products

Components and copper semi-finished products comprise inner and outer parts of faucets, other brass-made semi-finished products, brass ingots and brass rods.

Revenues from the sale of components and semi-finished products decreased from kEUR 30,367 in 2008 by kEUR 23,394, or 77%, to kEUR 6,973 in 2009. Measured in RMB, revenues from the sale of components and semi-finished products decreased by 79% during this period. This decrease resulted mainly from a decrease in the number of faucet components and brass rods sold, reflecting the increased capacity of galvanization as the result of the completion of the new galvanization plant in August 2008, enabling Joyou to increase its focus on selling finished (instead of semi-finished) products in the domestic market. The percentage of revenues from other components and semi-finished products to total revenues decreased from 22% in 2008 to 4% in 2009.

OEM/ODM sales, own brand sales and component sales

The following table presents Joyou's revenues broken down by OEM/ODM sales, own brand sales and component sales for each of the two years ended 31 December 2008 and 2009. The table also presents each item as a percentage of total revenues.

	2009		2008		Variance	
	kEUR	**%**	**kEUR**	**%**	**kEUR**	**%**
Own brand	125,297	73%	93,646	69%	31,651	34%
OEM/ODM	35,811	21%	17,812	13%	17,999	101%
Component sales	11,219	6%	23,587	18%	- 12,368	-52%
Sales revenues	**172,327**	**100%**	**135,045**	**100%**	**37,282**	**28%**

The shift in revenue from OEM/ODM sales to own brand sales can be attributed to Joyou's strategy to shift its focus from that of an OEM/ODM manufacturer for international customers and trading companies to a single brand manufacturer with a strong emphasis on the Chinese market. Components sales accounted for 18% in 2008 and 6% in 2009 as a percentage of total revenues. One main reason for this decrease was that Joyou completed the new galvanization plant in June 2008 which enabled it to increase the production capacity for its higher margin own brand products.

Geographic split

The following table presents Joyou's revenues broken down by domestic, i.e. sales to PRC customers, or export sales for each of the two years ended 31 December 2008 and 2009. The table also presents each item as a percentage of total revenues. "Export indirectly" means sales to customers located within the PRC where Joyou believes such customers to finally export these products to overseas customers, whereas "export directly" means that such products are sold to customers located outside of the PRC.

	2009		2008		Variance	
	kEUR	%	kEUR	%	kEUR	%
Domestic	136,516	79%	117,233	87%	19,283	16%
Export indirectly	32,682	19%	11,118	8%	21,564	194%
Export directy	3,129	2%	6,694	5%	- 3,565	-53%
Sales revenues	**172,327**	**100%**	**135,045**	**100%**	**37,282**	**28%**

This shift in revenue from export sales to domestic sales within the periods under review as illustrated in the table above is the result of Joyou's new strategy implemented in 2007 to shift its focus from that of an OEM/ODM manufacturer for international customers and trading companies to a single brand manufacturer with a strong emphasis on the Chinese market.

Further information on segmentation by business area and geographical region is given in Note 5 to the Consolidated Financial Statements as at 31 December 2009.

4. Corporate Situation

4.1. Share capital

The registered share capital of Joyou AG amounts to EUR 10,000,000 and is divided into 10,000,000 non-par value ordinary bearer shares with proportionate value of EUR 1.00 each. The share capital has been fully paid in by contribution in kind. Each share carries one vote at the company's general shareholders' meeting. There are no restrictions on voting rights. The shares carry full dividend entitlement for the short financial year 2008 and all subsequent financial years. In the event that the company is dissolved, the company's assets remaining after settlement of its liabilities will be distributed among the shareholders in proportion of their share of the share capital.

4.2. Corporate Governance

The Company has not intentionally complied with the recommendations and suggestions contained in the German Corporate Governance Codex (GCGC) yet because it has so far not been listed on any stock exchange and therefore the GCGC did not apply to the Company.

After the Offering and admission to trading of the company's shares on the regulated market of the Frankfurt Stock Exchange, Joyou AG will annually issue and publish a declaration in compliance with Section 161 of the German Stock Corporation Act, and to make it continuously available on its website. The Management Board and Supervisory Board of Joyou AG identify with the goals of the GCGC to foster responsible and transparent corporate management and control, oriented to a sustained increase in company value. Therefore, Management Board and Supervisory Board will be largely following the recommendations and suggestions of the GCGC. Details will be agreed upon between the Management Board and the Supervisory Board shortly.

4.3. Research and Development

Our research and development is built on a system of inter-departmental coordination and participation. Joyou considers research and development as well as product design to be of key importance for its success.

We are currently performing research on sensory techniques for faucets and other flushing valves that may be used in toilets, the improvement of constant temperature functions, such as thermostat techniques, and the improvement of water-saving functions of flushing valves. Furthermore, we are also focusing our research on the production of lead-free faucets. Our R&D activities also include enhancing the standardization of product components in order to make our production processes more efficient.

As national and international regulatory bodies impose increasingly strict environmental standards on the production of sanitary ware products, we place strong emphasis on the production of more environmentally friendly products, including water conservation measures, production methods, as well as the components used for its products. We have long worked to improve water conservation measures, such as the prevention of leakage in its valves and toilet flushes enabling the user to control the amount of flushing water.

We design all faucets and showerheads that we sell under our own brand. With respect to ceramic sanitary ware, the products are designed by third party design houses but only after our approval commissioned to manufacturers. It usually takes us between 70 to 90 days from the initial concept for a new product to commence serial production. Initial small-scale production usually begins about 45-60 days after the first proposal of an idea for a new product, and approximately another 30 days are required before the product is ready for the market. We believe this to be quicker than our peer group, and is part of our strategic competences.

Our market research center is part of our R&D department and continuously monitors the domestic and international sanitary ware markets to evaluate new trends and customer demands and uses this information to design new products. In particular, we believe that European and United States market trends and consumer preferences for new designs and functionalities will eventually be adapted for the Chinese market as well. Members of our design department and market research center attend international trade fairs, and travel to western countries in order to familiarize themselves with new western-style design trends and technological developments.

The goal of this system is to keep closer track on the amount of sales for Joyou's products in order to plan production and stock levels accordingly and to gain a closer understanding of consumer preferences to develop more consumer-targeted products.

4.4. Procurement and Supply

Joyou purchases raw materials, components, as well as finished products. Joyou generally avoids relying on single source suppliers for specific raw materials or other products.

4.4.1. Supply of raw materials

For the periods under review, more than two thirds of the cost of sales consisted of costs for raw materials. We purchase copper, zinc, aluminum, lead, bismuth, and other raw materials and chemicals in order to produce our faucets. We currently procure these raw materials based on supply agreements with various suppliers. These agreements have terms of one year and are automatically renewed unless terminated. As there is a sufficient number of suppliers for raw materials in the Chinese market we are not dependent on a single supplier.

4.4.2. Supply of finished products and product components

In addition to raw materials to produce our own products, we currently source various finished products and components for products which we sell under our own brand. Finished products that are procured by us include ceramic sanitary ware products, showerheads, cabinets for bathroom and kitchen, as well as stainless steel basins used for kitchen sinks, and bathtubs. Joyou sources these finished products from various suppliers and does not depend on any single supplier.

Third-party producers manufacture these products according to our quality and design specifications. We also source simple components for our products made of brass, such as copper pipes, plastic valves, rubber sealing rings, and filters for faucets. These simple components have a lower product margin and we do not consider it to be economical to produce them in-house.

4.5. Production

4.5.1. Production

Joyou currently manufactures faucets, valves and other bathroom accessories made of brass. Other finished products sold by Joyou such as shower sets, showerheads, ceramic sanitary ware, bathroom cabinets and copper pipes used for bathroom accessories are sourced from a number of third-party producers that manufacture the finished products or components according to our design specifications.

For its own brand business, Joyou produces based on demand estimates forecasted by its market research center. The marketing center forecasts market demand on a monthly basis, primarily using information derived from recent sales numbers for our products collected from regional distributors.

Joyou attaches great importance to maintaining production equipment and technologies at current European standards. By cooperating with international sanitary ware manufacturers through its long-term function as an OEM/ODM manufacturer and by exchanging technologies with these manufacturers, Joyou has accumulated substantial knowledge about advanced production techniques and technologies used in the production of sanitary hardware products and faucets. Joyou also employs modern machinery that it has mainly imported from Europe, such as its low-pressure casting equipment, polishing robots and semi-automatic galvanization lines.

4.5.2. Production facilities and equipment

Joyou operates two factories in Nan'an. One factory was established in 1991 and covers 30,000 square meters of land and 25,000 of square meters of production area. This factory is currently used only as a warehouse and as a polishing line.

The second factory is situated in the Luncang area of the city of Nan'an, approximately four kilometers away from the old factory. This factory was established in three phases, the first of which comprised new production lines for faucets which commenced production in March 2007. The second phase included assembly lines for semi-finished products as well as galvanization lines and was partly put into operation in September 2007. The new galvanization lines at Joyou's new factory commenced production in July 2008. The third phase of production will consist of production lines for plastic showerheads and is still under construction. The entire land plot of the new factory comprises over 200,000 square meters. We intend to use part of the proceeds from our private placement of preferred shares in Joyou Hong Kong to finalize its production lines for showerheads. We estimate that completion will occur in the second half of 2010.

With the commencement of production at Joyou's second factory, we believe that we are one of the faucet manufacturers in China with the highest production capacity based on our own estimates. Joyou believes that this will allow it to respond to growing market demand for sanitary ware products and also enable it to tender offers for large scale construction projects.

4.6. Distribution

4.6.1. Own brand products

Joyou sells its own brand products through a retail distribution network that it has established since mid-2007 in China. Our retail distribution network consists of stores operated by unaffiliated shop owners who have been engaged by regional distributors that we have chosen for specific regions of China, or by the regional distributors themselves. We only have contractual relationships with the regional distributors based on standardized distribution agreements. Except for their obligations contained in the distribution agreements, the regional distributors are independent of Joyou and, therefore, unaffiliated. Depending on their size we divide the retail points of sale into the following categories:

Flagship stores: With a sales area of typically more than 200 square meters, flagship stores are our largest retail points of sale. Flagship stores mainly serve representative purposes and are opened in tier one cities, which are the major cities and capital cities of the Chinese provinces. Flagship stores target customers involved in large construction projects such as contractors for new hotels or other buildings of public use, as well as retail customers. In addition to serving as large retail outlets for our products with a broad product offering, flagship stores also serve as a primary means of establishing our brand reputation as a high-quality producer of modern sanitary ware products.

Exclusive stores: Exclusive stores are typically between 80 square meters and 200 square meters in size. Exclusive stores are targeted at the same customer groups as Flagship Stores, however, with a stronger focus on retail customers and less focus on customers from the construction industry.

Authorized stores: Authorized stores are usually dedicated sales areas only for our products within shopping centers focusing on sanitary ware. Their sales area is typically less than 80 square meters in size. The shopping centers in which authorized stores are located sell our products and display our brand symbols in specific sales areas, but also sell the products of other manufacturers. Although they offer the entire range of our products from its catalogue, only a limited selection of our products is displayed.

Our regional distributors collect our products from our factories and usually store the products at their own warehouses. The products are transported to the retail points of sale from these warehouses by the regional distributors who are also responsible for all matters related to shipping and logistics.
We place a strong emphasis on having unified interior and exterior decorations at its retail points of sale in order to improve consumer recognition of Joyou's brand and products. To this end we may pay a discretionary subsidy to our regional distributors in the form of reimbursements for investments made for the decoration of shops in the previous year.

To improve communication and interaction with these distributors, we organize annual meetings of our regional distributors and their retailers in order to provide retail distributors with information on new products and to discuss ways to further improve the marketing of our products. The 2010 annual meeting, which was held in January 2010 in Quanzhou, was visited by nearly 2,000 regional distributors and retailers.

Joyou also conducts regular training courses for sales staff and installation technicians of their regional distributors and provides updates on our products to distributors, sales staff and installers of sanitary ware products whom it considers to be important intermediaries in the retail chain for sanitary ware products.

As at 31 December 2009, our retail distribution network included 43 regional distributors, covering most of the main business regions of China and consisted of 48 Flagship stores, 1,044 Exclusive stores and 1,435 Authorized stores.

4.6.2. Distribution of OEM/ODM products

OEM stands for Original Equipment Manufacturing and refers to made-to-order products, which means products that are manufactured according to the design and specifications of the customer. ODM stands for Original Design Manufacturing and refers to a situation in which the seller offers finished products to customers who sell these products to customers who sell these products under their own or a third party's brand.

Our OEM/ODM sales are almost exclusively made to international markets. We sell sanitary ware products through our OEM/ODM business directly to international companies, international wholesalers or trading companies who resell the products to international brands or other customers such as retail chains. In some cases, we also produce OEM/ODM products for domestic sanitary ware manufacturers, which sell these products to international brands.

For the promotion of its OEM business, we actively contact international companies which sell our products under their own brand. We visit large exhibitions in order to establish and maintain business contacts. We maintain long-standing relationships with customers from various developed countries, including the United States, the United Kingdom, France, Germany, Italy and Australia.

4.7. Employees

During the year, Joyou had an average of 1,684 employees (prior year: 2,608 employees).

The decrease of employees in our management and administration departments was caused by the move of all production lines to the factory in Luncang, which was completed in 2009. This consolidation of a number of manufacturing processes led to a decrease in demand for lower level management staff in 2009.

The decrease of employees in our sales and marketing department is attributable to the further development of our retail distribution network via unaffiliated regional distributors. As more sales marketing activities are now being organized by the regional distributors instead of Joyou, the number of our employees in the sales and marketing departments slightly decreased.

Finally, the decrease in the number of trainees is due to the fact that in 2009 we offered full-time employment contracts to many of our trainees of 2008. This decreased of our demand for trainee workers, whereas the overall number of employees, including trainees, was kept at an approximately stable level.

5. Opportunities and Risk Report

To date, Joyou Group has not established a comprehensive risk management system yet. Due to the rapid growth that the Group has experienced in recent years, it is aware of the need to implement such a system but will start its implementation in the middle of 2010 at the latest.

5.1. Economic development in China

We believe that the Chinese sanitary ware industry in general and Joyou in particular are in a favorable position to provide for reasonable growth rates in the future as we consider the following factors as key drivers to our success: The growth of an urban-professional middle class in rapidly urbanizing areas will trigger strong demand for sanitary ware. Increasing living standards supported by further growth in China's GDP will lead to changing consumer patterns resulting in expanded bathroom space and increase in the demand for products with higher design standards and more advanced features. Beside those effects on the consumer market, newly constructed public utilities will be equipped with corresponding sanitary ware products. Increasing renovation activities triggered by the aging of the buildings as well as changes in aesthetic and quality preferences will also support further growth in the Chinese sanitary ware industry and Joyou.

5.2. Brand development and domestic distribution network

In 2007 Joyou changed its strategy to focus on the sale of its own brand sanitary ware products in the Chinese market. We believe that the development of the Joyou brand will be one of the key competitive criteria for our further expansion in China and therefore intend to make substantial marketing investments to promote and increase awareness of our brand in the Chinese market and to position ourselves as a producer of high quality and design sanitary ware. However, as we are still in the process of establishing our own brand in the Chinese market, and we are thus particularly vulnerable to external events and factors which could adversely affect our reputation with Chinese consumers, there can be no assurance that we will be successful in establishing the “Joyou” brand as a brand recognized for high-quality sanitary ware products in the Chinese market. Any failure to maintain and develop our own brand could have a material adverse effect on our business, financial condition and results of operations. At the same time, when achieving the intended brand reputation, we expect our “Joyou” brand to be one of the key factors to our success which will enable Joyou to accomplish its goals with respect to our business, financial condition and results of operations.

Our distribution network consists of retail points of sale managed or controlled by regional distributors which have been granted exclusive rights to sell “Joyou” branded products in specific regions of China under distribution agreements that Joyou has entered into with these distributors. As we do not have direct control over the management of these retail points of sale we depend on the cooperation of our distributors. Such distribution agreements could adversely affect our business if such retail points of sale selling the “Joyou” brand products are managed ineffectively or inappropriately.

We intend to further substantially increase the total number of our retail points of sale in order to cover all major business areas in China, we depend on finding new distributors which are of good standing and reputation to operate these new retail points of sale. There can be no assurance that we will be able to establish as many retail points of sale successfully as we intend, or that demand for our products will grow sufficiently to justify the opening of these additional retail points of sale from an economic perspective. Therefore, the occurrence of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

5.3. Development of products and production capacity

Joyou intends to expand its production capacity and the scope of its production range significantly. For this purpose we intend to build new production facilities for new and existing products and acquire manufacturers of sanitary ware products. The construction of new factories or planned acquisitions may prove more difficult than expected, face regulatory constraints and the Company's business projections may prove to be inaccurate. Even if the Company builds and/or acquires these new facilities, they may prove to be unnecessary if demand for our products declines below expectations.

As a result of our lack of relevant experience in the production of new products, we could fail to build or acquire respective production facilities in a timely manner, within its budget or at all. In addition, we could be unable to operate the newly built or acquired production facilities efficiently or at all. As a result of the significant investments in the planned expansion of its production range, our margin for the sale of newly produced products may initially be lower compared to the sale of products sourced from third-party manufacturers. As we expand our production scope, we will also need more raw materials and other supplies, additional qualified employees and additional licenses, permits or other authorizations from local, state or national authorities to operate the expanded scope of production. Finding additional employees, new suppliers of raw materials and obtaining the necessary permits and licenses may prove to be difficult, expensive or even impossible.

5.4. Price changes in raw materials

The profitability of Joyou's business is affected by changes in costs of raw materials, in particular changes in the prices of copper and zinc. As copper and zinc are global commodities, the purchase prices that Joyou pays for these commodities are strongly correlated with the world market price for copper and zinc. World market prices for copper and zinc have been volatile for the periods under review. In addition, because copper and zinc are mostly traded in US dollars, increases in the prices of these raw materials can be exacerbated by increases in the value of the US dollar. However, the RMB-denominated prices for copper and zinc are also based on the value of the USD as the USD is the most prevalent currency in which copper and zinc are quoted on the world market. Since Joyou does not hedge against fluctuations in commodity prices or exchange rates, an increase in the US dollar-denominated commodity prices against the RMB would increase Joyou's costs incurred in RMB and expressed in EUR in its financial statements.

In order to minimize the risks associated with these price changes, Joyou fixes raw material prices in supply contracts to avoid the impact of raw material price fluctuations. For products sold abroad, Joyou controls the sales price in line with the current price of raw copper and adjusts the sale price if the fluctuation exceeds 5%. The corresponding adjustment procedure will be set forth in the contract. Furthermore, Joyou diverts raw material risks by increasing product prices and tries to reduce the risk by increasing productivity and inventory management in order to increase inventory turnover. However, Joyou has not used any hedging arrangements to minimize price fluctuations in its raw materials costs so far. But, we will, under necessary circumstances, take such measures as hedging and forward transaction to respond to future fluctuations.

If and to the extent Joyou is not able to pass increased raw material costs to its customers or to agree on certain price increases with its customers and distributors, its results of operations will be adversely affected. If the costs of raw materials decrease and we do not have to lower the prices of its products accordingly, its results of operations will be positively affected. Any significant change in raw material costs, and in particular for the purchase of copper and zinc, will have a direct effect on our results of operations.

5.5. Fluctuations in labour cost

The production of sanitary ware products in China is very labor intensive and almost all of our work force is located in China. Average annual salaries of urban employees in the PRC increased significantly within the periods under review. This increase is also a result of the introduction of new labor law legislation in China that became effective as of 1 January 2008 and general workforce shortages in China. For example, in the first six months of 2009, the average wage per capita of urban employees in the PRC increased by approximately 12.9% compared to the first six months of 2008. To the extent that Joyou is unable to offset an increase in labor costs with increases in revenues, its business and results of operations could be adversely affected.

5.6. Environmental, health and safety risks

The manufacturing of faucets involves the storage of certain materials such as oil and lead which may be hazardous. Joyou also carries out galvanization processes which involve the discharge of toxic substances such as lead and oils. Gaseous, liquid and solid waste such as residual lead is generated at different stages in the production process. Waste materials, in particular waste water, are in part recycled, but in part also need to be discarded. All of these materials pose health risks and can cause environmental damage if they are not disposed of properly. Hazards such as fires, explosions, storage tank leaks or ruptures, mechanical failures as well as other events outside of its control, are ever-present risks in Joyou's industry and could lead to discharges of toxic or hazardous substances into the atmosphere, the ground water or the soil. The occurrence of any of these risks may lead to serious personnel injury, damage or destruction of Joyou's assets, plant or equipment as well as environmental damage which could, in turn, lead to production stoppages, the imposition of substantial fines, the revocation of Joyou's business license or other necessary authorizations, the imposition of obligations to remediate contaminated sites and damage claims from employees or customers.

Joyou has in the past conducted production activities that included galvanization processes and handled toxic materials, such as lead and oils, without any regulatory supervision or under Chinese environmental regulations which were not adequately developed in particular with respect to soil protection. Even though subsoil contaminations have not been detected on the land plots used by Joyou to date, the risk of subsoil contamination especially at Joyou's old plant in Nan'an is high and Joyou may face substantial costs to remedy any subsoil contamination in the future. The legal requirements in the PRC relating to environmental protection and health and safety have over time become more stringent and are expected to become stricter in the future. Joyou may be subject to numerous new laws and regulations relating to, among other things, the protection of the environment and natural resources, health and safety, the management of hazardous substances and waste, air emissions, water discharges and the cleaning up of contaminated soils. In particular, these standards may require Joyou to clean up any contamination that was caused by production at its old factory site in Nan'an in the past. As a result Joyou may face substantial costs in the future to remedy any contamination and comply with more stringent laws and regulations relating to environmental protection and health and safety. These could also lead to temporary or permanent plant closures or may otherwise affect the usability or value of Joyou's plants. In addition, any violations of these laws could result in substantial fines or criminal convictions.

5.7. Insufficient financing capabilities

In order to finance our growth strategy, we may have to raise additional capital in the future through debt or equity offerings. We cannot be certain that suitable financing will be available in the required amounts or on acceptable terms. If additional debt is incurred, this would result in debt service obligations which could have a negative impact on profitability and could expose us to general adverse economic and industry conditions. In addition, the terms of any financing agreement could limit our ability to pay dividends or restrict our flexibility in planning for, or reacting to, changes in Joyou’s business or industry.

Joyou's subsidiaries in China are also subject to foreign exchange registration and approval if they intend to borrow funds from entities outside of China. In addition, Joyou's subsidiaries in China need to obtain approval or registration from Chinese government agencies if they intend to secure financing through equity contributions. In the event that we cannot obtain necessary financing on reasonable terms, or at all, we may be forced to scale back our plans for future business expansion.

Finally, Joyou's subsidiaries in China are subject to certain restrictions on the amount of foreign debt they can borrow. In utilizing the proceeds of the intended IPO to finance our business, Joyou AG, as a holding company, or Joyou Hong Kong may make loans or additional capital contributions to Joyou Sanitation Technology, the PRC subsidiary of the Company which qualifies as a so-called foreign invested enterprise ("FIE") under PRC law. Any loans by an offshore parent company to a FIE established by it are subject to approvals and/or registration requirements and must be within the margin between the FIE's total investment amount and registered capital. Further, loans to FIEs have to be registered with SAFE or its local counterpart. In addition, if the Company or Joyou Hong Kong finances the operating entities of Joyou in China through additional capital contributions to Joyou Sanitation Technology, the amount of these capital contributions must be approved by and registered with the relevant government authorities. If we were to fail to receive such registrations or approvals, the ability to use the proceeds of the IPO and our ability to fund and expand the operational business in China could be adversely affected, which could have material adverse effects on the business, financial condition and results of operations of Joyou.

5.8. Foreign exchange rate fluctuations

The consolidated financial statements of Joyou AG were prepared in EUR and its future consolidated financial statements will be prepared in EUR, while Joyou's functional currency is RMB, which is currently not a freely convertible currency. A devaluation of the RMB versus the EUR would therefore have an adverse currency translation effect on Joyou AG's consolidated financial statements. As the value of the RMB is controlled by PRC authorities, it is also possible that foreign exchange policies of the PRC government could have a significant impact on currency exchange rates. Therefore, fluctuations in currency exchange rates could have material adverse effects on the business, financial condition and results of operations.

5.9. Insufficient business insurance

Our products may contain undetected defects, especially when first introduced or when new products are released. Product defects could result in the rejection of our products, the loss of customers, the diversion of resources or increased customer service and support costs. Under Chinese law, Joyou is not required to maintain product liability insurance coverage.

In addition, Joyou is subject to numerous other risks including natural disasters, potential business disruptions or potential litigation. Joyou does not maintain any business liability, loss of data or disruption insurance coverage for its operations. Any product defects, business disruptions, litigation or natural disasters might result in Joyou's incurring substantial costs and the diversion of its resources. The occurrence of uninsured damages could have material adverse effects on the business, financial condition and results of operations of Joyou.

5.10. Insufficient liquidity in Joyou AG

Joyou AG is a holding company without any operating business of its own. Joyou AG's assets are largely located in China. Current PRC regulations permit the payment of dividends only out of accumulated profits determined in accordance with Chinese accounting standards and regulations. In addition, a subsidiary of the Company, if it constitutes a foreign-invested entity under PRC law, is required to set aside at least 10% of its after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of its registered capital. Furthermore, foreign-invested entities may be required to set aside a portion of their after-tax profits to fund an employee welfare fund in an amount which lies within the discretion of the subsidiary's board. These reserves are not distributable as cash dividends.

Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operating-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange ("SAFE") or its local counterparts, and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions.

Should any of the PRC subsidiaries of Joyou AG be, or become, restricted and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China, this could have material adverse effects on Joyou AG's financial condition.

6. Report on post-balance sheet date events

There have been no events material to the financial position or financial performance of Joyou occurred after the balance sheet date.

7. Forecast Report

The following statements on the future development and performance of Joyou and the key underlying assumptions concerning market and industry developments are based on assessments which Joyou considers realistic on the basis of the information currently available to it. 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.

7.1. Future Business Development

According to the State Council Development Research Centre China's economy is likely to grow 9.5 percent in 2010, topping last year's expected figure, as real estate investment buoys growth and inflation remains mild. This estimation published by a leading state think tank is confirmed by other international banks such as Deutsche Bank which is expecting a growth in China's GDP between 9% and 10%. Therefore, China's economy will remain robust, with market-driven investment picking up while government-led stimulus spending is to slow down.

In March 2008, McKinsey Global Institute estimated that if the urbanization trend was to continue, nearly one billion people would be living in urban centers by 2025. Further the urban population is expected to grow by 62% between 2005 and 2025, leading to 537 cities with a population over one and a half million, and 222 cities with a population over 5 million. The Chinese housing and construction industry will likely remain one of the main beneficiaries of the ongoing urbanization trend and benefit from the need to develop adequate urban infrastructures which includes building, construction and refurbishment of housing and office space. These trends will also strongly support the need for our products. In addition, the strong economic growth in recent years will enable Chinese households to improve their living conditions in the coming years leading to higher demand for our products.

According to the State Council Development Research Centre, which advises the Chinese government, investment in real estate could grow by 30 to 40 percent compared with 2009 and therewith becoming a main force driving investment growth.

Based on these parameters, BSRIA predicts in its China Bathroom 2009 study an average volume growth rate until 2013 of 5% for faucets, 5% for Ceramics and Non-Ceramics and 3.9% for bathtubs. The value of the market is expected to increase further with corresponding consumption rate increases. In 2009 there was a total increase in market value of 22% of which 16.8% was due to increasing prices. At the same time, we expect a consolidation process in the Chinese sanitary ware market leading to a reduction in the number of competitors.

Competition in the Chinese and global markets for sanitary ware is particularly intense and we expect this competition to continue to increase and intensify in the future. We expect that the highly fragmented market for sanitary ware in China will be consolidated by large companies which already offer a complete range of sanitary ware products, which will in turn lead to the emergence of even stronger competitors in the Chinese market. In addition, the barriers to entry in the market for sanitary ware are relatively low for new competitors with sufficient financial resources to make the necessary investments in machinery and experienced personnel. In addition, in connection with the economic slowdown and the results of the financial crisis in industrialized countries, we expect more of our international competitors to increase their sales activities in the Chinese market, which is believed to be one of only a few growth markets worldwide leading to intensified competition with respect to high-quality products and for qualified personnel in China.

7.2. General Statement of the Future Business Environment

The economic development in China as well as mega-trends such as urbanisation will strongly support the need to develop adequate urban infrastructures leading to an increase in demand for sanitary ware products. This process will also be supported by increasing disposable income of the average Chinese household enabling it to spend more money on design and decoration of bathrooms. Consequently, we believe that the Chinese sanitary ware industry is in a favorable position to provide for reasonable growth rates in 2010 and beyond.

7.3. Future Development of Joyou Group

7.3.1. Corporate Restructuring

In the first quarter of 2010, Joyou AG, Joyou Hong Kong, the Shareholders of Joyou AG and the Preferential Shareholders in Joyou Hong Kong will execute an agreement according to which the Preferential Shareholders in Joyou Hong Kong will restructure their investment from the level of Joyou Hong Kong to the level of Joyou AG. In the Restructuring Agreement, the parties will agree that the Preferential Shareholders in Joyou Hong Kong will transfer all their preferred shares in Joyou Hong Kong to Joyou AG against issuance of new ordinary shares in Joyou AG to them. The Restructuring Agreement stipulates that a capital increase against contributions in kind will be carried out at Joyou AG which is to become effective at the latest as of the day of admission of the Company's shares to trading on the Frankfurt Stock exchange. The Restructuring Capital Increase is expected to be resolved upon during the General Meeting of shareholders of Joyou AG that also resolves upon the IPO Capital Increase. After the completion of the corporate restructuring Joyou AG will be the holder of 100% of the shares (including ordinary shares and preference shares) of Joyou Hong Kong. It is expected that the filing of the Restructuring Capital Increase with the commercial register will be made simultaneously with the filing of the IPO Capital Increase with the commercial register, and the Restructuring Capital Increase will become effective simultaneously with the registration of the IPO Capital Increase with the commercial register, which is expected to occur one day before or on the day of admission of the Company's shares to trading at Frankfurt Stock Exchange.

7.3.2. Business Development

To explore the opportunities for our industry, we will focus on further strengthening our domestic sales in part by expanding our distribution network and developing towards a sanitary ware producer offering the whole range of bathroom and kitchen products. To remain competitive, we will continue to invest significant resources in the ongoing development of new products and improvement of existing products.

We position our own brand products in the medium-range segment of the Chinese sanitary ware market, targeting its sales mainly at private consumers of the growing Chinese middle class, as well as large-scale construction projects such as new hotels or other buildings of public use. With an expected increase in average salaries and a corresponding growth in the upper-middle class in China in the future, we intend to increase our sales of high-end products.

To promote our brand “Joyou”, we intend to intensify its marketing and promotion efforts on Chinese national television, regional newspapers and through sponsoring public events in order to increase the market perception of Joyou as an innovative producer of sanitary ware products with modern design and high quality at affordable prices. This will lead to substantially increased advertising expenses in absolute terms and as proportion of sales. Examples of this further brand building activity are our recent signing of the six time 2008 Beijing Olympic gold medalist, Jingjing Guo who will be the Joyou brand ambassador for the coming 2 years. We have started this branding drive through national CCTV television and media campaigns. Other examples include sponsorship of major events such as ‘Pan-China Concert Show’ national CCTV stations, which attracted nearly 40,000 attendees and will be shown repeatedly across the whole of China.

Furthermore, we intend to expand Joyou’s value chain by broadening our production capabilities in order to become a producer of a wider range of high-quality sanitary ware products, ranging from faucets to plastic-made showerheads and ceramic sanitary ware. Galvanization is currently the bottleneck within our production process as capacities of our current galvanization lines are lower than the capacities of our faucet production lines. Therefore, we intend to expand the capacity of our existing galvanization lines and intend to establish a new factory with new galvanization lines for plastic shower heads in an industrial park approximately 30 kilometers away from our new factory in Luncang, Nan'an.

With respect to the agreement with Grohe, we intend to sign-up up to 50 additional regional distributors which are intended to open approximately 500 to 600 additional points of sales in 2010. As these new points of sales will exclusively market Grohe products, Grohe will pay a certain amount of the store fitting support. Furthermore, we have agreed with Grohe to engage in certain joint marketing and sales promotion activities. The distribution agreement contains certain sales targets for the retail sales for Grohe products in 2010, 2011 and 2012 which, if met, will entitle Joyou to certain volume discounts in the respective following years.

We believe that Joyou will be able to achieve further growth in sales revenues as well as net profit in 2010 and beyond. To enable Joyou to explore the growth potentials as envisaged by management, however, the intended IPO in Germany is key to secure the additional funding required enabling Joyou to finance the expected growth in working capital as well as non-current assets.

7.4. General Statement of the future business development

We have prepared Joyou for the development to be expected in the business year 2010. With additional financing being available from the capital increase in Joyou Hong Kong in 2009 and the additional funds expected from the IPO in Germany, we will invest in the growth of our production capacities as well as our retail distribution network. With our innovative products and our "Joyou" brand being further strengthen we are well prepared for the coming changes in the Chinese sanitary ware industry. Therefore, we strongly believe that Joyou will be able to strengthen is market position in the Chinese sanitary ware market.

Hamburg, 11 March 2010

Jainshe Cai	Jilin Cai	Gang Zheng	Zufang Li

JOYOU AG,
Hamburg

CONSOLIDATED FINANCIAL STATEMENTS

for the accounting period ended

31 December 2009

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	Note	Twelve months ended 31 December 2009 Joyou AG kEuro	Four months ended 31 December 2008 Combined kEuro
Revenue	6.	172,327	52,774
Cost of sales	7.	(125,464)	(38,341)
Gross profit		46,863	14,433
Other operating income	6.	500	167
Selling and distribution expenses	8.	(6,224)	(3,187)
Administrative expenses	9.	(2,135)	(2,920)
Other operating expenses	10.	(50)	(63)
Operating profit	11.	38,954	8,430
Finance income	22.	454	25
Finance costs	22.	(8,762)	(2,012)
Profit before income tax		30,646	6,443
Income tax	23.	(8,384)	(2,250)
Profit for the period		22,262	4,193
attributable to owners of the parent		22,262	4,193
Exchange differences on translating foreign operations		(1,938)	2,090
Other comprehensive income for the period		(1,938)	2,090
Total comprehensive income for the period		20,325	6,283
attributable to owners of the parent		20,325	6,283
basic	25.	2.32	0.42
diluted	25.	1.32	0.18

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The accompanying policies and explanatory notes form an integral part of the financial statements.

	Note	31 December 2009 Joyou AG kEUR	31 December 2008 Joyou AG kEUR
ASSETS			
Current assets	**Note**		
Inventories	16	22,679	24,772
Trade receivables	17	41,348	35,815
Other receivables and prepayments	17	22,937	7,720
Amounts due from related parties	17	577	1,488
Cash and cash equivalents	18	34,291	11,762
		121,832	81,557
Non-current assets			
Property, plant and equipment	13	40,117	38,544
Intangible assets	12	22,605	19,758
Deferred tax assets	15	1,404	976
		64,126	59,278
Total assets		185,958	140,835
LIABILITIES			
Current liabilities			
Short term loans	14	52,516	31,097
Trade payables	20	968	20,215
Notes payable	20	19,167	21,588
Other payables and accruals	20	2,744	7,689
Amounts due to related parties	27	13	7,845
Income tax payable	24	688	6,959
		76,096	95,393
Non current liabilities			
Preferred shares	20	42,474	0
Other provision	21	642	138
Deferred tax liabilities	15	892	301
		44,008	439
Total liabilities		120,104	95,832
CAPITAL AND RESERVES	19		
Share capital		10,000	10,000
Capital reserves		6,070	5,544
Statutory reserves		3,012	3,012
Currency translation reserve		894	2,832
Retained earnings		45,878	23,615
Total equity		65,854	45,003
Total liabilities and equity		185,958	140,835

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The accompanying policies and explanatory notes form an integral part of the financial statements.

	Share capital kEUR	Capital reserves kEUR	Other reserves kEUR	Currency Translation reserve kEUR	Retained earnings kEUR	Total equity kEUR
Balance as at Aug 31 , 2008	10,000	5,544	1,296	743	21,135	38,718
Transfer to statutory reserves			1,716		-1,716	0
Total comprehensive income				2,090	4,197	6,287
Balance as at Dec 31, 2008	**10,000**	**5,544**	**3,012**	**2,832**	**23,615**	**45,003**
Preferred shares		511				511
Stock options		15				15
Total comprehensive income				-1,938	22,262	20,326
Balance as at Dec 31, 2009	**10,000**	**6,070**	**3,012**	**894**	**45,878**	**65,854**

Joyou AG was formed by means of contribution in kind (*Sachgründung*) in the amount of EUR 10,000,000.00. The issuance of the new 10,000,000 non-par value ordinary shares (*Inhaber-Stückaktien*) with a proportionate value of EUR 1.00 each was effected against a contribution in kind comprising all shares of Joyou Hong Kong. The Company took legal effect upon registration in the commercial register on 28 August 2008. The Company's initial share capital is fully contributed.

As the shareholders in Joyou Hong Kong have become the shareholders in Joyou AG, the foundation of Joyou AG has been accounted for as a reverse acquisition. Consequently, legally Joyou AG is regarded as the parent and Joyou Hong Kong as the subsidiary. For accounting purposes Joyou Hong Kong is deemed to be the acquirer as its shareholders have the power to govern the financial and operating policies of Joyou AG so as to obtain benefits from its activities. Therefore, as described in note 19 , the share capital in the consolidated opening statement of financial position for Joyou AG as at 31 August 2008 is that of the legal parent Joyou AG with the statutory reserves, retained earnings and the foreign currency translation reserve disclosed as equity in the consolidated financial statements for the accounting period ending 31 December 2009 equaling the equity of Joyou Hong Kong with the exception of a EUR 9,999,991 adjustment to decrease the capital surplus at 31 December 2009, to adjust the share capital disclosed to that of Joyou AG.

Share capital and the rights attaining thereto are commented on in note 19.1.

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The accompanying policies and explanatory notes form an integral part of the financial statements.

	Note	Twelve months ended 31 December 2009 Joyou AG kEUR	Four months ended 31 December 2008 Joyou AG kEUR
Operating activities			
Profit before tax		30,646	6,443
Adjustments	26	10,018	3,183
Net changes in working capital	26	-46,421	-3,274
Income tax paid		-14,491	0
Cash flow from operating activities		-20,247	6,356
Cash flow from investing activities			
Purchase of intangible assets		-3,753	-9,809
Purchase of property, plant and equipment		-5,285	-11,269
Proceeds from disposal of property, plant and equipmer		0	8,927
Interest received		124	25
Interest expense		-384	-387
Cash flow from investing activities		-9,299	-12,513
Cash flow from financing activities			
Issue of convertible bonds / preferred shares		31,528	0
Increase in bank borrowings		22,898	10,809
Increase (Decrease) in related party loans		1,483	1,442
Interest paid		-2,897	-3,516
Cash flow from financing activities		53,012	8,735
Net increase in cash and cash equivalents		23,466	2,580
Cash and cash equivalents at beginning of period		11,762	8,514
Foreign exchange movements		-936	668
Cash and cash equivalents at end of period	18	34,291	11,762

The cash and cash equivalents stated above correspond with those reported in the consolidated statement of financial position (please refer to note 18 for further information)

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The accompanying policies and explanatory notes form an integral part of the financial statements.

Notes to the consolidated financial statements of the Joyou Group

1. Nature of operations

Joyou AG and its subsidiaries (the “Group”) design, produce and sell faucets and other sanitary ware products in the People´s Republic of China (hereafter: “PRC” or “China”) under their brand name "Joyou" and are also engaged as a manufacturer for international brands and trading companies in the United States and Europe as well as certain emerging markets.

Since mid-2007, Joyou has established an extensive distribution network in China. Joyou's operating facilities are based in Nan'an near Quanzhou in the Fujian Province in China. Joyou's retail distribution network consists of stores being operated by unaffiliated shop owners who have been engaged by unaffiliated regional distributors that Joyou has chosen for specific regions of China. Joyou only has contractual relationships with the unaffiliated regional distributors based on standardized distribution agreements. Joyou also sells its own brand products to large-scale construction projects in China, such as new hotels or other public buildings.

Joyou also sells Original Design Manufacturer (hereafter: ODM) and Original Equipment Manufacturer (hereafter: OEM) products to international brand manufacturers and trading companies as well as components for faucets to trading companies.

2. General information and statement of compliance with IFRS

Joyou AG is the Group’s legal parent company. The company is a German limited liability stock corporation which is domiciled in Germany. The address of Joyou AG’s registered office is Chilehaus A, Fischertwiete 2, 20095 Hamburg, Germany. Joyou AG intends to apply for admission of its shares to trading on the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange.

The Group has its significant business operations including all the manufacturing operations in the PRC, held via a Hong Kong registered holding company, Hong Kong Zhongyu Sanitary Technology Limited (“Joyou Hong Kong”). Joyou Hong Kong was established on 4 August 2006 as Goodmark International Enterprise Limited as a company with limited liability under the laws of Hong Kong. The company was incorporated with an issued share capital of HKD 100 divided into 100 ordinary shares and did not carry out any operative business. In the accounting period the share capital was increased by HKD 127,376 up to HKD 127,476 The address of the registered office is Suite 3104-6, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong, Special Administrative Region of the People’s Republic of China. The principal activity of the company is the holding of investments.

The consolidated financial statements of Joyou Group for the accounting period 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, United Kingdom, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), in so far as these have been adopted by the European Union (EU) in effect at the closing date on a voluntary basis in accordance with section 315a paragraph 3 of the German Commercial Code. The Group consolidated financial statements of 31 December 2009 and the period then ended are the first to have been prepared in accordance with International Financial Reporting Standards (IFRS) in so far as these have been endorsed by the European Union (EU) in effect at the closing date.

The consolidated financial statements of Joyou Group are drawn up in Euros. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The financial statements of the individual consolidated companies are prepared as of the reporting date for the Group financial statements.

The consolidated financial statements for the accounting period ended 31 December 2009 (including comparative information relating to the short accounting year 2008) were approved and authorized for issue by the board of directors on March 11, 2010. They were approved by the supervisory board in its meeting of March 14, 2010.

3. Accounting policies

3.1. General

3.1.1. Overall consideration

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the accounting period (31 December 2009), or which have been adopted early (see note 3.2). These accounting policies have been used consistently throughout all periods presented in the consolidated financial statements.

An overview of Standards, amendments and interpretations issued, but not yet effective is given in note 3.1.2.

3.1.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of preparation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early be the Group.

Management anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to to be relevant to the Group's consolidated financial statements.

In January 2008, the IASB published the revised standards IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Significant changes required by IFRS 3 (revised 2008) include: In future, a non-controlling interest may be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity in which the non-controlling interest is held. In the case of a step acquisition, the acquirer must remeasure its previously held interest at fair value on the date on which it gains control of the acquiree and recognize the resulting gain or loss in income. The difference between the (remeasured) carrying amount of the interest in the subsidiary and the acquirer's remeasured proportionate share of the net assets of the subsidiary must be recognized as goodwill. Liabilities recognized as of the acquisition date for the purpose of future purchase price adjustments in light of future events can no longer be offset against goodwill in subsequent periods. Ancillary acquisition costs must be recognized in income. The principal changes required by IAS 27 (revised 2008) are: A reduction in the equity interest held in a subsidiary that does not result in a loss of control by the parent is now to be accounted for as an equity transaction. If a reduction in the equity interest held in a subsidiary involves a loss of control, the assets and liabilities of the subsidiary must be derecognized in their entirety. The remaining interest in the company is to be recognized at fair value. The difference between the remaining carrying amounts and the fair values must be recognized in income. Non-controlling interests that become negative due to incurred losses must be recognized at their net negative amounts. IFRS 3 (revised 2008) and IAS 27 (revised 2008) are applicable prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted provided that both revised standards are applied simultaneously. The impact on the presentation of the Group's financial position and results of operations will depend on the scale of future business combinations or divestments. It has been adopted by the European Union on 3 June 2009.

In July 2009 the IASB issued amendments to IAS 39 (Financial Instruments: Recognition and Measurement) – Eligible Hedged Items. The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. The Amendments have been adopted by the European Union on 15 September 2009 and they are applicable prospectively for annual periods beginning on or after 1 July 2009. Earlier application is allowed.

IFRIC 15 (Agreements for the Construction of Real Estate). The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 (Construction Contracts) or IAS 18 (Revenue) and when revenue from the construction of real estate should be recognised. The European Union has endorsed the interpretation which is effective for financial years beginning on or after 1 January 2010.

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation) has been issued. It defines the risk to which hedge accounting may be applied in this context and which entity or entities within a Group may hold the respective hedging instrument. This interpretation, which has been adopted by the European Union on 4 June, 2009, is to be applied for annual periods beginning on or after 1 October, 2009.

IFRIC 17 (Distributions of Non-cash Assets to Owners) has been published. This interpretation defines when an obligation to distribute a non-cash dividend is to be recognized, that it must be measured at fair value, and that the difference between the dividends paid and the carrying amount of the net assets distributed must be recognized in profit or loss at the distribution date. This interpretation, which is to be applied prospectively for annual periods beginning on or after 1 July 2009, has been adopted by the European Union on 26 November 2009.

IFRIC 18 (Transfers of Assets from Customers). This interpretation relates to agreements in which an entity receives from a customer an item of property, plant and equipment – or cash earmarked exclusively for its acquisition or construction – that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation specifies the circumstances and timing of asset recognition by the receiving entity and how the asset is to be measured. It also clarifies how to determine the receiving entity's obligation to render one or more separately identifiable services in exchange for the transferred asset and sets forth the conditions for revenue recognition. IFRIC 18 is to be applied prospectively to transfers of assets from customers on or after 1 July 2009. Earlier application is permitted on certain conditions. The interpretation has been adopted by the European Union on 27 November 2009.

Amendments to IFRS 1 (First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate) has been issued. The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements. The amendments have been endorsed on 25 November 2009 and are effective for financial years beginning in 1 January 2010 or later.

In June 2009, the IASB issued amendments to IFRS 2 (Share-based Payment). These amendments clarify the scope of IFRS 2, as well as the accounting for Group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another Group entity or shareholder has the obligation to settle the award. These amendments are to be applied for annual periods beginning on or after 1 January 2010. They have not yet been adopted by the European Union.

IFRS 9 (Financial Instruments: Recognition and Measurement) has been published. The new standard is part of a wider project the conducted by the IASB, aiming at a replacement of IAS 39 (Financial Instruments). IFRS 9 simplifies the classification model for financial instruments and establishes two primary categories, namely amortised cost and fair value. The standard is expected to be effective for financial periods beginning on or after 1 January 2013. It has not yet been adopted by the European Union.

Amendments to IAS 24 (Related Party Disclosures: Relationships with the State). The amendment proposes an exemption from the disclosure requirements in IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a state (so-called "state-controlled entities") in relation to transactions with other state-controlled entities. These amendments, which have to be applied to annual periods beginning on or after 1 January 2011, have not yet been adopted by the European Union.

Amendments to IAS 32 (Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation) have been issued. The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met. The amendments are to be applied on or after 1 February 2010. They have not yet been endorsed by the European Union.

The Annual Improvements 2009 consist of a number of smaller accounting changes for presentation, recognition and measurement purposes – some of which are changes in terminology only, and some of which are substantive but will have no material effect on amounts reported. The Improvements are to be applied for annual periods beginning on or after 1 July 2009 and 1 January 2010. They have not yet been adopted by the European Union.

IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments) has been published. The interpretation addresses the accounting procedures by an entity which issues equity instruments in order to settle, in full or in part, a financial liability. It has not yet been adopted by the European Union and is expected to be effective for accounting periods beginning on or after 1 July 2010.

The following accounting standards and amendments to existing standards have been published but are not yet effective and have not yet been adopted by the European Union:

- Amendments to IFRS 1: First-time Adoption: Additional Exemptions to First-time Adopters (effective from 1. January 2010)
- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement (effective from 1. January 2011)

Management does not expect the standards to have a material effect on the Group's consolidated financial statements.

3.2. Summary of accounting policies

3.2.1. Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below.

As the group was legally formed on 28 August 2008 and control over the subsidiaries passed to Joyou AG as of this date, the group is required to prepare an initial consolidation as of the same date. However, as there were no material activities between 28 August 2009 and 31 August 2009, Joyou AG has decided to prepare the initial consolidation as of 31 August 2009.

The Group has elected to adopt IAS 1 (Presentation of Financial Statements) (Revised 2007) by presenting the 'Statement of comprehensive income' in one statement.

The figures presented in the consolidated financial statements have been rounded to the nearest thousand EURO (kEUR).

3.2.2. Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiary undertaking(s) drawn up to 31 December 2009. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. Joyou AG obtains and exercises control through holding more than half of the voting rights.

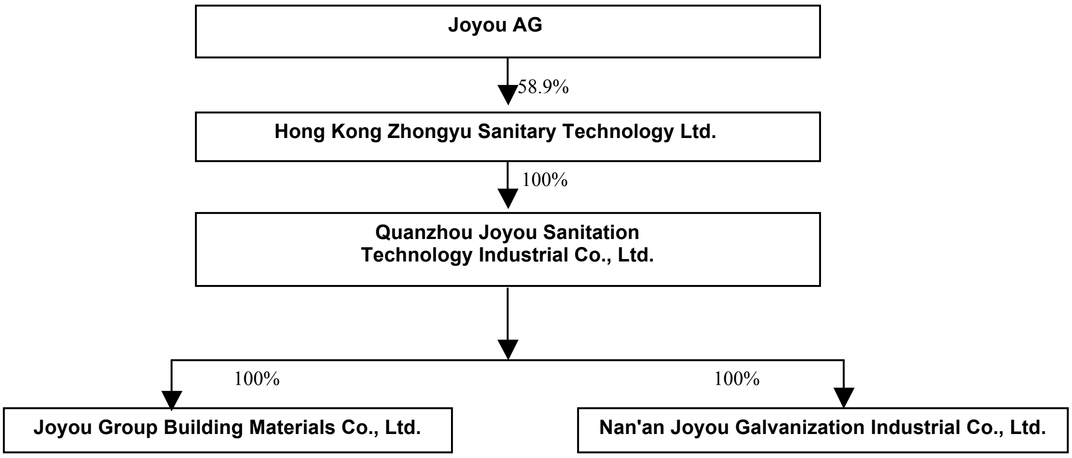
Inter-company receivables and liabilities, as well as inter-company revenue, income and expenses are eliminated. Unrealized gains and losses on transactions between Group companies are eliminated. Where unrealized losses are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective.

All subsidiaries have an annual reporting date of 31 December.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

3.2.3. Reverse acquisition and transactions under common control

Joyou Group was founded in 2008 by a series of transactions between parties under control of the Cai family and finally a contribution in kind of all shares of Joyou Hong Kong – by then the Group's parent company – into Joyou AG, the legal parent of Joyou Group as at reporting date. The group structure as at 31 December 2009 is as follows:



On 8 June 2009 the share capital of Joyou Hong Kong was increased by HKD 9,900.00 to HKD 10,000.00. Of the new total shares HKD 8,421 were allotted to Joyou AG and HKD 1,479 Preferred Shares – the so-called Series A Preferred Shares – to two investors. Consequently, the voting rights of Joyou AG in Joyou Hong Kong have been reduced to 85.21% with the two investors having voting rights of 14.79%. Prior to Joyou Hong Kong's acquisition by the Cai family, Mr. Cai Jianshe had granted loans directly to Joyou Sanitation Technology being refinanced by the two investors. After the acquisition of Joyou Hong Kong said loans were transferred into Joyou Hong Kong. As agreed between Joyou Hong Kong, Joyou AG, Mr. Cai Jianshe and the two investors, amounts due from the two investors where set off against said shareholder loans granted by Mr. Cai Jianshe to Joyou Hong Kong.

On October 16, 2009, Joyou Hong Kong made a capital increase creating new ordinary and Preferred shares. As a result of the issuance of Preferred shares as A-Series and B-Series (see note 20.2.), the voting rights of Joyou AG in Joyou Hong Kong have been reduced from 85.21% to 58.936% in the accounting period 2009. Furthermore, Joyou AG has pledged 10% of its shares in Joyou Hong Kong to the investors in Series B Preferred Shares. The voting rights remain with Joyou AG until and unless certain cases of default occur or Preferred Shares are converted into ordinary shares.

With contracts dated 2 November 2009 the shares in Joyou Galvanisation have been transferred from Joyou Building Materials to Quanzhou Joyou Sanitation Technology to reduce the complexity of the Group structure in Mainland China and to reduce potential tax risks at the level of Joyou AG with respect to German trade tax. The share transfer was registered with the Nan'an Administration for Industry and Commerce on 12 November 2009. The share transfer has no implications for Joyou's consolidated financial statements except for some legal fees and stamp duty associated to this share transfer to be expensed.

3.2.3.1. Transactions under common control

Under current IFRS standards, transactions between entities under common control which qualify as a business combination are not subject to IFRS 3; the scope exclusion is expressed as "a combination of entities or businesses under common control". For the purpose of the exemption from IFRS 3, a business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination. The standard notes that an entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that the individual or group of individuals may not be subject to the financial reporting requirements of IFRSs. Thus a transaction involving entities controlled by the same individual –including one that results in a new parent entity - would be beyond the scope of IFRS 3.

The preliminary Group structure – i.e. before contributing the shares in Joyou Hong Kong to Joyou AG – wa controlled by the Cai family as had been the individual group companies forming the Joyou Group as at 31 August 2008. All transactions leading to the preliminary Group structure have been based on transactions between related parties which have been under the common control of the Cai family.

In the absence of an international standard or interpretation that specifically applies to a transaction, paragraphs 10 to 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" set out the approach to be followed. This requires, among other things, that where IFRS does not include guidance for a particular issue, Joyou's management should select an appropriate accounting policy. Under this circumstance, the predecessor accounting method has been applied for the accounting of the combination of Joyou Hong Kong with the business of the three Mainland China entities Joyou Sanitation Technology, Joyou Building Materials and Joyou Galvanization. This method combines and presents the financial information of the Group as if Joyou Hong Kong and the three Mainland China entities combined have always been part of the Group. Accordingly, the assets and liabilities transferred to Joyou Hong Kong have been recognized at historical cost. For further details refer to note 4.

3.2.3.2. Reverse acquisition

According to IFRS 3.B1 a reverse acquistion occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. IFRS require that if a new entity is formed to issue equity interest to effect a business combination, the entity that existed before the business combination shall be identified as the acquirer. Accordingly, Joyou AG is to be treated as acquiree and Joyou Hong Kong as the acquirer for accounting purposes. For further details refer to note 4.

3.2.4 Foreign currency translation

3.2.4.1 Functional currency

The directors have determined the currency of the primary economic environment in which the Group operates, to be Renminbi ("RMB"). Sales and major costs arising from the provision of goods and services including major operating expenses are primarily influenced by fluctuations in RMB.

Transactions in foreign currencies are measured in the respective functional currencies of the consolidated entities and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognized in the statement of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognized initially in a separate component of equity as foreign currency translation reserve in the consolidated statement of financial position sheet and recognized in the consolidated statement of comprehensive income on disposal of the subsidiary.

3.2.4.2. Presentational currency

The presentation currency of the Group is EUR, being the presentation currency of its German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rate
31 December 2009	EUR 1.00 = RMB 9.7772	EUR 1.00 = RMB 9.5283
31 December 2008	EUR 1.00 = RMB 9.4956	EUR 1.00 = RMB 10.2236

The results and financial position are translated into EUR using the following procedures:

Assets and liabilities for each statement of financial position are presented at the closing rate ruling at that reporting date. Income and expenses for statements of comprehensive income are translated at average exchange rates for the period. Exchange differences are charged or credited to other comprehensive income and recognized in the currency translation reserve in equity.

On disposal of an operation with functional currency different to presentational currency the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal

3.2.5. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of Joyou AG, which makes strategic decisions.

In identifying its six operating segments, board of directors generally follows the Group's product categories. These segments also represent reportable segments under IFRS 8.

The activities undertaken by the bathroom faucets segment includes the sale of basin faucets, bathtub faucets and bidet faucets. The kitchen product segment includes the sale of kitchen faucets and kitchen basins. The shower products segment represents the sale of handheld showerheads and shower faucets. The segment of other bathroom products and accessories comprises ceramic sanitary ware, bathtubs, bathroom cabinets and bathroom accessories. In the segment of other faucets and sanitary hardware, washing machine faucets, valves and unpolished products are combined. Finally, the components and copper semi-finished products segment includes the inner and outer parts of faucets, other brass-made semi-finished products, brass ingots and brass pipes.

The operating segments are not yet managed separately as Joyou has grown significantly only since mid 2007 and the technologies and other resources used in the segments do not differ significantly. Hence revenue and costs are allocated to segments only up to gross profit. Segment assets are allocated based on the proportionate share in revenues. Due to the strategic goals of Joyou, the intended further growth of the Group and its ongoing organizational development, a change in the segmental structure may become indispensable in the future.

During the period under review, there were no inter-segment transfers.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

3.2.6. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized. Revenue from major products is shown in note 5.

3.2.6.1. Sales of goods

Sales of goods comprise the sale of faucets and other sanitary ware. Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied, excluding VAT, rebates, and trade discounts. Revenue is recognized upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. Returns, discounts, incentives and rebates as described above are recognized in the period in which the underlying sales are recognized, as a reduction of sales revenues. These amounts are calculated as follows: provisions for rebates based on attainment of sales targets are estimated and accrued as each of the underlying sales transactions is recognized.

3.2.6.2. Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

3.2.6.3. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be complied with. When the grant relates to expense items, it is recognized in the statement of comprehensive income over the period necessary to match it on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognized as deferred capital grant on the statement of financial position and is amortized to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual installments.

3.2.7. Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

3.2.8. Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in process and the expenditures or borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

3.2.9. Intangible assets

Intangible assets include acquired land-use-rights and software used in production or administration.

Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 3.2.11.

Amortization has been included within 'depreciation, amortization and impairment of non-financial assets'.

3.2.9.1. Land use rights

Land use rights are stated at cost less accumulated amortization and impairment losses. Cost represents consideration paid for the right to use the land on which various warehouses, office premises and processing factories are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use right of 25-50 years.

All amounts charged in respect of the amortization of land use rights are included in cost of sales

3.2.9.2. Software

Software is capitalized on the basis of cost incurred to acquire and bring it to the intended use condition. Direct expenditure, which can enhance or extend the performance of the software, and which can be measured reliably, is recognized as a capital improvement and added to the original cost of the software. Costs associated with maintaining the software are recognized as expense as incurred.

Software is stated at cost less accumulated amortization and any impairment losses. The costs are amortized using a straight-line method over an estimated useful life of 10 years. All amounts charged in respect of the amortization of software are included in administrative costs.

3.2.9.3. Development activities

Expenditure on **research** (or the research phase of an internal project) is recognized as an expense in the period in which it is incurred.

Costs that are directly attributable to the **development** phase of new products and related patents are recognized as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Until 31 December 2009, development costs have not met all these criteria for capitalization and as a result, they are expensed as incurred. During the twelve months to 31 December 2009, research expenditure of kEUR 1,619 has been charged as an expense.

3.2.10. Property, plant and equipment

Property, plant and equipment are recorded at historic cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, over the following useful lives.

Buildings	25 years
Machinery	12 years
Office equipment	8 years
Motor vehicles	10 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The gain or loss arising on the 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 recognized in the statement of comprehensive income.

3.2.11. Impairment of intangible assets and property, plant and equipment

The Group assesses at each reporting date whether there is an indication that an asset maybe impaired. If any such indication exists, or an annual impairment test for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss is recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognized for the asset in prior years. The reversal of an impairment loss is recognized in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted for future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic base over its remaining useful life.

3.2.12. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Financial assets are measured initially at fair value plus transactions costs. Financial liabilities are measured initially at fair value less transactions costs.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. For preference shares granting a conversion right into ordinary shares, split accounting is applied. The fair value of the liability portion of the preference shares is determined using a market interest rate for equivalent preference shares not being mandatory redeemable.

This amount is recorded as a liability on an amortized cost basis until extinguished on conversion into ordinary shares or redemption. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders´ equity, net of income tax effects.

Financial assets and financial liabilities are measured subsequently as described below.

3.2.12.1. Financial assets

For the purpose of subsequent measurement, financial assets are classified into different categories. The category determines subsequent measurement. The Group held only financial assets of the category loans and receivables (including cash and cash equivalents).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other financial receivables fall into this category of financial instruments.

All loans and receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of counterparty and other available features of shared credit risk characteristics.

3.2.12.2. Financial liabilities

The Group's financial liabilities include borrowings, interest-bearing short-term bank loans, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method. Gains are recognized in the statement of comprehensive income when it is evident that payment will not be occur.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive income are included within 'finance costs' or 'finance income'.

3.2.13. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost including those for bringing the inventories to their present location and condition is accounted for as follows:

Raw materials	purchase cost on a weighted average basis
Finished goods and work-in-process	costs of direct materials and labor and a proportion of manufacture overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The carrying values of inventories are disclosed under note 16.

3.2.14. Income tax

Tax expense recognised in statement of comprehensive income comprises the sum of current tax and deferred tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the respective countries in which the Group is operating.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see note 3.2.20.2.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3.2.15. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, bank deposits and short term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

3.2.16. Capital and reserves

Share capital represents the nominal value of shares that have been issued by Joyou AG.

Capital reserves include any premiums received on issue of share capital. As at reporting date, the amount reflects only the amounts of Joyou Hong Kong. Any transaction costs associated with the issuing of shares will be deducted from capital reserve, net of any related income tax benefits. In its statutory financial statements as at 31 December 2009, Joyou AG does not disclose any capital reserve.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the foreign currency translation reserve.

Retained earnings include all current and prior period retained profits.

All transactions with owners of the parent are recorded separately within equity.

3.2.17. Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

3.2.18. Share-based employee remuneration

The Group operates an equity-settled share based remuneration plan for its financial officer.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to ‘retained earnings’. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there are any indications that the number of shares options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

3.2.19. Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Liabilities for decommissioning cost are recognized when the group has an obligation to dismantle an re-move a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists due to land-use-rights regulations, this will be on construction. An obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.2.20. Significant management judgment in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the Group’s accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amount of revenue and expenses during the reporting period.

The following estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below:

3.2.20.1 Allowance for trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful receivables is the Group’s best estimate of the amount of probable credit losses in the Group’s existing accounts receivable.

Management uses judgment to determine the allowance for doubtful receivables which is supported by historical repayment records of the customers. The Group reviews its allowance for doubtful receivables monthly or more frequently. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

3.2.20.2. Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

3.2.20.3. Accruals for sales rebates

Joyou sells a significant portion of its products to independent distributors. To increase the efforts of these distributors the Group offers them rebates based on the attainment of agreed upon individual sales targets. Once the sales targets have been reached, the rebate for the individual distributor is calculated.

3.2.21. Estimation uncertainty

3.2.21.1. Useful lives of depreciable and amortizable assets

Management reviews the useful lives of depreciable assets at each reporting date. The useful life of the Group’s intangible assets is to be within 25 to 50 years and property, plant and equipment is to be within 8 to 25 years. These are common life expectancies applied in sanitary ware industry in the PRC. At 31 December 2009 management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analyzed in notes 12 and 13. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

3.2.21.2. Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to raw material price changes and changes in customer behavior which may cause selling prices to change rapidly.

3.2.21.3. Provisions

The respective legislation in the PRC requires Joyou to commit itself to remediate any environmental damages which may have been incurred. The Group has made provisions for environmental protection or disposal cost as there is currently a legal obligation to dismantle land for future dismantling costs at the time the respective land-use-rights have expired. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

As at reporting date, the Group does not recognize provisions for warranties which cover cost of repairs as management currently has currently no past experience given the short period of time selling its products to distributors in Mainland China and therefore to end-customers. Management has also not been able to develop a reliable estimation of future defects or costs associated with their remediation. The amounts incurrent so far are inconsequential so that no provision has been made. However, given the growing number of items produced and sold, this may be subject to change.

4. Reverse acquisition and transactions under common control

4.1. Reverse acquisition of Joyou AG

Joyou AG was incorporated on 30 June 2008 and the incorporation became legally effective on 28 August 2008 by means of entry on the trade register of the district court of Hamburg, Germany. The company was formed with a subscribed capital of EUR 10,000,000.00 which was provided by means of the non-cash contribution of all of the shares of Joyou Hong Kong and is fully contributed. Joyou AG was incorporated on 30 June 2008 for the purpose of enabling the then existing Joyou Group to obtain a listing on the Regulated Market of the German Stock Exchange (Prime Standard). According to IFRS 3, this transaction shall be accounted for as a reverse acquisition – refer to note 3.2.3.2.

Joyou AG was the sole shareholder of Hong Kong Zhongyu Sanitary Technology Limited ("Joyou Hong Kong") a limited liability company established under the laws of Hong Kong with business address at Suite 3104-6, Central Plaza, 18 Harbour Road; Wan Chai, Hong Kong, Special Administrative Region of the People’s Republic of China, from incorporation until 8 June 2009. The operational business of Joyou is carried out by the three operational entities.

- Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. ("Joyou Sanitation Technology"), registered at Quanzhou Administration for Industry and Commerce under the registration number 350500400011956, with business address at Dayu Street, Luncang Town, Nan'an City, Quanzhou, Fujian Province, PRC;
- Joyou Group Building Materials Co., Ltd. ("Joyou Building Materials"), registered at Quanzhou Administration for Industry and Commerce under the registration number 350500100005216 with business address at Luncang Town, Nan'an City, Fujian Province, PRC; and
- Nan'an Joyou Galvanization Industrial Co., Ltd. ("Joyou Galvanization"), registered at Nan'an Administration for Industry and Commerce under the registration number 350583100022678 with business address at Dayu Village, Luncang Town, Nan'an City, Fujian Province, PRC.

As at reporting date the sole shareholder of Joyou Galvanization is Joyou Building Materials, the sole shareholder of which is Joyou Sanitation Technology, the sole shareholder of which is Joyou Hong Kong.

The companies fully consolidated in the consolidated financial statements of the Group are listed in the following table:

Name of fully consolidated company	**Place of business**	**Joyou AG’s interest %**
Hong Kong Zhongyu Sanitary Technology Limited	Hong Kong, Special Administrative Region of People's Republic of China	100.0
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Luncang Town, Nan'an City, Quanzhou, Fujian Province, People's Republic of China	100.0
Joyou Group Building Materials Co., Ltd.	Luncang Town, Nan'an City, Fujian Province, People's Republic of China	100.0
Nan'an Joyou Galvanization Industrial Co., Ltd.	Dayu Village, Luncang Town, Nan'an City, Fujian Province, People's Republic of China	100.0

It should be noted that the voting power held by Joyou AG for Hong Kong Zhongyu Sanitary Technology

Limited is 58.94%. For further details refer to note 3.2.3.

4.2. Transactions under common control

4.2.1 Joyou Building Materials acquiring Joyou Galvanization

The corporate predecessor of Joyou Galvanization, an entity called Nan'an Joyou Galvanization Center, was established on 27 November 1996 as a collectively owned enterprise under the laws of the PRC with a registered capital of RMB 5,280,000. On 26 October 2001 Joyou Galvanization was transformed to a company with limited liability with a registered share capital of RMB 15,000,000 which is fully paid in. The current registered and fully paid in share capital of Joyou Galvanization amounts to RMB 15,000,000. On 22 April 2009 Joyou Building Materials entered into a share purchase agreement to purchase all of the shares of Joyou Galvanization from Mr. Cai Jianshe and Mr. Cai Jiansheng who have been the sole shareholders since 26 October 2001. The respective transfer of shares was approved by the competent PRC authorities. The purchase price for all shares of Joyou Galvanization amounted to RMB 15,000,000 in cash. The purchase price was therefore equal to the current registered and fully paid in share capital of Joyou Galvanization at the acquisition date. The share transfer was registered with the Nan'an Administration for Industry and Commerce. As Mr. Cai Jianshe and Mr. Cai Jiansheng held 48 and 52% respectively of the shares in Joyou Building Materials, this transaction is a transaction between two entities under common control.

Whether common control exists between family members very much depends on the specific facts and circumstances. In the case of family members it is unlikely that there will be any written agreement between them. However, the influence that normally arises within relationships between ‘close members of the family' as defined in IAS 24 means that it is possible, but by no means assured, that an unwritten arrangement may exist that they will act collectively such that there is common control, and thus the business combination can be considered to be beyond the scope of IFRS 3. In this case, the Cai family, inter alia Mr. Cai Jianshe and Mr. Cai Jiansheng, acted – and still acts – with the same common purpose, i.e. establishment of a group structure allowing Joyou Group an IPO.

4.2.2 Joyou Sanitation Technology acquiring Joyou Building Materials

Joyou Building Materials was established on 7 July 1995. The predecessor of the company, Fujian Nan'an Fuxin Water-Warmth Appliances & Material Factory, was established and registered at the Nan'an AIC on 31 March 1988 as a rural collectively-owned enterprise under the laws of the PRC with a registered capital of RMB 1,520,000. On 13 March 2003 the company was restructured from a collectively owned enterprise to a limited liability company. The company name was changed to Fujian Joyou Group Co., Ltd. with Mr. Cai Jianshe and Mr. Cai Jiansheng each acquiring 50% of the company's shares. Mr. Cai Jianshe concluded a share transfer agreement with Mr. Huang Guo Yuan on 26 December 2003 pursuant to which Mr. Cai Jianshe transferred his entire shareholding equaling 50% of the registered capital to Mr. Huang Guo Yuan. At the same time, the company increased its registered capital to RMB 101,800,000 which is also the current share capital and fully paid in. After this increase in the registered capital, Mr. Cai Jiansheng held 52% of the shares of the company equaling RMB 52,936,000 and Mr. Huang Guo Yuan held 48% of the shares of the company, equaling RMB 48,864,000. The name of the company was finally changed to Joyou Group Building Materials Co., Ltd. on 10 December 2004. On 30 June 2006, Mr. Huang Guo Yuan concluded a share transfer agreement with Mr. Cai Jianshe under which Mr. Huang Guo Yuan transferred his entire shareholding in the company to Mr. Cai Jianshe. The share transfer was duly registered with the Quanzhou Administration for Industry and Commerce on 7 July 2006.

On 9 May 2008 Joyou Sanitation Technology entered into a share purchase agreement with Mr. Cai Jianshe and Mr. Cai Jiansheng to purchase all of the shares of Joyou Building Materials. The transfer of shares was approved by the relevant PRC authorities. The purchase price for the holding of 48% of the shares sold by Mr. Cai Jianshe amounted to RMB 48,864,000 and the purchase price for the holding of 52% of the shares sold by Mr. Cai Jiansheng amounted to RMB 52,936,000. The purchase price was therefore equal to the current registered and fully paid in share capital of Joyou Building Materials at the acquisition date. The share transfer was registered with the Quanzhou Administration for Industry and Commerce.

The sole shareholder of Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. (formerly “Lota International Co.”) was Hong Kong Lota International Co. whose sole shareholder was Mr. Tsai-Pan Wu, who acted as a trustee for Mr. Cai Jianshe and could exercise his shareholder rights only for the benefit of and in accordance with instructions from Mr. Cai Jianshe. Therefore, the transaction between Joyou Sanitation Technology and Joyou Building Materials was a transaction under common control.

4.2.3 Joyou Hong Kong acquiring Joyou Sanitation Technology

Joyou Sanitation Technology was established on 11 April 1991 with the name Nan'an Lota Waterpipes & Hardwares Industrial Co., Ltd. under the laws of the PRC with a registered share capital of RMB 3,000,000 which was fully paid in. Initially the company was a so-called sino-foreign equity joint venture with two shareholders, i.e. Hong Kong Lota International Co., a company with limited liability registered in Hong Kong, and Fujian Nan'an Dayu Waterpipes Factory, an enterprise existing under the laws of the PRC. On 21 May 2003, Fujian Nan'an Dayu Waterpipes Factory transferred its entire equity interests in Joyou Sanitation Technology to Hong Kong Lota International Co. and as a result Joyou Sanitation Technology was transformed from a Sino-foreign equity joint venture into a wholly foreign owned enterprise. The sole shareholder of Hong Kong Lota International Co. was Mr. Tsai-Pan Wu, who acted as a trustee for Mr. Cai Jianshe and could exercise his shareholder rights only for the benefit of and in accordance with instructions from Mr. Cai Jianshe.

Joyou Hong Kong was established on 4 August 2006 as Goodmark International Enterprise Limited as a company with limited liability under the laws of Hong Kong. The company was incorporated as a shell company with an issued share capital of HKD 100 divided into 100 ordinary shares and did not carry out any operative business. On 4 February 2009 Mr. Cai Jianshe acquired 90 shares in the company, representing 90% of the share capital and Mr. Cai Jiansheng and Mr. Cai Jilin each acquired 5 shares in the company, representing 5% of the share capital of the company respectively. On the same day the company changed its name to its current name.

On 2 March 2008 Joyou Hong Kong entered into a share purchase agreement with Hong Kong Lota International Co. to purchase all of the shares in the company. The purchase price for all of the shares was USD 1.00. The name of the company was changed to Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. on 8 April 2009. The current registered share capital of the Company is USD 28,000,000 of which USD 27,974,015.86 has been paid in.

Joyou Hong Kong was – and still is – controlled by the Cai family. The purchase price agreed upon for the entire shares in Joyou Sanitation Technology was not the fair market value and underlines that the transaction has been carried out as transaction under common control. Consequently, the transaction between Hong Kong Lota International Co. and Joyou Hong Kong must be seen as a transaction between entities under common control.

5. Segment reporting

Management currently identifies the Group's six product categories as operating segments as further described in note 3.2.5. These operating segments are monitored and strategic decisions are made on the basis of segmental gross margins.

	Bathroom faucets	Kitchen products	Shower products	Other bathroom products and accessories	Other faucets and sanitary hardware	Copper semi-finished products	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Twelve months ended 31 December 2009							
Revenue	82,880	26,717	21,736	14,668	19,353	6,973	172,327
Cost of sales	-58,734	-18,677	-15,384	-10,205	-15,986	-6,478	-125,464
Gross Profit	24,146	8,040	6,352	4,463	3,367	494	46,863
Segment assets	89,195	28,753	23,392	15,786	20,828	7,504	185,458

	Bathroom faucets kEUR	Kitchen products kEUR	Shower products kEUR	Other bathroom products and accessories kEUR	Other faucets and sanitary hardware kEUR	Copper semi-finished products kEUR	Total kEUR
Four months ended 31 December 2008							
Revenue	18,125	9,382	5,891	1,132	10,817	7,427	52,774
Cost of sales	-12,241	-6,476	-3,807	-811	-8,653	-6,353	-38,341
Gross Profit	5,884	2,906	2,084	321	2,164	1,074	14,433
Segment assets	48,369	25,037	15,721	3,021	28,867	19,820	140,835

The gross profit disclosed in the segment reporting equals the segment operating profit.

The Group's revenues from external customers are divided into the following geographical areas:

	Twelve months ended 31 Dec. 2009 kEUR	Four months ended 31 Dec. 2008 kEUR
Domestic	136,516	44,599
Export (indirectly)	32,682	6,261
Export (directly)	3,129	1,914
Total	**172,327**	**52,774**

Revenues from external customers in the Group's economic domicile, PRC, have been identified on the basis of the internal reporting system, which is also used for VAT purposes.

During 2009 kEUR 11,652 or 7 % of the groups' revenues depended on a single customer.

Domestic means sales to customers located in the PRC. Export indirectly means sales to domestic customers where Joyou believes those customers to finally export Joyou´s parts or products. Finally, export directly means sales to customers located outside the PRC, i.e. rest of the world.

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Twelve months ended 31 Dec. 2009 kEUR	Four months ended 31 Dec. 2008 kEUR
Gross profit	46,863	14,433
Other operating income	500	167
Selling and distribution expenses	-6,224	-3,187
Administrative expenses	-2,135	-2,920
Other operating expenses	-50	-63
Operating profit	**38,954**	**8,430**
Finance income	454	25
Finance costs	-8,762	-2,012
Profit before income tax	**30,646**	**6,443**
Income tax	-8,384	-2,250
Profit for the period	**22,262**	**4,193**

Notes to the statement of comprehensive income

6. Revenue and income

	Twelve months ended 31 Dec. 2009 kEUR	Four months ended 31 Dec. 2008 kEUR
Revenue	**172,327**	**52,774**
Other operating income		
Government grant	144	104
Rental income	214	0
Others	142	63
	500	**167**
Finance income		
Interest income	**454**	**25**
Total income	**173,281**	**52,966**

Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and value added tax. All intra-group transactions are excluded from the revenue of the consolidated group. For further details on revenue refer to note 5.

7. Cost of sales

Cost of sales comprise of purchasing copper, zinc, other metals and other parts, labor costs for personnel employed in production, depreciation and amortization of non-current assets used for production purposes, trading goods and others (mainly utilities and maintenance costs).

The following table shows a breakdown of cost of sales for the period under review for each category:

	Twelve months ended 31 December 2009 Joyou AG kEUR	Four months ended I December 2008 Joyou AG kEUR
Copper	68,737	24,382
Zinc	9,053	4,122
Other metals	5,321	1,483
Other parts	10,127	2,222
Labor costs	2,475	1,335
Depreciation	2,475	858
Outsourced products	19,704	2,065
Overheads / Other	7,572	1,875
Total	**125,464**	**38,341**

Other parts comprises components made of plastic rubber and finished goods such as shower heads.
Overheads / Other includes mainly costs for public utilities, maintenance cost and amortization of land use rights for land being used for production.

8. Selling and distribution expenses

Selling and distribution expenses comprise advertising costs, port fees, exhibition expenses (expenses incurred in connection with the participation at trade fairs), expenses for the annual distributor summit (including annual sales meeting, training, seminar, and sales awards), benefits to distributors relating to the decoration of point of sales, business travel expenses and labor costs for employees engaged in the sales and marketing department.

9. Administrative expenses

Administrative expenses comprise, among others, salaries of management and other employees with administrative functions (including social insurance payments starting in 2009), travel expenses and allowances for bad debt.

10. Other operating expenses

	Twelve months ended 31 December 2009 Joyou AG kEUR	Four months ended I December 2008 Joyou AG kEUR
Donations	35	23
Tax Late Fee	15	39
Others	0	1
Total	**50**	**63**

11. Operating profit

	Twelve months ended 31 December 2009 Joyou AG kEUR	Four months ended I December 2008 Joyou AG kEUR
After charging/ (crediting)		
Cost of inventories recognised as expense	125,825	38,341
Depreciation of property, plant and equipment	2,233	843
Staff costs	4,050	2,007
Amortization of intangible assets	242	88
Allowance for doubtful trade debts/ (no longer required)	-925	720
Allowance for doubtful non-trade debts/ (no longer required)	96	33
Research and development charge	1,674	518

The amortization charge in respect of intangible assets and the depreciation charge on property, plant and equipment are principally charged to cost of sales.

Notes to the consolidated statement of financial position

12. Intangible assets

The Group's other intangible assets comprise acquired software licenses and land-use-rights in the PRC. The carrying amounts for the reporting periods under review can be analysed as follows:

	Land-use rights kEuro	Software kEuro	Total kEuro
Costs:			
Balance as at 31.08.2008	10,496	56	10,552
Currency translation adjustment	594	3	597
Additions	9,530	0	9,530
Balance as at 31.12.2008	20,620	59	20,679
Currency translation adjustment	-593	-2	-595
Additions	3,658		3,658
Balance as at 31.12.2009	23,684	57	23,742
Accumulated depreciation:			
Balance as at 31.08.2008	789	5	794
Currency translation adjustment	40	0	40
Additions	85	3	88
Balance as at 31.12.2008	914	7	924
Currency translation adjustment	-26	0	-26
Additions	236	6	242
Balance as at 31.12.2009	1,124	13	1,139
Net carrying amount			
as at August 31, 2008	9,707	51	9,758
as at December 31, 2008	19,706	52	19,758
as at December 31, 2009	22,561	45	22,605

As at 31 December 2009, land use rights with a total carrying value of kEUR 9,898 (31 December 2008: kEUR 10,767) are subject to a first charge to secure the Group’s bank loan. The cost of pledges is kEUR 10,553 (31 December 2008: kEUR 10,867) and the related amortization is kEUR 655.

As at 31 December 2009, the total amount for land use rights includes prepayments being made for the transfer land use rights of kEUR 12.658 (previous year: kEUR 9,267); the transfer is expected to become legally effective in the middle of 2010 at the latest.

13. Property, plant and equipment

The Group's property, plant and equipment comprise buildings, machinery, office equipment, motor vehicles and construction in progress. The carrying amount can be analysed as follows:

	Buildings kEuro	Machinery kEuro	Office equipment kEuro	Motor vehicles kEuro	Construction in progress kEuro	Total kEuro
Costs:						
Balance as at 31.08.2008	19,549	18,337	234	31	1,800	39,951
Currency translation adjustment	1,105	1,037	13	2	102	2,259
Additions	862	0	24	94	1,500	2,480
Disposals	0	-205	0	0	0	-205
Balance as at 31.12.2008	21,516	19,169	271	127	3,402	44,485
Currency translation adjustment	-617	-551	-8	-3	-98	-1,277
Additions	0	3,174	241	118	1,617	5,150
Disposals	0	0	0	0	0	0
Balance as at 31.12.2009	20,899	21,791	505	242	4,921	48,357
Accumulated depreciation:						
Balance as at 31.08.2008	1,140	3,847	40	0	0	5,027
Currency translation adjustment	64	218	2	0	0	284
Additions	249	560	18	7	0	834
Disposals	0	-205	0	0	0	-205
Balance as at 31.12.2008	1,456	4,420	60	7	0	5,940
Currency translation adjustment	19	48	1	0	0	67
Additions	950	1,240	39	3	0	2,233
Disposal	0	0	0	0	0	0
Balance as at 31.12.2009	2,425	5,708	100	10	0	8,240
Net carrying amount						
As at 31 August 2008	18,409	14,490	194	31	1,800	34,924
As at 31 December 2008	20,060	14,750	211	120	3,402	38,544
As at 31 December 2009	18,474	16,083	404	232	4,921	40,117

As at 31 December 2009, buildings with total carrying values of kEUR 13,080 (31 December 2008: 11,250) are subject to a first charge to secure the group's bank loans. The cost of pledges is kEUR 14,159 (31 December 2008: kEUR 11,829), accumulated depreciation is kEUR 1,079 (31 December 2008: kEUR 579).

14. Financial assets and liabilities

14.1 Categories of financial assets and liabilities

Loans and receivables:

	Note	31 December 2009 kEUR	31 December 2008 kEUR
Trade receivables	17	41,348	35,815
Other receivables and prepayments	17	1,187	1,482
Amounts due from related parties	27	13	1,488
Cash and cash equivalents	14	34,291	11,762
Total		**76,839**	**50,547**

Financial liabilities measured at amortized costs

	Note	31 December 2009 kEUR	31 December 2008 kEUR
non-current			
Preferred shares	14	42,474	0
current			
Short term loan (bank loans)	14	52,516	31,097
Trade payables	20	967	20,215
Notes payable	14	19,167	21,588
Other payable and accruals	20	1,438	3,331
Amounts due to related parties	27	13	7,845
Total		**116,575**	**84,076**

See note 3.2.12 for a description of the accounting policies for each category of financial instruments. The fair values and a description of the group's risk management objectives and policies for financial instruments is given in note 29.

14.2 Preferred shares

On 8 June 2009, Joyou Hong Kong made a capital increase creating new ordinary and Preferred Shares (the "Series A Preferred shares"). The share capital of Joyou Hong Kong was increased by HKD 9,900.00 to HKD 10,000.00. Of the new total shares, HKD 8,421 were allotted to Joyou AG and HKD 1,479 Preferred Shares – the so-called Series A Preferred Shares – to two investors. Consequently, the voting rights of Joyou AG in Joyou Hong Kong have been reduced to 85.21%, with two investors having voting rights of 14.79%. The amount due from the investors was kEUR 8,418 or kRMB 80,000. As the Preferred Shares qualify as a fi-nancial liability and the investors have no direct interest in equity, no non-controlling interest has been ac-counted for. For accounting purposes, the shareholding of Joyou AG in Joyou Hong Kong is deemed to be 100%.

Prior to the capital increase, the investors had granted loans to Mr. Cai Jianshe amounting to kEUR 8,161 or kRMB 80,000. The proceeds had been used by Mr. Cai Jianshe to grant loans (the "shareholder loans") to Joyou Hong Kong or other Joyou Group companies with the rights of being transferred to Joyou Hong Kong after its acquisition by the Cai family in February 2008. As agreed upon between all parties, the amounts due from the investors and the amounts due from Joyou Hong Kong to Mr. Cai Jianshe were settled by setting off these amounts from each other.

The rights of shareholders of Series A Preferred Shares include various preferential rights compared to the ordinary shareholders. Those rights include various redemption rights being based on lapse of time and/or occurrence of certain triggering events, a fixed cumulative preferential dividend and a conversion right into ordinary shares. Consequently, the Series A Preferred Shares are a compound financial instrument with split accounting to be applied.

According to IAS 39.43, when the Series A Preferred Shares were recognized initially, Joyou had to measure those Preferred Shares at their fair value using a market interest rate for equivalent Preferred Shares without a conversion right. This market interest rate was determined to be 15% reflecting the prevailing rate of return for comparable financial instruments in the Hong Kong market. Due to the terms and conditions of the financial liability component of the Preferred Shares, the fair value of the conversion right and therefore the equity component was kEUR 595. The initial fair value of kEUR 595 led to a deferred tax liability of kEUR 84 which was posted to equity (capital reserves).

The initial fair value of the financial liability component is subsequently recorded as a liability on an amortized cost basis until extinguished on conversion into ordinary shares or redemption of the Preferred Shares. Dividends on these Preferred Shares are recognized in the statement of income as interest expense. The deferred tax asset is amortized accordingly to the interest being expensed for said liability.

On 16 October 2009, Joyou Hong Kong made another capital increase creating new Preferred Shares – the so-called Series B Preferred Shares. The share capital was increased from kHKD 10 to kHKD 250 comprising of 19,063,000 Ordinary Shares of which 8,521,000 are issued and held by Joyou AG, 1,479,000 Series A Preferred Shares and 4,458,000 Series B Preferred Shares. As part of the issue of the Series B Preferred Shares the senior and guaranteed loan issued on 25 May 2009 by Joyou Hong Kong was converted into 1,148,000 shares. Furthermore, the terms and conditions of Series A Preferred Shares have been amended; consequently Series A Preferred Shares and Series B Preferred Shares have, in general, equal terms and conditions. The new Preferred Shares have been divided into two subgroups, Series B1 Preferred Shares with 3,310,000 shares and Series B2 Preferred Shares with 1,148,000 shares. However, the Series B1 Preferred Shares have senior rights to those of Series B2 Preferred Shares and Series A Preferred Shares, i.e. their rights must be met before the rights of Series B2 Preferred Shares and Series A Preferred Shares are fulfilled. For accounting purposes, the implications for the Series A Preferred Shares also apply to the Series B Preferred Shares. According to IAS 39.43, when the Series B Preferred Shares were recognized initially, Joyou had to measure those Preferred Shares at their fair value using a market interest rate for equivalent Preferred Shares without a conversion right. This market interest rate was determined to be 27% for Preferred B Shares, reflecting the prevailing rate of return for comparable financial instruments in the Hong Kong market. As the terms and conditions of the Series A Preferred Shares have been amended as described, the fair value of the liability component of said Preferred Shares had to be recalculated on 16 October 2009 taking those new terms and conditions into consideration while using the same interest rate as applied for calculating the fair value of the Preferred B Shares. As at balance sheet date the fair value of Series A Preferred Shares amounts to kEUR 9,041 and of Series B Preferred Shares to kEUR 33.433.

14.3 Short-term loans

Short-term loans include the following financial liabilities:

	31 December 2009	December 2008
	kEUR	kEUR
Secured bank loans	10,926	7,898
Unsecured bank loans	41,590	23,199
Total	**52,516**	**31,097**

Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value.

All short-term loans are denominated in Chinese RMB.

Bank loans are secured by land use rights and property, plant and equipment owned by the Group (see notes 12 and 13) as well as guarantees granted by related parties (see note 27.3.4). Current interest rates are fixed and average 5.50 % (previous year: 8.16 %).

15. Deferred tax assets and liabilities

Deferred taxes arising from temporary differences can be summarised as follows:

	1 January 2009 kEUR	Recognised in statement of other comprehensive income kEUR	31 December 2009 kEUR
Allowance of other receivables	508	466	974
Preferred shares	0	707	707
Other provision	33	2	35
Inventories	52	-42	10
Amounts due to related parties (fair value and interests)	-51	51	0
Allowance of trade receivables	621	-621	0
Other payables and accruals	80	-80	0
Amounts due from related parties	0	-19	-19
Property, plant and equipment	-272	-30	-302
Deferred IPO costs	-296	-596	-892
Total	**675**	**-162**	**512**
recognized as			
deferred tax asset	976		1,404
deferred tax liability	301		892
Total	**675**		**512**

	31 August 2008 kEUR	Recognised in statement of other comprehensive income kEUR	31 December 2008 kEUR
Allowance of trade receivables	423	198	621
Allowance of other receivables	431	77	508
Property, plant and equipment	-134	-138	-272
Other provision	32	1	33
Inventories	10	42	52
Other payables and accruals	45	35	80
Amounts due to related parties (interest payment received)	-109	58	-51
Deferred IPO costs	-48	-248	-296
Total	**650**	**25**	**675**
recognised as			
deferred tax asset	713		976
deferred tax liability	63		301
Total	**650**		**675**

All deferred tax assets have been recognised in the statement of financial position.

16. Inventories

Inventories recognised in the statement of financial position can be analysed as follows:

	31 December 2009 kEUR	December 2008 kEUR
Raw materials and consumables	6,885	3,157
Finished goods	5,582	6,987
Work in process	10,212	14,628
Total	**22,678**	**24,772**

In the twelve months ended 31 December 2009, a total of kEUR 112,942 (31 December 2008: kEUR 34,273) of inventories was included in profit and loss as an expense. This includes an amount of kEUR nil (31 December 2008: kEUR 170) resulting from write down of inventories.

17. Trade and other receivables

	31 December 2009 kEUR	December 2008 kEUR
Trade receivables	42,860	38,301
Allowance for trade receivables	-1,512	-2,486
Total	**41,348**	**35,815**

Other receivables and prepayments

	31 December 2009 kEUR	December 2008 kEUR
Other receivables	3,520	2,916
Advances to suppliers	18,587	5,819
Prepaid expenses	342	91
Deferred charges (IPO)	2,261	918
Allowance for other receivables and prepayments	-1,773	-2,024
Total	**22,937**	**7,720**

Related parties

Amounts due from related parties non-trade	577	1,488

Trade receivables

All trade receivables are current and non-interest bearing. They are recognized at their original invoice amounts that represent their fair values on initial recognition. The aging as follows:

	31 December 2009	December 2008
	kEUR	kEUR
within 30 days	10,555	8,311
31-90 days	21,259	17,174
91-180 days	9,645	9,989
181-360 days	1,166	2,023
1-2 years	224	662
2-3 years	2	2
over 3 years	9	139
Total	**42,860**	**38,301**

Deferred IPO costs

The deferred IPO costs will be deducted from new equity gained from the intended issue of new shares as part of Joyou's expected IPO in Germany in 2010.

Amounts due from related parties

Amounts due from related parties are set out in more detail in note 27.2.

Allowance for doubtful receivables

For each financial period, the following amounts of impairment loss are recognized in the statement of comprehensive income.

	31 December 2009	December 2008
	kEUR	kEUR
Provision for trade receivables	1,512	2,486
Provision for other receivables	1,773	2,024
Total	**3,285**	**4,510**

Trade receivables are adjusted for impairment on the basis of their age. Balances aged between one and three months are written down by one percent, whilst those of age between three and six months are written down by 5%. A 50% allowance is made against balances with an age of between six months and one year, whilst all balances over one year old are provided against in full.

Other receivables are written down for impairment using management judgement, based on the nature of the balance and its age. Specifically, all advances to suppliers in excess of one year old are written down in full.

Net gains and losses on loans and receivables amounted to a net loss of kEUR 830 (period ended 31 December 2008: kEUR 734).

The Group does not hold any collateral as security.

Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value due to the short duration.

18. Cash and cash equivalents

Cash and cash equivalents include the following components:

	31 December 2009 kEUR	I December 2008 kEUR
Cash on hand	5	23
Cash in banks	12,277	320
Security deposits for letters of credit	1,091	3,869
Security deposits for notes payable	7,353	7,544
Security deposits for short term loan	12,032	0
Security deposits for bank draft	1,534	0
Credit card deposit	0	6
Total	**34,291**	**11,762**

For the purpose of providing security on the issue of loan notes, the Group is required to deposit cash into restricted accounts with its banks. Cash and cash equivalents inaccessible to the Group as at 31 December 2009 amounts to kEUR 22,009 (31 December 2008: kEUR 11,419). The restrictions on bank deposits are normally removed on settlement of the underlying notes.

19. Capital and reserves

19.1 Share capital – Joyou AG

The Company was incorporated on 30 June 2008 and the incorporation became legally effective on 28 August 2008 by means of entry on the trade register of the district court of Hamburg, Germany. The company was formed with a subscribed capital of EUR 10,000,000.00, which is divided into 10,000,000 bearer shares without nominal value (nil-par shares), having a proportional amount of the subscribed capital of EUR 1.00 each. The subscribed capital was provided by means of the non-cash contribution of all of the shares of Joyou Hong Kong and is fully paid up. The shares all have equal rights pertaining to voting and dividends.

The executive board is authorized, in the period until 30 June 2013, to increase the subscribed capital of Joyou AG, with the agreement of the supervisory board, once or more than once, by up to EUR 5,000,000, via the issue of up to 5,000,000 new nil-par bearer shares, for cash or non-cash consideration (genehmigtes Kapital). Equity or non-voting preference shares may be issued in each case. Further, the executive board is authorized, in each case with the agreement of the supervisory board, to decide upon the exclusion of the pre-emptive rights of the shareholders. However, the exclusion of pre-emptive rights is only permissible in accordance with the terms set out in the articles of association, this includes, inter alia, the introduction of the shares of Joyou AG to stock exchanges within or outside of Germany, on which the shares of the company up until that time are not authorized for trading.

In the twelve month period to 31 December 2009, no capital increases were resolved from this authorized capital. The authorized capital as at 31 December 2009 amounts to EUR 5,000,000.00.

19.2 Capital reserves

The capital reserves as at beginning of the accounting period 2009 are those of Joyou Hong Kong and were created by a series of transactions between parties under common control, the equity component on Preferred Shares; see note 4 and 14.2 for further details thereon and in respect of share capital related to employee share-based payment (see note 22.2).

19.3 Statutory reserves

Joyou AG is required to transfer 5% of the profit after tax as reported in its German statutory financial statements to statutory reserves (section 150 paragraph 2 of the German Stock Corporation Law), until this reserve together with the capital reserve attain at least 10% of the share capital. Under certain circumstances this reserve may be used to make up losses incurred or be converted into paid up capital, as long as the reserves amount to at least 10% of the share capital. The statutory reserve of Joyou AG amounts to EUR Nil at 31 December 2009.

According to the Group Law of PRC, companies operating in China are required to transfer 10% of the profit after tax as reported in their PRC statutory financial statements to the statutory common reserve fund in each year, unless this reserve has reached 50% of the company's registered capital. This reserve can be used to make up for any losses incurred or be converted into paid-up capital, provided that the reserve does not fall below 25% of the registered capital. The statutory reserve of the PRC companies amounts to kEUR 3,012 at 31 December 2009.

19.4 Currency translation reserve

The currency translation reserve represents the foreign currency translation differences arising from the translation of the financial statements from RMB to EUR.

19.5 Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognized in the Group's statement of comprehensive income. As at 31 August 2008, the retained earnings are exclusively those of Joyou Hong Kong Group and were created by a series of transactions between parties under common control: see note 4 for further details thereon.

20. Trade, Note and other payables

20.1. Trade and other payables

Trade and other payables recognised in the statement of financial position can be analysed as follows:

	31 December 2009	I December 2008
	kEUR	kEUR
Trade payables	967	20,215

Other payables and accruals

	31 December 2009	I December 2008
	kEUR	kEUR
Accruals Expenses	1,050	671
Accrued payroll	458	1,557
Other payable	676	1,103
Advance from customers	396	824
Other tax payables	164	313
VAT payable	0	3,221
Total	**2,744**	**7,689**

	31 December 2009	I December 2008
	kEUR	kEUR
Shareholder loan/non-trading balances	0	7,823
Amount due to related parties-non-trade	13	22
Total	**13**	**7,845**

Trade payables

All trade payables are non-interest bearing.

Advances from customers

Advances from customers relate to prepayments for future deliveries of sanitary products.

Amounts due to related parties

The amounts due to related parties are non-interest bearing and are repayable on demand. These amounts are unsecured and are to be settled in cash.

Due to their short duration, management considers the carrying amounts of trade and other payables recognized in the statement of financial position to be a reasonable approximation of their fair value.

20.2. Note payables

Note payables refer to acceptances of suppliers.

21. Other provisions

All provisions are considered non current and relate to costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term and for potential payments under an advisory agreement.

Joyou makes full provision for the future cost of decommissioning plants on a discounted basis on the construction of those plants. The provision for the cost of decommissioning these production facilities at the end of the useful live of the land-use-rights on which the plants have been erected has been estimated using existing technology in China, current prices and discounted using a discount rate of 6%. These costs are generally expected to be incurred over the next 25 to 50 years. While the provision is based on the best estimate of future costs and the contractually secured useful life of land-use-rights, there is uncertainty regarding both the amount and timing of incurring these cost. The carrying amounts may be analyzed as follows:

A provision of kEUR 500 has been made for potential payments to a financial advisor claiming advisory fees for certain funds being raised by Joyou Hong Kong in 2009. Although the financial advisor did not fulfil all obligations under existing binding contracts, management cannot exclude that at least a portion of the contractually agreed upon advisory fees for all services needs to be paid for those obligations which have been fulfilled by the financial advisor. The outcome of future proceedings cannot be predicted. It is therefore possible that legal or regulatory judgments could give rise to expenses that are not covered, or not fully covered by said provision. However, the chairman of the board of management of Joyou AG and major shareholder of Joyou AG, Mr. Cai Jianshe, has guaranteed to Joyou that he will reimburse Joyou in respect of any payments to be made to the financial advisor. Therefore, Joyou has recognized an asset of kEUR 500, i.e. equal to the provision being made, for the expected reimbursement by Mr. Cai Jianshe which is disclosed under the line item "Amounts due from related parties" as described in Note 27.2.

	2009 decommi-ssioning kEUR	2009 potential payments kEUR	2009 total kEUR
carrying amount beginning of period	138	0	138
additional provisions	4	500	504
carrying amount 31 December	**142**	**500**	**642**

22. Employee remuneration

22.1 Employee benefits expense

Expenses recognized for employee benefits are analyzed below:

	31 December 2009	December 2008
Wages and salaries	3,759	1,879
Social security costs	291	128
Total	**4,050**	**2,007**

The employee payroll costs can be allocated as follows:

	Twelve months ended 31 December 2009 kEUR	Four months ended December 2008 kEUR
Cost of sales	2,470	1,309
Operating expenses	284	133
Administrative expenses	1,005	437
Total	**3,759**	**1,879**

The employee social insurance costs can be allocated as follows:

	Twelve months ended 31 December 2009 kEUR	Four months ended December 2008 kEUR
Cost of sales	5	26
Operating expenses	0	0
Administrative expenses	286	102
Total	**291**	**128**

The analysis of the average employee numbers of the group is as follows:

	Twelve months ended 31 December 2009	Four months ended December 2008
Management and administration	245	366
Sales	60	85
Production	1,378	2,157
Total	**1,683**	**2,608**

22.2 Retirement benefit plans

The eligible employees of the Group - who are citizens of the PRC - are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

23. Finance income and finance costs

Finance income may be analysed as follows for the reporting periods presented:

	Twelve months ended 31 December 2009 kEUR	Four months ended December 2008 kEUR
Waiver of interests on convertible loan	240	0
Interest income	213	17
Exchange gain	1	8
Total	**454**	**25**

Finance costs may be analysed as follows for the reporting periods presented:

	Twelve months ended 31 December 2009 kEUR	Four months ended December 2008 kEUR
Interest on bank loans	2,897	1,196
Interest on preferred shares, convertible loan and shareholder loans	5,473	426
	8,370	1,622
Bank charges	350	387
Exchange loss	35	0
Other	8	3
Total	**8,762**	**2,012**

Impairments of trade receivables have been included within other expenses in the statement of comprehensive income. Impairment of financial assets are further analysed in Note 17 and Note 29.2.

24. Taxation

24.1 Major components of income tax expense

The amount of taxation charged to the statement of comprehensive income represents:

	Twelve months ended 31 December 2009 kEUR	Four months ended 31 December 2008 kEUR
Current income tax	8.219	2.225
Deferred income tax induced by temporary differences	164	25
Total	**8.384**	**2.250**

24.2 Relationship between tax expense and accounting profit

Reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate is as follows:

	Twelve months ended 31 December 2009 kEUR	Four months ended I December 2008 kEUR
Accounting profit before income tax	**30,646**	**6,449**
Tax at respective companies' domestic income tax rate	7,662	1,648
taxable losses not capitalized	592	0
Deferred taxes recognized in equity	-84	0
Effect of reduction in tax rate	0	82
Non-deductible expenses	214	520
	8,384	**2,250**

Deferred tax assets in respect of deductible tax losses in the amount of kEur 1.807 were not recognized as an asset due to their expiry as a result of the intended IPO in 2010.

Applicable tax rate

Joyou AG

In Germany, Joyou is subject to corporate income tax at a rate of 15% plus a 5.5% solidarity surcharge (*Solidaritätszuschlag*) thereon (in total 15.825%). In addition, Joyou AG is subject to trade tax (*Gewerbesteuer*) with their income subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporation maintains permanent establishments. As at 31 December 2009, the effective trade tax rate for Hamburg is 16.45 % of the trade taxable income (*Gewerbeertrag*). Dividend income that Joyou AG receives from corporations domiciled outside Germany such as Joyou Hong Kong is generally exempt from corporate income tax. However, 5% of the tax exempt dividend income is deemed to be a non-deductible business expense for corporate income tax purposes, and as a result is subject to corporate income tax (plus solidarity surcharge). Dividend income of Joyou AG derived from its shares in Joyou Hong Kong will also be subject to trade tax. However, such dividend income of the Company will be exempt from trade tax but for 5%, if specific preconditions are fulfilled (Section 9 No. 7 of the German Trade Tax Act, Section 8 Paragraph 1 No 1-6 German Foreign Tax Act).

As the Company did not have assessable profits during the accounting period ended 31 December 2009, no German corporate income taxes have been provided for. Although management assumes that Joyou AG will generate future taxable profits through dividend and interest income in order to be able to fully utilize these and prior period tax losses, no deferred tax asset has been provided for the tax losses carried forward as the timing of the utilization is uncertain and the taxable profits through dividend are limited to 5% of the tax exempt dividend income. Furthermore, tax loss carry forwards will be forfeited completely in the event that more than 50% of the share capital, participation rights or voting rights of the Company are directly or indirectly transferred within 5 years to one acquirer or a related person hereto or a group of acquirers with same interests or any comparable circumstances of the case. If more than 25% and up to 50% are transferred the tax loss carry forwards will be forfeited proportionally.

Joyou Hong Kong

Since incorporation the taxable profits of Joyou Hong Kong are determined by reference to the accounting profit, adjusted for non-deductible items. The applicable rate is 16.5%, in accordance with Hong Kong tax law.

PRC subsidiaries

From 1 January 2009 onwards, the taxable profits of the PRC subsidiaries were determined by reference to the accounting profit, adjusted for non-deductible items. The applicable rate is 25%, in accordance with Chinese national tax law.

24.3 Income Tax payable

Taxation payable in the statement of financial position represents:

	31 December 2009 kEUR	31 December 2008 kEUR
Balance of provision relating to previous years	6,959	4,526
Currency translation adjustment	-199	255
Foreign Enterprise Income Tax Provision for the year	8,419	2,178
Income tax paid	-14,491	0
Total	**688**	**6,959**

25. Earnings per share and dividends

25.1 Earnings per share

The basic earnings per share have been calculated using the profit attributable to shareholders of Joyou AG (the legal parent) as the numerator. The adjustments to profit necessary for calculating the diluted earnings per share are described below.

The weighted average number of outstanding shares used for **basic earnings per share** for the twelve month period ended 31 December 2009 amounted to 10,000,000 shares. The weighted average number of outstanding shares used was calculated on basis of the number of ordinary shares of Joyou AG (the legal acquiror) issued to the owner of the Joyou Hong Kong (the legal subsidiary).

For the calculation of **diluted earnings per share** of Joyou AG for the twelve month period ended 31 December 2009, diluted earnings per share had to be calculated for Joyou Hong Kong first. Potential ordinary shares shall only be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. On 8 June 2009 Joyou Hong Kong issued 1,479,000 Series A preference shares and on 16 October 2009 4,458,000 Series B preference shares - see note 29 - which can be converted into ordinary shares of Joyou Hong Kong. Once converted into ordinary shares of Joyou Hong Kong, they would decrease earnings per share of Joyou AG. Therefore, the diluted earnings per share for Joyou Hong Kong have been calculated as if they have been converted 1:1 into ordinary shares giving a total diluted number of ordinary shares of Joyou Hong Kong of 14,458,000. Thereafter, the diluted earnings per share of Joyou Hong Kong were allocated to the diluted number of ordinary shares of Joyou Hong Kong attributable to Joyou AG, i.e. 8,521,000 ordinary shares. The so diluted profit attributable to shareholders of Joyou AG was divided by Joyou AG's 10,000,000 ordinary shares.

The amounts used as the numerators in calculating basic and diluted earnings per share are reconciled to the profit or loss attributable to the parent entity for the period as follows:

Reconciliation of profit and loss	**Twelve months period ended 31 December 2009**	**Four months period ended 31 December 2008**
	kEUR	**kEUR**
Profit for the period (Joyou AG)	22,262	4,197
Adjustments at the level of Joyou Hong Kong:		
Interest on preferences shares and convertible bond (net of tax)	21	0
Non-controlling interest	(9,098)	(2,400)
Profit after adjustments (Joyou AG)	13,185	1,797

The weighted average number of shares for the purposes of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Amounts in thousand shares	**Twelve months period ended 31 December 2009**	**Four months period ended 31 December 2008**
Weighted average number of shares used in basic earnings per share (Joyou AG)	10,000,000	10,000,000
Adjustments at the level of Joyou Hong Kong:		
Ordinary shares attributable to Joyou AG	8,521,000	8,521,000
Potential ordinary shares attributable to non-controlling interest	5,937,000	5,937,000

In the first quarter 2010 Joyou AG, Joyou Hong Kong, the Initial Shareholders, the Joyou Hong Kong Investors, and certain companies designated by the Joyou Hong Kong Investors intend to execute an agreement (the "Restructuring Agreement") according to which the Joyou Hong Kong Investors will restructure their investment from the level of Joyou Hong Kong to the level of Joyou AG (the "Corporate Restructuring").

In the Restructuring Agreement, the parties have agreed that the Joyou Hong Kong Investors will transfer all their shares in Joyou Hong Kong to Joyou AG against issuance of new shares in Joyou AG to the Joyou Hong Kong Investors or all companies designated by the Joyou Hong Kong Investors. The Restructuring Agreement stipulates that a capital increase against contributions in kind (Sachkapitalerhöhung) will be carried out at Joyou AG (the "Restructuring Capital Increase") which is to become effective at the latest as of the day of admission of the Company's shares to trading on the Frankfurt Stock exchange. The Restructuring Capital Increase is expected to be resolved upon during the General Meeting of shareholders of Joyou AG that also resolves upon the IPO Capital Increase. The Joyou Hong Kong Investors will contribute all their shares in Joyou Hong Kong to Joyou AG so that after the Corporate Restructuring Joyou AG will be the holder of 100% of the shares (including ordinary shares and preference shares) of Joyou Hong Kong. As consideration for the contribution of all their shares in Joyou Hong Kong by the Joyou Hong Kong Investors, Joyou AG will issue new shares to Bathware Limited, Grohe Holding GmbH, PreIPO and four companies designated by PreIPO and MIC being Star Elite, PreIPO International, Poly Gain and Prime Standard Holdings (these four companies designated by PreIPO and MIC together the "Designees"), so that after the Corporate Restructuring, the Joyou Hong Kong Investors and the Designees (together the "Joyou AG Investors") will hold approximately the same percentage of shares in Joyou AG as the Joyou Hong Kong Investors previously held in Joyou Hong Kong.

25.2 Dividends

The parent company Joyou AG is a holding company without any significant operating business of its own. The group's assets are largely located in China. Current PRC regulations permit the payment of dividends only out of accumulated profits determined in accordance with Chinese accounting standards and regulations. In addition, a subsidiary of the Company, if it constitutes a foreign-invested entity under PRC law, is required to set aside at least 10% of its after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of its registered capital. Furthermore, foreign-invested entities may be required to set aside a portion of their after-tax profits to fund an employee welfare fund in an amount which lies within the discretion of the subsidiary's board. These reserves are not distributable as cash dividends.

Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operating-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange or its local counterparts, and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions.

There can be no assurance that Joyou will be able to meet all of its foreign currency obligations under PRC laws or to remit profits out of China. Should any of the PRC subsidiaries of the Company be, or become, restricted and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China, this could have material adverse effects on the group's financial condition.

26. Cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow:

	Twelve months ended 31 December 2009 kEUR	Four months ended 31 December 2008 kEUR
Adjustments for non-cash flow items:		
Amortization of intangible assets	248	85
Allowance for doubtful trade other receivables	-830	719
Depreciation of property, plant and equipment	2.291	834
Proceeds from disposal of property, plant and equipment	0	-439
Interest income	-454	-25
Interest cost	8.762	2.009
Total adjustments	10.018	3.183
Net changes in working capital:		
(Increase)/decrease in:		
Inventories	2.149	-298
Trade receivables	-5.810	-4.622
Other receivables and prepayments	-15.358	7.415
Amounts due from related parties	0	267
Increase/(decrease) in:		
Trade payables and notes payable	-21.889	-2.296
Other payables and accruals	-5.504	-3.495
Amounts due to related parties	-8	22
Total changes in working capital	-46.421	-3.007

27. Related party disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or (ii) it is subject to common control or common significant influence.

27.1 Related party information

Joyou Group companies entered into several transactions with related parties. Related parties to the Company include members of the Management Board including their close family members and companies over which members of the Management Board or Supervisory Board of the Company or their family members can exercise considerable influence or hold a substantial amount of the voting rights. In addition, related parties include companies in which the Company holds an investment, which enables the Company to exercise considerable influence over the business policies of the company in which it holds such investment, as well as the major shareholders of the Company, including their affiliates. Set forth below is an overview of the parties related to Joyou Group as well as a summary of the material transactions between Joyou Group and related parties concluded in the accounting period between 01 January 2009 and 31 December 2009.

The following persons and entities are considered to be related parties:

Related Party	Type of business	Business scope of the licence	Relation to Joyou
•Nan'an Zhongyu Hardware Industrial Co., Ltd.	No material actual business activity	Manufacturing water faucets, valves, sanitary hardware and galvanization	46.42% of the shares are held by Mr. Wang Zhiqiang
Nanan Zhongyu Copper Co. Ltd	No material actual business activity	Manufacturing copper of water faucets, copper sticks and zins metal parts	48% of the shares are held by Mr. Wang Zhiqiang
Quanzhou X-time Optoelectronics Technology Co. Ltd	No material actual business activity	Manufacturing and designing, selling sanitary ware, hardware	48% of the shares are held by Mr. Cai Kaifang
Nan'an Longsheng Science and Technology Industry Co., Ltd.	No actual business activity	Manufacturing and selling sanitary ware, hardware and the consulting design of sensor faucets and temperature controlled faucets	65% of the shares are held by Ms. Zhou Jiaping
Nan'an Pengxin Copper Co., Ltd.	Investment property	Manufacturing and selling copper pipes, copper bars, copper pipes of water faucets and hardware	The shares are held by Ms. Chen Caifen (48%) and Mr. Wang Jinsheng (52%)

Related party	Relation to Joyou
Mr. Cai Jianshe	Chairman of the board of Directors (Vorstandsvorsitzender), Shareholder holding 87.3% of the company’s shares
Mr. Cai Jiansheng	Member of the supervisory board (Aufsichtsratsmitglied), Shareholder holding 5% of the company’s shares
Mr. Cai Jilin	Member of the board of Directors (Vorstandsmitglied), Shareholder holding 5% of the company’s shares
Mr. Zhou Jiaping	The wife of Mr. Cai Jilin
Mr. Cai Kaifang	A son of Mr. Cai Jianshe
Ms. Chen Caifen	The wife of Mr. Cai Kaifang
Mr. Wang Jinsheng	A cousin of Mr. Cai Jilin
Mr. Wang Zhiqiang	A cousin of Mr. Cai Jilin
Ms. Hong Jinyun	The wife of Mr. Cai Jinsheng
Ms. Wan Liqin	The wife of Mr. Cai Jianshe
Mr. Huang Guoynan	The brother-in-law of Mr. Cai Jianshe

27.2 Transactions and amounts due from/to related parties

There were no sales or purchases transacted with related parties during the period under review.

The composition of the amounts due from related parties is as follows:

	31 December 2009	I December 2008
	kEUR	kEUR
Mr. Cai Jianshe	577	2
Fujian Nan'an Pengxin Copper Co., Ltd	0	1,409
Ms. Chen Caifen	0	77
Total	**577**	**1,488**

As at 31 December 2008, the amounts due from related parties mainly contain short term clearing accounts and loans due from Nan'An Pengxin Copper Co. Ltd. in connection with the restructuring of the land and factory properties (parts of the property under construction (the "new factory") transferred to this related company).

The composition of the amounts due to related parties is as follows:

	31 December 2009	I December 2008
	kEUR	kEUR
Mr. Cai Jianshe	13	7,845

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

27.3 Transactions with key management personnel

The following individuals served as key management personnel of Joyou AG during the four months to 31 December 2009:

27.3.1 Directors of Joyou AG

Mr Jianshe Cai, businessman, Fujian Province, PRC, Chairman,
Mr Jilin Cai, businessman, Fujian Province, PRC,
Mr Gang Zheng, businessman, Shanghai, PRC (appointed 17 November 2009),
Mr Zufang Li, businessman, Fujian Province, PRC (appointed 17 November 2009)

27.3.2 Supervisory Board Members

Mr. Johnny Chen, financial consultant, Shanghai PRC, Chairman,
Mr. Jiansheng Cai, businessman, Fujian Province PRC, Deputy Chairman (from 2 November 2009),
Mr. Li Ho Tan, financial consultant, Fujian Province, PRC

27.3.3 Key management remuneration

	31 December 2009 kEUR	December 2008 kEUR
Amount paid to the key management of the group	181	42
Expenses on stock option plan	15	0
	196	**42**

As at December 2009 the Group maintained one equity settled share-based payment for employee remuneration. This program is part of the remuneration package of the financial officer. For options granted to vest, the financial officer has to remain employed for the agreed vesting period of 5 years. Upon vesting, each option allows the holder to purchase up to 0.5% of the total number of shares in Joyou AG in three tranches before the Offering from Mr Cai Jianshe. One ordinary share is valued at a purchase price equal to the offer price of Joyou AG shares achieved in Joyou AG's intended IPO at the Frankfurt Stock Exchange at grant date. The share based remuneration will be settled by shares delivered by Mr. Jianshe Cai. The Group has no legal or constructive obligation to issue new shares on the stock option program and any obligation to repurchase or settle the options.

In the accounting period Mr. Cai grant options of 50,000 shares to the financial officer.

The fair value of options granted were determined using a variation of the binominal pricing model that takes into account factors specific to the share incentive plan, such as the vesting period. The total shareholder return performance condition has been incorporated into the measurement by means of actual modeling. The following principal assumptions were used in the valuation:

Grant date	November 2009
Vesting period ends	November 2014
Share price at date of grant	17,00 (estimated IPO offer price)
Volatility	40,0 %
Option life	3 years
Dividend yield	17,5 %
Risk-free investment rate	1,50 % – 2,29 %
Fair value at grant date	kEur 302
Exercisable from / to	end of vesting period
Weighted average remaining contractual life	4 years 11 months

The underlying expected volatility was determined by 40,0 %. No special features inherent to the options granted were incorporated into measurement of fair value.

In total kEUR. 15 of employee remuneration expense (all of which equity-settled shared based payment transactions) has been included in profit or loss for 2009 (previous year: nil) and credited to capital surplus.

27.3.4 Credit guarantees

Related parties have provided guarantees for certain of Joyou Building Material's bank loans:

- Nan'an Zhongyu Hardware Industrial Co., Ltd., Mr. Cai Jianshe, Mr. Cai Jiansheng, Ms. Hong Jinyun and Ms. Wang Liqin provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 to secure four loans from Huaxia Bank Fuzhou Branch ("HX Bank") in the total amount of RMB 40,000,000, of which one loan of RMB 15,000,000 with a term from 23 October 2007 to 23 October 2009 is additionally secured by three mortgages established by Nan'an Zhongyu Copper Co., Ltd., Fujian Nan'an Pengyin Copper Co., Ltd and Joyou Building Materials itself. The guarantee was provided to secure loans taken out by Joyou Building Materials from HX Bank from 18 September 2007 to 18 September 2009. The said loans have been repaid.
- Nan'an Zhongyu Hardware Industrial Co., Ltd., Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 to secure three loans taken out by Joyou Building Materials from Huaxia Bank Fuzhou Branch Mindu Sub-branch in the total amount of RMB 30,000,000, of which one loan of RMB 8,500,000 with a term of 27 October 2009 to 27 October 2010 is additionally secured by a mortgage established by Joyou Building Materials itself. The guarantee was provided to secure loans taken out by Joyou Building Materials from Huaxia Bank Fuzhou Branch Mindu Sub-branch from 16 September 2009 to 16 September 2010.
- Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin provided a joint and several guarantee with a ceiling amount of RMB 80,000,000 and Nan’an Zhongyu Hardware Industrial Co., Ltd. provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 to secure loans to be taken out by Joyou Building Materials under a credit facility agreement concluded between Joyou Building Materials and Huaxia Bank Fuzhou Branch Mindu Sub-branch for a credit facility of up RMB 80,000,000 (which is additionally secured by a joint and several guarantee provided by an unaffiliated party and by one mortgage established by Joyou Building Materials itself). Under such credit facility, Joyou Building Materials has taken out four loans in the total amount of RMB 50,000,000.
- Mr. Cai Jianshe and Mr. Cai Jiansheng provided a joint and several guarantee with a ceiling amount of RMB 30,000,000 to secure two loans from China Merchants Bank Quanzhou Branch ("CMB") in the total amount of RMB 15,000,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from CMB during the period from 5 February 2008 to 5 February 2009. The said loans have been fully repaid.
- Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin provided a joint and several guarantee with a ceiling amount of RMB 20,000,000 to secure (a) loans to be taken out by Joyou Building Materials under a credit facility agreement concluded between CMB and Joyou Building Materials for a credit facility of up to RMB 6,000,000 (which is additionally secured by one mortgage established by Joyou Building Materials with a ceiling amount of RMB 6,000,000), under which Joyou Building Materials has taken out one loan in the amount of RMB 6,000,000 and (b) loans to be taken out by Joyou Building Materials under the credit facility agreement concluded between CMB and Joyou Building Materials with a credit facility up to RMB 14,000,000 (which are additionally secured by the joint and several guarantees provided by Joyou Sanitation Technology and a non-affiliated party, with a ceiling amount of RMB 14,000,000), under which Joyou Building Materials has taken out three loans in the total amount of RMB 14,000,000.
- Mr. Cai Jianshe, Mr. Cai Jiansheng, Mr. Cai Jilin together with two non-related parties provided a joint and several guarantee with a ceiling amount of RMB 30,000,000 to secure loans by Joyou Building Materials under a credit facility agreement concluded between Quanzhou Commercial Bank Fengze Sub-branch ("QCB") and Joyou Building Materials on 4 June 2008 with a credit facility of up to RMB 30,000,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from QCB from 4 June 2008 to 4 June 2009. Under such credit facility, Joyou Building Materials has taken out two loans in the total amount of RMB 29,500,000. The said loans have been fully repaid.
- Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin together with two non-related parties provided a joint and several guarantee with a ceiling amount of RMB 30,000,000 to secure loans by Joyou Building Materials under a credit facility agreement concluded between QCB and Joyou Building Materials on 23 September 2009 with a credit facility of RMB 30,000,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from QCB from 23 September 2009 to 23 September 2010.

Under such credit facility, Joyou Building Materials has taken out two loans in the total amount of RMB 29,500,000.

- Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin provided a joint and several guarantee with a ceiling amount of RMB 50,000,000 to secure loans by Joyou Building Materials under a credit facility agreement concluded between China Minsheng Bank Quanzhou Branch and Joyou Building Materials with a credit facility of up to RMB 50,000,000. The loans under the above Credit Facility Agreement are additionally secured by a mortgage provided by Joyou Building Materials with a ceiling amount of RMB 50,000,000 and a pledge provided by Joyou Building Materials with a ceiling amount of RMB 50,000,000. Under such credit facility, Joyou Building Materials has taken out two loans in the total amount of RMB 10,000,000.
- Mr. Cai Jianshe, Mr. Cai Jiansheng, Mr. Cai Jilin and Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 33,000,000 to secure one loan from Shanghai Pudong Development Bank Fuzhou Branch ("SPDB") in the amount of RMB 30,000,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from SPDB during the period from 29 June 2009 to 29 June 2010.
- Mr. Cai Jianshe and Fujian Nan'an Pengxin Copper Co., Ltd. provided a joint and several guarantee with a ceiling amount of RMB 80,000,000 to secure loans by Joyou Building Materials and Joyou Sanitation Technology under a credit facility agreement concluded with China CITIC Bank Quanzhou Branch ("CITIC Quanzhou") with a credit facility of up to RMB 80,000,000. The loans under such Credit Facility Agreement are additionally secured by a joint and several guarantee with a ceiling amount of RMB 30,000,000 provided by a non-affiliated party, a joint and several guarantee with a ceiling amount of RMB 20,000,000 provided by a non-affiliated party, a mortgage provided by Joyou Galvanization with a ceiling amount of RMB 56,060,000, two mortgages provided by Joyou Building Materials, respectively, with a ceiling amount of RMB 10,000,000 and RMB 28,300,000, as well as a mortgage with a ceiling amount of RMB 12,000,000 provided by a non-affiliated party. Under such credit facility, Joyou Building Materials has taken out four loans in the total amount of RMB 50,000,000.
- Mr. Cai Jianshe and Mr. Cai Jiansheng provided a joint and several guarantee with a ceiling amount of RMB 180,000,000 to secure four loans from China Construction Bank Nan'an Branch ("CCB") in the total amount of RMB 38,500,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from CCB during the period from 26 March 2008 to 26 March 2010. Among these four loans, one loan in the amount of RMB 15,000,000 and with a term from 6 August 2009 to 6 August 2010 is additionally secured by a mortgage provided by Joyou Building Materials with a ceiling amount of RMB 33,000,000. One loan in the amount of RMB 5,500,000 and with a term from 23 January 2009 to 23 January 2010 is additionally secured by a joint and several guarantee with a ceiling amount of RMB 1,700,000 provided by a non-affiliated party, a mortgage provided by Joyou Building Materials with a ceiling amount of RMB 5,400,000, a mortgage provided by Fujian Water Pearl Co., Ltd., a non-affiliated party, with a ceiling amount of RMB 12,400,000 and a mortgage provided by Quanzhou X-time Optoelectronics Co., Ltd. with a ceiling amount of RMB 21,000,000 and has been repaid. One loan in the amount of RMB 15,000,000 and with a term from 6 August 2009 to 6 August 2010 is additionally secured by a mortgage provided by Joyou Building Materials with a ceiling amount of RMB 33,000,000. One loan in the amount of RMB 3,000,000 and with a term from 20 January 2009 to 20 January 2010 has been repaid in full.
- Mr. Cai Jianshe provided a joint and several guarantee with a ceiling amount of RMB 60,000,000 to secure loans by Joyou Building Materials under a credit facility agreement concluded between Joyou Building Materials and OCBC Bank (China) Limited with a credit facility of up to RMB 58,900,000. Under such credit facility, Joyou Building Materials has taken out two loans in a total amount of RMB 30,000,000 and one loan in the amount of USD 1,500,000.
- Mr. Cai Jianshe together with Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 60,000,000 to secure one loan from China Everbright Bank Fuzhou Branch ("CEB") in the total amount of RMB 10,000,000. The guarantee was provided to secure loans taken out by Joyou Building Materials from CEB during the period from 5 February 2008 to 4 February 2009. The said loan was fully repaid.
- Mr. Cai Jianshe, Mr. Cai Jilin and Joyou Sanitation Technology as well as three non-affiliated parties provided a joint and several guarantee with a ceiling amount of RMB 60,000,000 to secure loans by Joyou Building Materials under a Credit Facility Agreement concluded between CEB and Joyou Building Materials with a credit facility of up to RMB 60,000,000. Under such credit facility, Joyou Building

Materials has taken out three loans in the total amount of RMB 60,000,000, among which one loan of RMB 30,000,000 with term from 15 April 2009 to 14 October 2009 has been repaid.

- Mr. Cai Jianshe and Mr. Cai Jiansheng provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 to secure one loan from China Minsheng Bank Quanzhou Branch ("CM Bank") in the total amount of RMB 4,200,000 and with a term from 25 December 2007 to 25 December 2008, and another loan from CM Bank in the amount of RMB 5,800,000 and with term from 16 January 2008 to 16 January 2009. The said loans have been fully repaid.

In addition, certain related parties have granted guarantees for Joyou Sanitation Technology's following bank loans:

- Nan'an Zhongyu Hardware Industrial Co., Ltd. provided a guarantee with a ceiling amount of RMB 20,000,000 to secure one loan from Industrial and Commercial Bank of China Nan'an Sub-branch ("ICBC") in the amount of RMB 6,400,000. The guarantee was provided to secure loans taken out by Joyou Sanitation Technology from ICBC during the period from 3 March 2008 to 2 March 2011. The said loan was fully repaid.
- Nan'an Zhongyu Hardware Industrial Co., Ltd. provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 to secure one loan from ICBC in the amount of RMB 7,500,000 and with the term from 26 March 2009 to 23 March 2010 and another loan from ICBC in the amount of RMB 11,100,000 and with the term from 27 March 2009 to 26 March 2010. The guarantee was provided to secure loans taken out by Joyou Sanitation Technology from ICBC during the period from 20 March 2009 to 19 March 2012.
- Mr. Cai Jianshe, Fujian Nan'an Pengxin Copper Co., Ltd. and Mr. Wang Jinsheng together with Joyou Building Material provide a joint and several guarantee, respectively, with a ceiling amount of RMB 60,000,000 to secure loans by Joyou Sanitation Technology under a Credit Facility Agreement concluded by Joyou Sanitation Technology and China CITIC Bank Xiamen Branch ("CITIC") with a credit facility of up to RMB 60,000,000. Under such credit facility, Joyou Sanitation Technology has taken out two loans in the total amount of RMB 20,000,000. The said loans have been repaid.
- Mr. Cai Jianshe, Fujian Nan'an Pengxin Copper Co., Ltd. provided a joint and several guarantee with a ceiling amount of RMB 80,000,000 to secure loans to be taken out by Joyou Building Materials and Joyou Sanitation Technology under a credit facility agreement concluded with CITIC Quanzhou with a credit facility of up to RMB 80,000,000. The loans under such Credit Facility Agreement are additionally secured by a joint and several guarantee with a ceiling amount of RMB 30,000,000 provided by a non-affiliated party, a joint and several guarantee with a ceiling amount of RMB 20,000,000 provided by a non-affiliated party, a mortgage provided by Joyou Galvanization with a ceiling amount of RMB 56,060,000, two mortgages provided by Joyou Building Materials, respectively, with a ceiling amount of RMB 10,000,000 and RMB 28,300,000, as well as a mortgage with a ceiling amount of RMB 12,000,000 provided by a non-affiliated party. Under such credit facility, Joyou Sanitation Technology has taken out two loans in the total amount of RMB 30,000,000.
- Mr. Cai Jianshe provided a joint and several guarantee with a ceiling amount of RMB 33,000,000 and Joyou Hong Kong provided a joint and several guarantee with a ceiling amount of USD 5,000,000 to secure loans to be taken by Joyou Sanitation Technology under a credit facility agreement concluded with HSBC Bank (China) Company Limited Xiamen Branch with a credit facility of up to RMB 30,000,000 until 31 October 2010. Under such credit facility, Joyou Sanitation Technology has taken out one loan in the amount of RMB 30,000,000 with term from 26 November 2009 to 26 May 2010.
- Mr. Cai Jianshe, Mr. Cai Jiansheng and Mr. Cai Jilin provided a joint and several guarantee with a ceiling amount of RMB 97,900,000 and Joyou Hong Kong provided a pledge with a ceiling amount of USD 14,800,000 to secure loans to be taken by Joyou Sanitation Technology under a credit facility agreement concluded with Shanghai Pudong Development Bank Fuzhou Branch with a credit facility of up to RMB 89,000,000. Under such credit facility, Joyou Sanitation Technology has taken out two loans in the total amount of RMB 89,000,000.
- Mr. Cai Jianshe, Mr. Cai Jiansheng, Mr. Cai Jilin and Joyou Building Materials provided a joint and several guarantee to secure one loan taken out by Joyou Sanitation Technology from Pudong Development Bank Fuzhou Branch in the amount of RMB 30,000,000 and with term from 28 October 2009 to 28 October 2010.

Further, Joyou Building Materials has provided securities for certain related parties as follows:

- Joyou Building Materials provided a mortgage with a ceiling amount of RMB 44,950,000 for loans to be taken out from ICBC by Fujian Nan'an Pengxin Copper Co., Ltd., Nan'an Zhongyu Hardware Industrial Co., Ltd., Joyou Sanitation Technology and Nan'an Longsheng Science and Technology Industry Co., Ltd. from 28 April 2009 and 27 April 2012. In January 2009, Fujian Nan'an Pengxin Copper Co., Ltd. took two loans from ICBC in the total amount of RMB 16,250,000, of which one loan is in an amount of RMB 9,000,000 with a term from 9 January 2009 to 15 December 2009 and the other loan is in an amount of RMB 7,250,000 with a term from 12 January 2009 to 23 December 2009. The above two loans have been repaid. In December 2009, Fujian Nan'an Pengxin Copper Co., Ltd. took another two loans from ICBC in the total amount of RMB 16,250,000, of which one loan is in an amount of RMB 9,000,000 with a term from 18 December 2009 to 14 December 2010 and the other loan is in an amount of RMB 7,250,000 with a term from 25 December 2009 to 23 December 2010. In August 2008, Nan'an Zhongyu Hardware Industrial Co., Ltd. took out one loan from ICBC in the amount of RMB 1,800,000 with a term from 25 August 2008 to 12 August 2009. Such loan has been repaid. In August 2009, Nan'an Zhongyu Hardware Industrial Co., Ltd. took out another loan from ICBC in the amount of RMB 1,800,000 with a term from 19 August 2009 to 13 August 2010. In November 2008, Nan'an Longsheng took out a loan in the amount of RMB 9,400,000 with a term from 7 November 2008 to 6 November 2009. Such loan has been repaid. In May 2009, Nan'an Longsheng took out a loan in the amount of RMB 8,200,000 with a term from 25 May 2009 to 18 May 2010. In November 2009, Nan'an Longsheng took out another loan in the amount of RMB 9,400,000 with a term from 17 November 2009 to 10 November 2010.
- In 2008, Joyou Building Materials undertook joint liability up to a maximum amount of RMB 1,400,000 to secure loans to be taken out from ICBC by Nan'an Zhongyu Hardware Industrial Co., Ltd. from 11 August 2008 to 10 August 2011. Nan'an Zhongyu Hardware Industrial Co., Ltd. has taken out one loan from ICBC in the amount of RMB 1,400,000, which has been repaid.
- In 2009, Joyou Building Materials undertook joint liability up to a maximum amount of RMB 1,400,000 to secure loans to be taken out from ICBC by Nan'an Zhongyu Hardware Industrial Co., Ltd. from 20 August 2009 to 13 August 2010. Nan'an Zhongyu Hardware Industrial Co., Ltd. has taken out one loan from ICBC in the amount of RMB 1,400,000.

None of the guarantees were provided against consideration.

Other guarantees

Mr. Cai Jianshe has also undertaken agreements to reimburse certain companies within the group for any losses arising from additional social insurance and housing fund payments as well as additional payments of enterprise income tax. Further details are provided in note 28.2.

28. Commitments and contingencies

28.1 Commitments

As at 31 December 2009, Joyou Group did not have any material commitments.

28.2 Contingent liabilities

Up to 31 December 2009, as a warrantor, the Group has guaranteed the bank loans of third parties to an aggregate amount of kEUR 3,273 (previous year: kEUR 6,677). The financial statements of the warrantees indicate that the debtors are able to pay their debts as they mature, and the directors are of the view that no material losses will arise in respect of the guarantees at the date of these financial statements.

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, the Group is, among others, required to make contributions for the social insurance and for the housing funds to its employees. In 2009, Joyou has started to make these payments to all of its employees, but considers the risk for additional payments for prior periods to be unlikely. As at reporting date, Joyou believes that such claim would not exceed kEUR 2,000. As at 30 October 2009 Mr. Cai Jianshe has undertaken an agreement with the respective Group companies according to which he would reimburse the Group companies for any losses incurred for such additional social insurance and housing funds payments.

As at 31 December 2009, Joyou had contingent liabilities concerning tax liabilities of approximately kEUR 2,712. Until 31 December 2007, Joyou calculated its Enterprise Income Tax based on the so-called "deemed profit" method. According to this method, income tax is calculated based on total revenues from the business multiplied by a deemed profit rate and a tax rate. The deemed rate of profit on revenues was 5% of revenues for Joyou Sanitation Technology and 7% of revenues for Joyou Building Materials. If Chinese tax authorities do not recognize Joyou's calculations of income tax, in particular, if they rule that one or more of the PRC subsidiaries of the Group were not entitled to use the deemed profit method in order to determine their income tax payable, then each such subsidiary may be required to pay additional Enterprise Income Tax for the respective previous periods in the past. As at 30 October 2009 Mr. Cai Jianshe has undertaken an agreement with the respective Group companies according to which he would reimburse the Group companies for any losses incurred for such income tax payment obligations.

29. Risks management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in note 14. The main types of risks are market risk, credit risk and liquidity risk.

To date, the group does not have a comprehensive risk management system in operation. Due to the rapid growth the group has experienced in recent years, it is aware of the need to implement such a system.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

29.1 Market risk

29.1.1. Foreign currency sensitivity

Most of the Group's transactions are carried out in Chinese RMB. Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US dollars (USD). The group also holds cash balances denominated in US dollars. During the course of the period, the average balance held was immaterial and was not hedged.

The Group does not currently actively take measures to mitigate its exposure to foreign currency risk in sales and purchases. The RMB-denominated prices for copper and zinc are based on the value of the USD as the USD is the most prevalent currency in which copper and zinc are quoted on the world market. Since Joyou does not hedge against fluctuations in commodity prices, an increase in the US dollar-denominated commodity prices against the RMB would increase Joyou’s costs incurred in RMB and expressed in EUR in its financial statements. However, although Joyou does not hedge against fluctuations in commodity prices, Joyou passes some of these cost increases to customers in its OEM/ODM business and to distributors in its own brand business.

Foreign currency denominated financial assets and liabilities, translated into EUR at the closing rate, are as follows.

	Short-term exposure USD	
	31 December 2009	December 2008
	kEUR	kEUR
Financial assets	1,414	1,010
Financial liabilities	-43	-7,909
Total exposure	**1,371**	**-6,899**

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and financial liabilities and the USD/RMB exchange rate 'all other things being equal'.

It assumes a +/- 10% change of the RMB/USD exchange rate for the four months ended 31 December 2009. This percentage has been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the RMB had strengthened against the USD by 10% then this would have had the following impact:

	Profit for the period kEUR	Equity kEUR
31 December 2009	171	171
31 December 2008	585	585

If the RMB had weakened against the USD by 10% then this would have had the following impact:

	Profit for the period kEUR	Equity kEUR
31 December 2009	-189	-189
31 December 2008	-644	-644

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

29.1.2. Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on short financing. At 31 December 2009, the Group is exposed to changes in market interest rates through short-term bank borrowings being renewed at interest rates different to those currently in place. The exposure to interest rates for the Group's funds deposited with banks is considered immaterial.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 2%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the period kEUR	Equity kEUR
31 December 2009	-1,193	-895
31 December 2008	-381	-286

29.2 Credit risk analysis

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

Financial assets

	Note	31 December 2009 kEUR	31 December 2008 kEUR
Trade receivables	17	41,348	35,815
Other receivables and prepayments	17	22,937	7,720
Amounts due from related parties	27	77	1,488
Cash and cash equivalents	14	34,291	11,762
Total		**98,653**	**56,785**

The Group's credit risk is primarily attributable to its trade and other receivables. Cash is placed with creditworthy financial institutions. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that trade and other receivables that are not impaired or past due for each of the reporting dates under review are of good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Some of the unimpaired trade receivables are past due as at the reporting date. Financial assets past due but not impaired can be shown as follows:

	31 December 2009 kEUR	31 December 2008 kEUR
within 30 days	10,555	5,658
31-90 days	21,046	1,308
91-180 days	9,163	1,498
181-360 days	583	449
1-2 years	0	280
2-3 years	0	163
over 3 years	0	0
Total	**41,348**	**9,356**

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics except for Joyou's distributors. Trade receivables consist of a large number of distributors in various geographical areas of the PRC. Although they can be seen as a group of counter parties having similar characteristics, those distributors are independent of each other and share, therefore, no joint credit risk other than the normal business risk associated with the sanitary ware market in the PRC.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with at least sufficiently high credit ratings by the PRC.

29.3 Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirement are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

The Group maintains cash to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to increase its share capital.

As at 31 December 2009, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	current		non - current	
	within 6 months	6 to12 months	1 to 5 years	ter than 5 years
	kEUR	kEUR	kEUR	kEUR
Bank loans	18,991	33,525	0	0
Trade and other payables	3,293	0	0	0
Notes payable	19,167	0	0	0
Amounts due to related parties	13	0	0	0
Total	**41,464**	**33,525**	**0**	**0**

This compares to the maturity of the Group's financial liabilities as at 31 December 2008 as follows:

	current		non - current	
	within 6 months	6 to12 months	1 to 5 years	ter than 5 years
	kEUR	kEUR	kEUR	kEUR
Bank loans	23,011	8,086	0	0
Trade and other payables	27,904	0	0	0
Notes payable	21,239	349	0	0
Amounts due to related parties	7,845	0	0	0
Total	**79,999**	**8,435**	**0**	**0**

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

29.4 Capital management policies and procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to ensure sufficient capital to achieve the Group's strategic goals; and
- to provide an adequate return to shareholders

by pricing products commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity, loans and cash and cash equivalents as presented on the face of the statement of financial position.

Joyou AG intends to limit its interest-bearing current and non-current liabilities on average to two times the amount of earnings before interest, taxation, depreciation and amortization ("EBITDA"). Furthermore, Joyou AG's goal in capital management is to achieve and maintain a capital-to-overall financing ratio of 1:1 to 1:1.5. Depending on the future development of the banking industry in the PRC, Joyou AG may increase the interest-bearing current and non-current liabilities compared to capital and therefore increase its gearing. However, given the significant growth opportunities, short term deviations from the intended capital-to-overall financing ratio are acceptable.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Capital for the reporting periods under review is summarised as follows:

	31 December 2009 kEUR	31 December 2008 kEUR
Total equity	65,854	45,026
Shareholder loan	0	7,823
Preferred shares	42,474	0
Cash and cash equivalents	-34,291	-11,762
Capital	**74,037**	**41,087**
Total equity	65,854	45,026
Bank loans	52,516	31,097
Notes payable	19,167	21,588
Overall financing	**137,537**	**97,711**
Capital-to-overall financing ratio	**0.54**	**0.42**

30. Events after the reporting date

In the first quarter of 2010, Mr. Cai Jianshe, the four investors in Joyou Hong Kong, other shareholders in Joyou AG and Joyou AG intend to enter into a series of contracts pursuant to which the investors in Joyou Hong Kong will transfer their Series A Preferred Shares and Series B Preferred Shares respectively to Joyou AG. As compensation, Joyou AG will increase its share capital and issue new shares to the investors (or companies designated by them) such that each current investor in Joyou Hong Kong (or its designees) holds a percentage in Joyou AG's ordinary shares approximately equivalent to the percentage of Preferred Shares previously held by that investor in Joyou Hong Kong. It is intended that the filing of the capital increase with the commercial register will be made simultaneously with the filing of the capital increase for the IPO in 2010. At the time of filing of the capital increase with the commercial register, legal title in the respective shares in Joyou Hong Kong will still be with the four investors in Joyou Hong Kong, who will only be contractually obliged to transfer ownership to Joyou AG after registration of the capital increase. However, after completion of all transactions, Joyou AG will be the sole shareholder in Joyou Hong Kong. Joyou AG intends to convert the Series A and Series B Preference Shares in Joyou Hong Kong into ordinary shares after completion of the transfers.

Apart from the above-mention transaction, no adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

Hamburg, 11 March 2010
Joyou AG

Board of Management

Jainshe Cai | Jilin Cai | Gang Zheng | Zufang Li

Audit report

We have audited the consolidated financial statements prepared by Joyou AG, Hamburg, comprising the statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements together with the group management report for the accounting period from January 1, 2009 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 way 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 standards 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 in the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and of the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

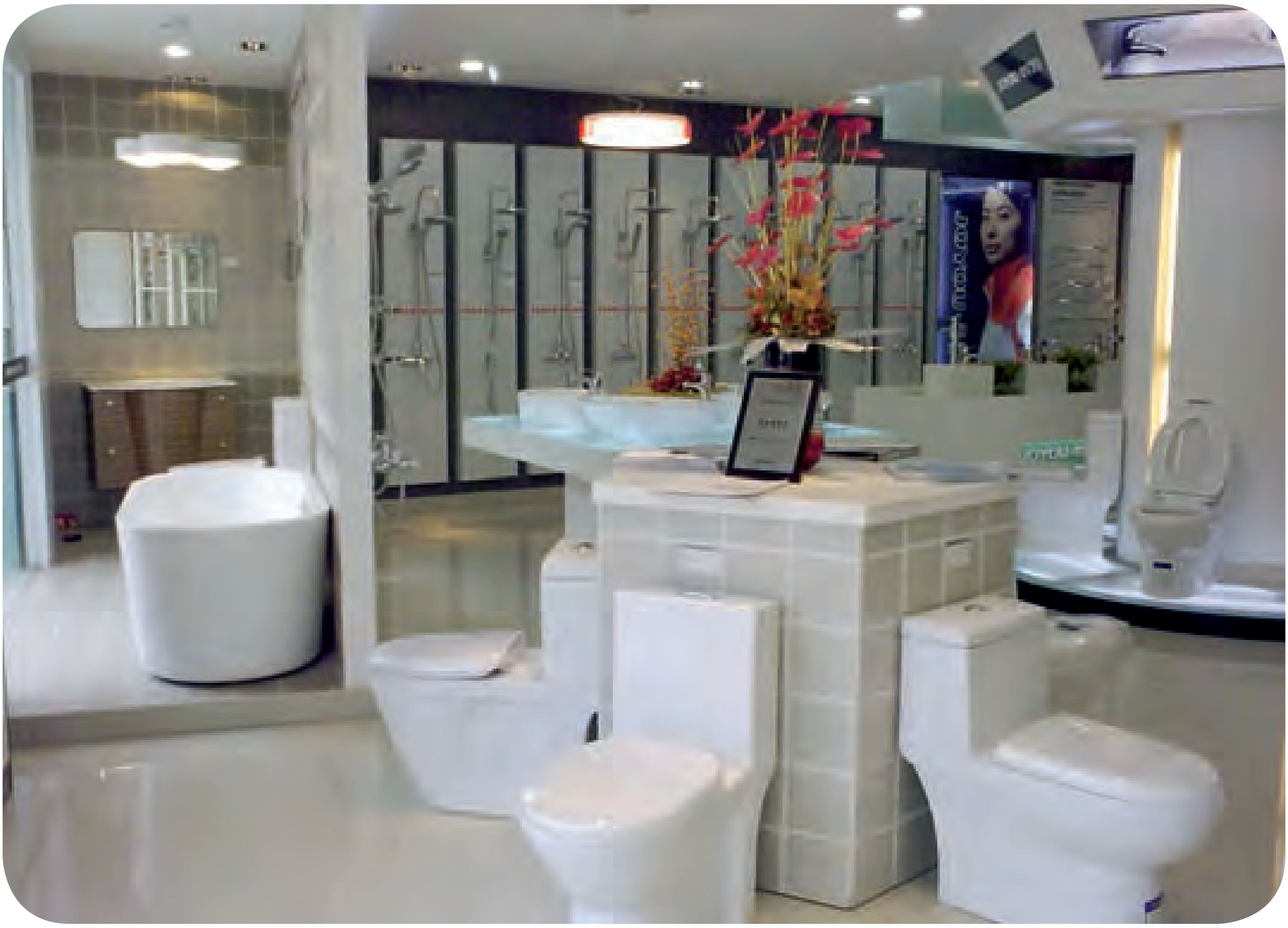
In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. 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.

Cologne, 11 March 2009

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz Wirtschaftsprüfer (German certified auditor)	Ralf Clemens Wirtschaftsprüfer (German certified auditor)


JOYOU



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