JOYOU

中宇卫浴

Our People. Our Growth.

Annual Report 2010

Group Key Data

kEUR	2010	2009
Sales revenues	246,625	172,327
Cost of sales	-178,094	-125,366
Gross profit	**68,531**	**46,961**
Other operating income	1,581	500
Selling and distribution expenses	-16,304	-6,224
Administrative expenses	-8,575	-2,077
Other operating expenses	-1,481	-206
Operating profit	**43,752**	**38,954**
Finance income	7,347	454
Finance costs	-8,234	-8,762
Profit before income tax	**42,865**	**30,646**
Adjusted profit before income tax[1]	**46,912**	**36,119**
Income tax	-9,687	-8,384
Profit for the period	33,178	22,262
Selected financial position data		
Total assets	339,504	185,958
Total liabilities	96,435	120,104
Total equity	243,069	65,854
Selected cash flow data		
Cash flow from (used in) operating activities	19,340	-17,687
Cash flow used in investing activities	-20,214	-8,748
Cash flow from financing activities	74,758	49,902
Cash and cash equivalents at the end of period	113,181	34,291
Other selected financial data		
Gross profit margin[2]	27.8%	27.3%
Adjusted EBITDA[3]	47,775	41,434
Adjusted EBITDA margin[4]	19.4%	24.0%
EBIT[5]	43,752	38,954
EBIT margin[6]	17.74%	22.60%
Number of employees[7]	2,244	1,684
Number of stores	3,596	2,527

[1] Adjusted for one-off non-cash interest expenses resulting from the IFRS account treatment of preferred shares issued before the IPO
[2] Gross profit margin is calculated as gross profit divided by revenues times 100
[3] Adjusted EBITDA is calculated as net income less interest income plus interest expense plus tax expenses plus depreciation and amortization plus expenses from lease prepayments on land-use rights in the PRC
[4] Adjusted EBITDA divided by revenues times 100
[5] EBIT is calculated as net income less interest income plus interest expense plus tax expenses less tax refundable
[6] EBIT margin is EBIT divided by revenues times 100
[7] Own employees including contract workers and trainees

Company Statement

Joyou is a leading designer, manufacturer, and marketer of faucets and other sanitary ware products in China. Under the Joyou brand name, we offer a comprehensive range of high-quality, design lead products.

Our corporate vision is to become the leading branded bathroom solution supplier in China, with a significant share of the global market in many of our respective product segments.

Our People. Our Growth.

We invest in our people because they play an important role for the success of the company. The following pages give an impression of how the employees of Joyou AG work together.

Content

Highlights of the Year 2010

January

- *National Joyou Distributor Conference in Quanzhou, with 2,000 distributors attending*
- *Joyou sponsors the Pan-China Celebrity Show with CCTV, with a live audience of 40,000 people*

March

- *Joyou is successfully listed in Prime Standard of the Frankfurt Stock Exchange*

April

- *Jilin CAI, Joyou's COO, is honored as one of the Top Ten Outstanding Young Businessmen in China*

May

- *Joyou is granted a preferential tax treatment in China of 15% as opposed to the standard rate of 25%*
- *Joyou and Grohe jointly exhibit at the 15th China International Kitchen & Bathroom Facilities Fair*
- *Joyou is awarded the Advanced Water-Saving Technology R&D Certificate*

June

- *Joyou hosts "SAVING WATER IN CHINA" with Tianjin Water Saving Management Center*

July

- *Jilin CAI, Joyou's COO, is awarded the "Golden Tripod Marketing Award" for Outstanding Marketing in China*
- *Joyou holds its 2010 Joyou Sanitation After-Sale Service Training Session with distributors*

August

- *Joyou sponsors the 2nd Chinese Real Estate Developer Procurement Commission Forum & Forum for Chinese Low-Carbon Construction Brands*
- *Joyou formally launches "Joyou Water-Saving Campaign for 10,000 Households" and "Golden Toilet" Prize for Chinese Water-Saving Sanitary Products*
- *Joyou is awarded "Golden Partner Prize" for Real Estate Engineering Procurement in China*

September

- *Joyou announces plan to acquire a galvanization plant and to double current capacity*

October

- *Joyou Sanitary Products take part in ASEAN Expo for 3rd time*

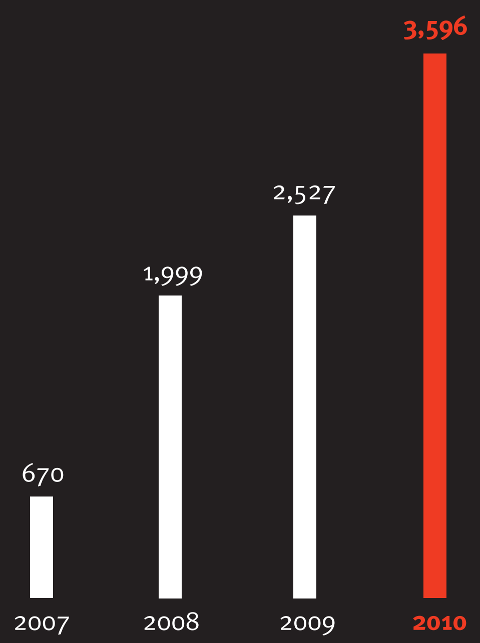
November

- *Joyou announces that it will greenfield new plant to produce its ceramics products*

Facts

- Sales growth of 43% to EUR 246.6 million
- Net profit increase by 49% to EUR 33.2 million
- Opened more than 1,000 new retail points of sales
- 2,244 employees

Number of Stores 2007-2010



Our Products

Our core business is to design, produce and sell products for a complete bathroom solution. We offer a large variety of high quality products, most of which are sold under the brand name “Joyou”.

Bathroom Faucets
include basin faucets, bathtub faucets, bidet faucets, and sensor faucets.

Kitchen Products
include kitchen faucets, basin faucets and kitchen basins.

Shower Products
mainly include shower faucets, shower heads, and shower enclosures.

Ceramics and Bathtubs
mainly comprise ceramic sanitary ware such as wash basins and toilets, as well as bathtubs.

Bathroom Cabinets
mainly include free standing and wall-hung cabinets.

Bathroom Accessories
mainly comprise baskets, soap trays, rook hooks, corner shelves and toilet paper holders.

Other Faucets and Sanitary Hardware
mainly comprise small faucets, drainage covers, angle valves, and crude products.

Copper and Semi-Finished Components
mainly include unfinished products such as copper tubing and accessories.

Grohe Business
covers commission sales gained from Asian Product Lines for which Joyou is the master China distributor. These products mainly include shower faucets, shower heads, basin faucets, and bathtub faucets. All of these products are purchased from Grohe.

Jianshe CAI, CEO Joyou AG

Letter to our Shareholders

Dear Fellow Shareholders,

I am proud to present the first annual report of Joyou as a listed company. For Joyou and the management team, 2010 was a very successful and exciting year of strong growth.

With sales of EUR 246.6 million, representing a growth rate of 43%, we beat our own target and also grew faster than the Chinese sanitary ware market. This reinforces our position as the market leader in China. In the faucet market segment we managed to further increase our market share to more than 11%.

The strong sales growth reflects the substantial expansion of our distribution network. This was the main area of investment in 2010. In just one year we opened more than 1,000 stores across China. As of December 2010 our retail network comprised 3,596 Joyou branded stores and 143 Grohe branded stores. Including Grohe branded stores, that was an overall increase of 48%.

The dynamic expansion of our retail network and our brand-building strategy were associated with increased spending on store openings and marketing. As a result, operating income could not keep full pace with the sales increase. Our EBIT for the year 2010 grew by 12.3% to EUR 43.7 million, representing an EBIT margin of 17.7%. Our Gross Margin increased from 27.3% to 27.8%, despite significant increases in copper prices, and our Net Profit grew from EUR 22,3 million to EUR 33,2 million which was an increase of 49%, after we were awarded a preferential tax rate for being a high-tech enterprise.

In addition to the highlights just stated, we also made progress in other areas:

- In March 2010 we made our debut on the Frankfurt Stock Exchange. The successful IPO on the Prime Standard significantly strengthened our equity base.
- In September 2010 we began the acquisition of a galvanization plant to nearly triple our galvanization capacity.
- In November 2010 we began to set up a new plant for ceramic sanitary ware products, such as basins, toilets, and similar ceramic products. This will expand our product portfolio by bringing in-house the ceramics manufacturing capability and enhance quality and cost control.

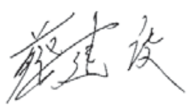
The new ceramics plant is an important part of our product strategy and our vision. Our goal is to become a full bathroom solutions provider.

In 2010 we intensified our partnership with Grohe. We opened Grohe branded retail stores and initiated extensive expansion of the project business. I see even more potential for the partnership with Grohe to support the dynamic growth of Joyou in the years to come. The main benefits will come from leveraging the international sales channel of Grohe and the project business. We expect to be further involved in many forms of technology and skill transfer and may even see a co-operation where Joyou becomes a supplier of components for Grohe.

Joyou's strategic partner Grohe has via its subsidiary Grohe Asia AG published a voluntary takeover offer for the shares in Joyou AG on 28 March 2011 and will, after completion of the takeover offer, presumably increase its shareholding in Joyou AG to more than 30%. We are very happy to have the global industry leader as a strategic anchor investor in our company. This will clearly contribute to the success of Joyou in the mid and long-term.

As the major shareholder I do support the strategic partnership with Grohe, but I do not intend to sell any share in this tender offer. Joyou AG's Management Board and Supervisory Board have published a joint statement on the takeover offer on Monday, 11 April 2011 which is accessible via Joyou's website at http:// www.joyou.de.

For the outstanding accomplishment in 2010, I would like to extend my heartfelt thanks to all employees. I am very confident that we can further exploit the opportunities of the growing sanitary ware market in China.



Mr. Jianshe CAI
CEO
Joyou AG

Management Board

Mr. Jianshe CAI

CEO and Chairman of the Company's Management Board

Mr. Jianshe CAI is the Chairman of the Company's Management Board (Vorstandsvorsitzender). He is responsible for strategic planning, overall management as well as procurement, production, research and development, human resources and logistics. He started his career in 1971 as sales manager in three Chinese north east provinces and the Hu'nan province. In 1979, he set up a family-owned faucet factory. In 1983 he founded Fuxin Sanitary Ware Factory and worked as its Director until 1990. Mr. Jianshe CAI became majority shareholder after restructuring from a rural collectively-owned enterprise to a limited liability company with the name Fujian Joyou Group Co., Ltd. in 2003. After restructuring into Joyou Building Materials Group Co., Ltd. he became President of the Group.

In 2001, Mr. Jianshe CAI was awarded the title "Best Entrepreneur, Fujian". In 2003, he was elected Vice Chairman, in 2005, Chairman of Fujian Sanitary Ware and Valve Industry Association, Fujian. He was also elected Deputy Chairman of the Sanitary Ware Association of China and Chairman of the Furniture & Decoration Chamber of Commerce (DFDCC). In that year he was also awarded the title "Man of the Year" of the China Sanitary Ware Industry by the Government of the PRC.

Over the last five years, Mr. Jianshe CAI has not served as member of administrative, management or supervisory bodies of any entities or held other comparable positions on domestic or foreign control committees outside Joyou nor is he currently holding any such position.

Mr. Jilin CAI

Chief Operating Officer (COO) and Chief Marketing Officer (CMO)

Mr. Jilin CAI is responsible for Joyou's marketing, sales, and after sales service as the Company's Chief Operating Officer (COO) and Chief Marketing Officer (CMO). He received his major in Business Administration from the Fujian Normal University in 1997 and started his professional career as Executive Manager of Joyou Building Materials Group in 1997. In the same year he became Assistant President, in 2005, Vice-CEO and in 2006 Vice-President of Joyou Building Materials Group. In 2007, he was invited as Chief Entrepreneur of the U.S.-China Alliance. In 2007, he was elected Deputy Secretary General of Fujian Sanitary Ware and Valve Industry Association. In 2008, he was elected Chairman of the Water Heating Section of the Chinese Hardware Industry Association.

Over the last five years, Mr. Jilin CAI has not served as member of administrative, management or supervisory bodies of any entities or held other comparable positions on domestic or foreign control committees outside Joyou nor is he currently holding any such position.

Mr. Gang ZHENG
Chief Financial Officer (CFO)

Mr. Gang ZHENG is the Company's Chief Financial Officer (CFO) with responsibilities for taxation, controlling, investors' relations, and risk management. Mr. Gang ZHENG is also responsible for financial planning, as well as financial reporting, in particular, communication of financial performance and guidance to the analyst community. Mr. Gang ZHENG worked and studied in the United States of America for approximately seven years. He received an MBA from Columbia University in New York and afterwards worked for General Motors as Senior Financial Analyst. Later he worked for Delphi Automotive Systems as Finance Manager and after that for Asia Pacific, also as Finance Manager. Back in China, Mr. Gang ZHENG held office at W. R. Grace, a specialty chemical company, as Director for Mergers and Acquisitions in China (2005 until 2007). Before Mr. Gang ZHENG went to study in the U.S., he received a Bachelor of Science from Xiamen (Amoy) University in Industrial Management in 1992 and worked at the China International Trust and Investment Corporation as an associate in investment banking from 1996 until 1997.

Over the last five years, Mr. Gang ZHENG has been a member of the administrative, management and supervisory bodies of the following companies: Shanghai Agile InfoTech Co., Ltd., Shanghai Cross Media Co., Ltd., Shanghai Advision Media Co., Ltd. and Sichuan Hua Ding Energy Co., Ltd.

Mr. Zufang LI
Chief Accounting Officer (CAO)

Mr. Zufang LI is the Company's Chief Accounting Officer (CAO). He is responsible for accounting and record-keeping, as well as for managing the financial department. Mr. Zufang LI has longstanding accounting experience and has been working for Joyou as Financial Manager since 1991.

Mr. Zufang LI received full time school education in Quanzhou since 1977 in financial accounting. In 1986 he received an associate degree in finance from Fujian Radio and Television University. From 1979 until December 1990 Mr. Zufang LI worked in the accounting departments of various industrial corporations in the Fujian Province (July 1979 until July 1980: Nan'an Shishan Town Co., Ltd.; August 1980 until December 1983: Nan'an Nanshun Electronics Co., Ltd.; January 1984 until March 1984 Nan'an Yifeng Paper Co.; April 1984 until December 1985: Nan'an Jiutian Umbrella Co.; January 1986 until December 1987: Nan'an Wah Hing Umbrella Co.; January 1988 until December 1990: Xiamen Minghe Industrial Corporation). In 1991 Mr. Zufang LI commenced his office as Financial Manager at Joyou Sanitation Technology, a post which he has held since then. In 1997, Mr. Zufang LI was awarded the title of accountant by the Fujian Department of Personnel.

Over the last five years, Mr. Zufang LI has not served as member of administrative, management or supervisory bodies of any entities or held other comparable positions on domestic or foreign control committees outside Joyou nor is he currently holding any such position.

Report of the Supervisory Board

The Supervisory Board of Joyou AG fulfilled its duties with due care as prescribed by law, the articles of incorporation, rules of procedure (Geschäftsordnung) and the German Corporate Governance Code in the financial year 2010, Joyou AG's first year as a listed company.

The Management Board reported to the Supervisory Board, both verbally and in writing, regarding the development of business and the situation of the Company including the Company's financial situation and monthly sales figures. A significant amount of time and discussion was spent on the explanation of reporting requirements and the installation of a monthly reporting system.

All events of importance to the Company were discussed in detail by the full Supervisory Board on the basis of reports and presentations by the Management Board. The Supervisory Board resolved upon matters put to its vote after careful examination and discussion. The Supervisory Board was also in contact with the Management Board outside the regularly scheduled Supervisory Board meetings. In particular, the Chairman of the Supervisory Board discussed important topics in separate meetings with the Management Board and Chairman of the Management Board.

Members of the Supervisory Board – Changes in the Boards

The members of Joyou AG's Supervisory Board are Dr. Rainer SIMON (Chairman), Mr. Johnny CHEN (Deputy Chairman) and Mr. Wei WANG.

The Supervisory Board members Mr. Jianshe CAI and Mr. Ho Tan LI resigned from their offices with effect after the end of the General Meeting of Shareholders on 15 March 2010, which appointed Dr. Rainer SIMON and Mr. Wei WANG as new members of the Supervisory Board. In its subsequent meeting on 16 March 2010, the Supervisory Board appointed Dr. Rainer SIMON as Chairman and Mr. Johnny CHEN as Deputy Chairman of the Supervisory Board.

Otherwise, no changes occurred in the Supervisory Board or Management Board of the Company in 2010.

Important Matters in 2010

The Supervisory Board discussed the business situation, the operational and strategic development of the Company and its areas of business in five meetings, both face to face and by way of telephone conferences, in 2010. In addition, various resolutions were taken by way of written votes. The first months of the financial year 2010 were largely influenced by Joyou AG's preparations for its IPO at the Frankfurt Stock Exchange, which took place on 30 March 2010.

In its resolution of 29 January 2010, the Supervisory Board, inter alia, adopted revised Rules of Procedure (Geschäftsordnungen) for the Management Board and Supervisory Board.

In its meeting of 14 March 2010, the Supervisory Board discussed and resolved upon, inter alia, the Financial Statements and the Consolidated Financial Statements, as well as the dependency report according to § 312 of the German Stock Corporations Act for the previous year, as prepared by the Management Board. The meeting also discussed and ratified the Supervisory Board's report to the Annual General Meeting and took other preparatory votes for the Annual General Meeting.

In its meeting on 19 March 2010, the Supervisory Board approved the corporate restructuring which took place before Joyou AG's IPO, by which various private equity investment companies contributed their shares in Joyou's intermediate holding company in Hong Kong to Joyou AG. For this purpose, a post-formation examination report prepared in respect to this restructuring (Nachgründungsbericht) was approved by the Supervisory Board.

By resolutions of 23 March 2010 and 26 March 2010, the Supervisory Board approved the Price Range Agreement and Pricing Agreement, respectively, by which the Price Range and final Offer Price for Joyou AG's IPO were agreed upon by the Company, its existing shareholders, and the underwriting banks.

By resolution of 27 March 2010, the Supervisory Board approved the cash capital increase of Joyou AG for the purpose of its IPO by EUR 7,000,000.00 to EUR 23,967,492.00 and amended the Articles of Association according to the new amount of share capital.

By resolution of 8 April 2010, the Supervisory Board approved an intercompany loan, by which most of Joyou AG's IPO proceeds were transfered to its intermediate holding company in Hong Kong as an intercompany loan.

In its first regular meeting after the IPO, which took place on 13 April 2010 at Joyou's headquarters in Nan'an, Fujian Province, in China, the Supervisory Board and Management Board made a debriefing of Joyou's successful IPO in Frankfurt and discussed the further business strategy for 2010.

In its meeting in Beijing on 18 August 2010, the Supervisory Board and Management Board reviewed Joyou's business and financial development in the first half of 2010, in particular development of revenues, margins, new product lines, financing of the Group, and the development of Joyou's cooperation with Grohe. The Supervisory Board and Management Board also discussed various investment proposals and strategies. In the same meeting, the Supervisory Board granted sole power of representation (Einzelvertretungsbefugnis) to Mr. Jilin CAI, Joyou's Chief Operating Officer, and son of Joyou's CEO, Mr. Jianshe CAI. Mr. Jilin CAI was also appointed to be Deputy Chairman of the Management Board (stellvertretender Vorstandsvorsitzender).

In a telephone conference convened on 24 September 2010, the Supervisory Board discussed with the Management Board the proposed acquisition of Yongsheng Galvanization Industrial Co. Ltd., a galvanization plant in the Shui Tou Galvanization Industry Park in Nan'an, Fujian Province. The proposed acquisition was approved by the Supervisory Board, which was published also by way of an ad-hoc notice at the same day.

In its meeting on 17 November 2010 in Nan'an, the Supervisory Board reviewed business and financial developments of Joyou Group based on reports presented by management. The Supervisory Board also discussed business and corporate strategy with the Management Board. In particular, Joyou's investment in a new plant for ceramic sanitary ware products, such as basins, toilets, and similar ceramic products was discussed with management. The Supervisory Board approved the project in principle, however, requested that the Management Board monitor the further progress of the project carefully. In the same meeting, the Supervisory Board and Management Board discussed the provisions of the German Corporate Governance Code in preparation for Joyou AG's first declaration of compliance (Entsprechenserklärung) under § 161 of the German Stock Corporation Act.

Committees

The Supervisory Board has not established any committees.

Audit of the Individual and Consolidated Financial Statements and the Dependency Report

The Financial Statements of Joyou AG were prepared according to the requirements of the German Commercial Code and Stock Corporation Act. The Consolidated Financial Statements of the Joyou Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRS). The Management Report and the Group Management Report of Joyou AG were prepared according to the German Commercial Code. Additionally, a report on the relations to affiliated enterprises ("Abhängigkeitsbericht"; "Dependency Report") was prepared in accordance with § 312 of the German Stock Corporation Act. According to the Dependency Report, based on the circumstances known to the Management Board at the time when the transactions were entered into, Joyou has received adequate consideration in each transaction described in the report. There have not been any reportable measures during the reporting period.

Joyou's auditor, Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Cologne, ("Grant Thornton") has audited the Financial Statements and the Management Report of Joyou AG and the Consolidated Financial Statements and the Group Management Report of the Joyou Group. The conduct of the audit is explained in the auditor's reports. The auditor finds that Joyou has complied, as appropriate, with the German Commercial Code, the German Stock Corporation Act and/or the International Financial Reporting Standards endorsed by the European Union, and issued an unqualified opinion on the Financial Statements and the Management Report of Joyou AG and the Consolidated Financial Statements and the Group Management Report of the Joyou Group. Furthermore, Grant Thornton has audited the Dependency Report and issued an unqualified opinion on it.

The Financial Statements and the Management Report of Joyou AG, the Consolidated Financial Statements and the Group Management Report of the Joyou Group, the dependency report and the respective audit reports were submitted to all members of the Supervisory Board. They were thoroughly discussed and examined in detail at a plenary meeting of the Supervisory Board on 19 April 2010. The auditor was present during the discussions and submitted a report on the key findings of the audit and was available to supply any supplementary information. The Supervisory Board monitored the independence of the auditor before and during the audit.

The Supervisory Board has examined the Financial Statements and the Management Report of Joyou AG, the Consolidated Financial Statements and the Group Management Report of the Joyou Group and the Dependency Report. The Supervisory Board found no objections, thus the Supervisory Board concurs with the result of the audits. The Supervisory Board has approved the Financial Statements of Joyou AG and the Consolidated Financial Statements of the Joyou Group prepared by the Management Board. The Financial Statements of Joyou AG and Consolidated Financial Statements of Joyou Group were thus confirmed. The Supervisory Board is in agreement with the Management Report and the Group Management Report and, in particular, with the assessment of the future development of the enterprise.

As no retained profits ("Bilanzgewinn") are disclosed in Joyou AG's Financial Statements according to German Commercial Code, the Supervisory Board does not make a proposal to the Annual General Meeting with respect to the use of profits.

The Supervisory Board thanks the members of the Management Board and all employees for their personal contribution and cooperation in the financial year 2010.

Dr. Rainer SIMON
Chairman of the Supervisory Board
Frankfurt, 19 April 2011

Members of the Supervisory Board

Dr. Rainer SIMON

Chairman of the Supervisory Board

Dr. Rainer SIMON studied Business Administration at the University of St. Gallen in Switzerland and graduated in 1976. He obtained his doctorate degree from the University of St. Gallen in 1979. His professional career started at Continental AG, Hanover, Germany, where he worked from 1979 until 1990, first as a Marketing Manager in Lyndhurst, NJ. U.S., later as Vice President Marketing and Managing Director of Continental AG's subsidiary Vergölst GmbH. From 1991 until 1993, Dr. SIMON was Managing Director of the Marketing and Sales division of Keiper-Recaro in Kaiserslautern, Germany. In 1993, he returned to Continental AG, where he was appointed Senior Vice President Europe Tires and Dealerships until 1995. From 1995 until March 2002, Dr. SIMON was a member of the Management Board of Friedrich Grohe AG, Hemer, and from April 2002 until June 2004, Dr. SIMON was a member of Grohe AG's Supervisory Board. From April 2002 until April 2005, he was President and CEO of Sanitec International AG in Hamburg and Sanitec Corporation, Helsinki, Finland. Since April 2005, Dr. SIMON has been the owner and Managing Director of BirchCourt GmbH, a management and M&A consultancy.

Mr. Johnny CHEN

Deputy Chairman of the Supervisor Board

Mr. CHEN received a Bachelor of Science in Chemical Analysis from Eastern China Normal University in Shanghai in 1985 and a Master of Science in the same subject from Indiana University, U.S. in 1990. He graduated with an MBA from UC Irvine Business School in 1996. From 1990 to 1996, Mr. CHEN was an engineer at the Pfizer Inc. Southern California Plant. In 1997, he was a co-founder of an investment group in California, U.S., and conducted joint ventures with Chinese hospitals in the United States. Since 2003 until 2010 Mr. CHEN was the co-founder of Fortune China Financial Services Limited, a financial advisory firm in Shanghai, and is currently the co-founder and director of Shanghai Zhong Hui Financial Advisory Co., Ltd. Mr. CHEN has been a guest lecturer at the School of Economics, Jiaotong University and Fudan University.

Mr. Wei WANG

Member of the Supervisory Board

Mr. WANG is the Deputy Secretary of the China Building Ceramics and Sanitary Ware Association, a position for which he was elected for a term of office of five years on 19 November 2008. Mr. WANG studied mechanical engineering at Beijing Union University from which he received a Bachelor of Engineering. From July 1985 to June 1987, Mr. WANG was a technician in the technical department of Beijing Building Hardware & Finishing Company.

Since June 1987 until the present, Mr. WANG has worked for the Beijing Hardware & Plumbing Equipment Quality Supervision and Test Station. Since May 1999, he has additionally held the office of Director at the National Building Material Industry Hardware and Plumbing Equipment and Quality Supervision and Test Center. Since May 2007 until the present, Mr. WANG has been Deputy General Manager of Beijing Building Material Testing Center Company. Since November 2002 until the present, he has been Deputy Secretary, Executive Chairman and Secretary General of Sanitary Fitting Subcommittee of China Building Ceramics & Sanitary Ware Association. Since November 2008 until the present, Mr. WANG has been Deputy Secretary of China Building Ceramics & Sanitary Ware Association.

The Share

Stock market listing of Joyou AG

Joyou AG shares began trading in the Prime Standard of the Frankfurt Securities Exchange on 30 March 2010. The first quotation of EUR 14.75 exceeded the issue price of EUR 13.00. The placement totaled 8,050,000 shares, including 7,000,000 shares from a capital increase against cash contributions and 1,050,000 shares from a greenshoe option. The total offering proceeds amounted to EUR 105 million. The shares of Joyou AG are traded on the Xetra electronic trading system of Deutsche Börse AG.

Development of the German Stock Market

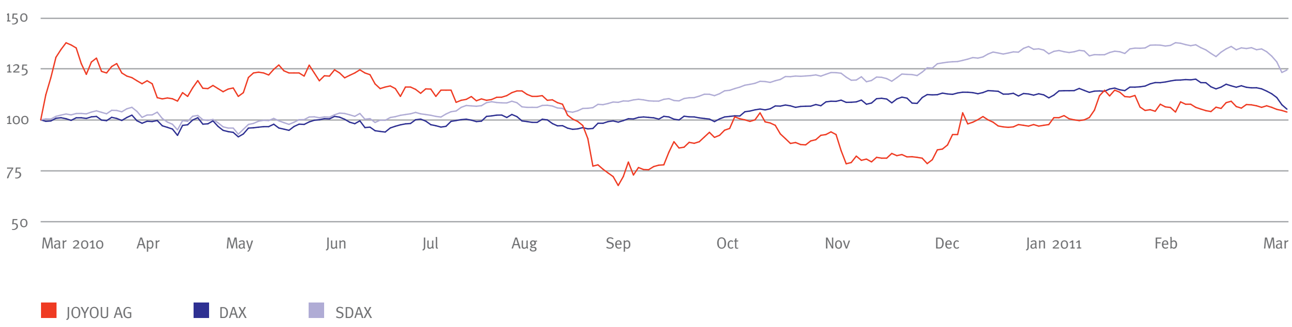
The German share market trended very positively in the past financial year. Although the Stock Exchanges experienced some degree of volatility over the course of the year due to the widening of the debt crisis in some EU Member States, this was able to at least be curbed by EU measures. The SDAX rose by 45.8% as of 30/12/2010 compared to 30/12/2009. The DAX exceeded the 6,000 point mark in 2010 and at year's end reached 7,000 points for the first time in over two years. The mood of investors was positive, driven by the encouraging development of the global economy.

Development of Joyou Shares

Overall, Joyou AG shares were stable for the year since its listing. On 30 March 2010, the first day of trading, the initial stock price at EUR 14.75 exceeded the issue price. The closing price on the first trading day was EUR 14.60. The stock hit its low to date on September 7, at a price of EUR 8.80. It recovered in subsequent weeks, rising to EUR 13.45 in mid-October. After the adjustment of expected earnings on 9 November 2010, the stock drifted down toward the EUR 10.00 mark, and stabilized again in December. The closing price on 31 December 2010, was EUR 12.65.

At the start of 2011, the price trended positively and rose to EUR 14.90. On 14 February 2011, Grohe Asia AG, a wholly-owned subsidiary of Grohe Holding GmbH, announced a takeover bid at EUR 13.50 per share. The takeover bid was published on 28 March 2011. The major shareholders and members of the Management Board of Joyou AG, Jilin CAI and Jianshe CAI, plan to contribute their shares to Grohe Asia AG in exchange for the issue of new shares. Thus they will remain major shareholders and are seeking a long-term partnership with Grohe Holding GmbH.

Share Performance



Investor Relations

In the run-up to the listing in the Prime Standard of the Frankfurt Stock Exchange, the Management Board held numerous meetings with potential investors as part of an international roadshow. After the successful listing, additional international investor roadshows were organized in Europe and the U.S. Joyou AG introduced itself at major events such as capital market conferences (e.g. Commerzbank General Industries Conference, Münchner Kapitalmarkt Konferenz, German Equity Forum) and sought contact with investors and analysts there. In the 2010 financial year, the company maintained a continuous flow of communication, and provided information to investors, analysts and media about important events and news.

All reports and publications are published on the company's website at www.joyou.de.

Analyst Coverage

The Joyou stock was evaluated by four institutions in 2010: China International Capital Corporation Ltd. (CICC), Macquarie, WestLB and DZ Bank. As at year end, the ratings stood at "buy". In January 2011, Merrill Lynch rated the Joyou AG stock a "buy" with a target price of EUR 18.00.

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Frankfurt Stock Exchange

Corporate Governance Report

(including Corporate Governance Statement)

Joyou AG is committed to the principles of good and responsible Corporate Governance and focused on responsible long-term value creation. The Management Board and Supervisory Board appreciate the trust of Joyou's shareholders, clients and employees and in their interest cooperate closely, faithfully, and constructively. The cooperation between the two boards is characterized by open communication and discussion on all matters submitted to them, as well as due care in relation to accounting, audit and risk management.

The Supervisory Board and Management Board of Joyou AG explicitly support the German Corporate Governance Code and the objectives proposed by the German Corporate Governance Code.

In accordance with Item 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code, the Corporate Governance Report of Joyou AG includes the Corporate Governance Statement (Erklärung zur Unternehmensführung) of the Company.

1 Shareholders and General Meeting

The shareholders exercise their rights and voting rights at the General Shareholder's Meeting. According to the statutory provisions and the Articles of Association, the Annual General Meeting takes place within the first eight months of each financial year. Each share grants one vote in the General Shareholders Meeting. There are neither shares conferring multiple voting rights nor limited voting rights nor are there preference shares. The shareholders are entitled to exercise their voting rights in the General Shareholders Meetings in person or by proxy, for which they can authorize a representative of their choice or a company-nominated proxy acting on their instructions. The invitation for the Annual General Meetings as well as invitations for all other General Shareholder's Meetings will include provisions on the attendance, the procedure pertaining to the exercise of voting rights (in person or by proxy) as well as the rights of the shareholders. All reports and documents which are legally required to be made available for General Shareholder's Meetings, including the annual report, will be published on the Company's website at www.joyou.de together with the agenda.

2 Management Board

The members of the Management Board are appointed by the Supervisory Board. The Management Board is responsible for the executive management of the Company. The Management Board sets out the strategic goals, the business strategy and the Group's policy and organization. This includes the management and investment policy pertaining to the financial resources, the development of personnel strategy, the engagement of key employees and the presentation of Joyou Group to the capital market and the public domain.

The Management Board of Joyou AG comprises four members. The current members of the Management Board are Mr. Jianshe CAI (Chairman and Chief Executive Officer), Mr. Jilin CAI (Deputy Chairman and Chief Operating Officer), Mr. Gang ZHENG (Chief Financial Officer) and Mr. Zufang LI (Chief Accounting Officer).

The Company has entered into a D&O insurance for its members of the Management Board which are in line with the statutory requirements of Section 93 Para. 2 Sentence 3 of the German Stock Corporation Act.

Details pertaining to the remuneration of the members of the Management Board for the financial year 2010 can be found in the Remuneration Report in the Group Management Report.

The members of the Management Board are obliged to disclose potential conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. The following cases of potential conflicts of interest of Management Board members occurred in the financial year 2010:

- Conflicts of interest may arise from the shareholdings of Mr. Jianshe CAI and Mr. Jilin CAI in Joyou AG as set out in the Section 5 Directors' Shareholdings and Directors' Dealings.
- Potential conflicts of interest may arise from Joyou's business relationship with Nan'an Longsheng Science and Technology Industry Co., Ltd, which was one of Joyou's major suppliers of showerheads in the financial year 2010, and which is 65% owned by Ms. Jiangping ZHOU, the wife of Mr. Jilin CAI. This and other transactions between Joyou and other related parties are disclosed in section 27 of the Notes to the Consolidated Financial Statements – Related party disclosures.

I have worked in this industry for over 20 years, and believe that high quality in combination with quick time to market is the best strategy for success.

Mr. Roy LAI, International Sales and his team

Mr. Jilin CAI, Chief Operating Officer (COO) and Chief Marketing Officer (CMO)

3 Supervisory Board

The task of the Supervisory Board is above all to control and advise the Management Board. The Supervisory Board is furthermore responsible for the appointment of the members of the Management Board, the determination of their remuneration as well as the review and approval of the annual Financial Statements of the Company. In addition, the Supervisory Board is responsible for deciding upon business transactions which require the prior consent of the Supervisory Board.

The Supervisory Board is composed in accordance with Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz/AktG) and consists of three members. The current members of the Supervisory Board are Dr. Rainer SIMON (Chairman), Mr. Johnny CHEN (Deputy Chairman), and Mr. Wei WANG.

Due to its limited size with only three members, the Supervisory Board has not established any committees.

The Company has entered into a D&O insurance for the members of its Supervisory Board. The D&O insurance for Supervisory Board members does not contain a deductible (Selbstbehalt) for the Supervisory Board members.

Details pertaining to the remuneration of the members of the Supervisory Board for the financial year 2010 can be found in the Remuneration Report in the Group Management Report.

The members of the Supervisory Board are obliged to disclose potential conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. The following cases of potential conflicts of interest of Supervisory Board members occurred in the financial year 2010:

- Conflicts of interest may arise from the indirect shareholdings of Mr. Johnny CHEN in Joyou AG as set out in the Section 5 Directors' Shareholdings and Directors' Dealings.

4 Corporate Governance Statement

The Corporate Governance Statement in accordance with Section 289a of the German Commercial Code includes (1) the declaration of compliance in accordance with Section 161 of the German Stock Corporation Act, (2) relevant disclosures relating to Corporate Governance practices, (3) a description of the workings of the Management Board and Supervisory Board, including, (4) the composition and workings of their committees.

4.1 Compliance Statement

The Compliance Statement (Entsprechenserklärung) in accordance with Section 161 of the German Stock Corporation Act which was jointly issued by the Management Board and the Supervisory Board has been made permanently available on the Company's website: http://www.joyou.de.

4.2 Corporate Governance Practices

- Corporate Compliance: Compliance, i.e. measures to ensure adherence to statutory provisions, internal statutes and Company policies and observance of these measures and rules by affiliated companies, is a key management duty. The Company has developed internal rules as well as a code of conduct through which any employee of the Company itself and/or its affiliated entities is obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis on fully complying with both German and Chinese statutory legal provisions and conventions.
- Risk Management: Good Corporate Governance includes dealing responsibly with risks. The Management Board keeps the Supervisory Board regularly informed about existing risks and their development. At the time before its IPO in March 2010, Joyou did not have a formal risk management system in place and only small legal, finance and accounting departments at that time. Consequently, in the business year 2010 Joyou has only started developing and implementing an early risk detection system as defined under Section 91 Paragraph 2 of the German Stock Corporation Act as part of a broader risk management system. The Supervisory Board monitors the accounting process, the effectiveness of internal controls and the risk management system currently being implemented as well as monitoring the auditing of the (Consolidated) Financial Statements and the (Group) Management Report. The internal controls are continuously evolved and adapted to changing conditions as will be the risk management system.
- Availability of Documents on Corporate Governance Practices: The Articles of Association (Satzung) of Joyou AG as well as the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act are available on its website (www.joyou.de).

4.3 Cooperation between Management Board and Supervisory Board

In accordance with statutory requirements, Joyou AG has a so-called two-tier governance system which is characterized by the Management Board and the Supervisory Board being two separate and independent corporate bodies. The Management Board is responsible for managing the Company, developing the Company's strategy, agreeing upon this strategy with the Supervisory Board and implementing it. The Supervisory Board supervises and advises the Management Board and is directly involved in decisions which are of fundamental importance for the Company and, therefore, require the prior approval of the Supervisory Board.

The Management Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the sustainable creation of value. The internal rules of procedure within the Management Board and Supervisory Board, as well as the cooperation between the two boards, are laid out in detail in the Company's rules of procedure for the Supervisory Board and rules of procedure for the Management Board.

The Management Board provides the Supervisory Board with regular reports and updates on business policy and all issues of relevance for the Company relating to the planning, business development, the risk situation and the risk management system currently being implemented. The Management Board also reports about compliance, i.e. the implemented means through which adherence to statutory provisions and Joyou's internal statutes is ensured.

The Management Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for Joyou Group. This information includes the intended business policy, the Group's profitability, recent development of the business activities and the financial and economic status of the Company, business planning, the actual risk situation, compliance and status of implementation of the risk management system. The Management Board must immediately inform the Chairman of the Supervisory Board on matters of major importance.

For certain business transactions and measures as more specifically set forth in the rules of procedure for the Management Board, the Management Board must obtain the Supervisory Board's prior approval.

4.4 Committees

Due to its limited size of only three members, the Supervisory Board has not established any committees.

5 Directors' Shareholdings and Directors' Dealings

As at 31 December 2010, the members of Joyou's Management Board and Supervisory Board had the following direct or indirect shareholdings in the Company:

Name	Function	Shareholding vehicle	Number of shares	Percentage of shares
Jianshe CAI	CEO	shares are held directly	8,300,000	34.6%
Jilin CAI	COO	shares are held directly	400,000	1.7%

Mr. Johnny CHEN held 50% of the shares in Prime Standard Holdings, which holds approx. 0.4% of the shares in Joyou AG, but he disposed on 27 September 2010, and since then he has neither directly nor indirectly held any shares in Joyou AG.

According to Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz), the members of the Management Board and the Supervisory Board and/or persons close to them are obliged to disclose the purchase and sale of Joyou AG shares and related financial instruments whenever the value of such transaction amounts to EUR 5,000 or more within a calendar year. For the financial year 2010 Joyou AG has not been notified of any such transactions.

6 Accounting and Auditing

Joyou AG prepares its annual Individual Financial Statements and the Management Report in accordance with the German generally accepted accounting principles and the statutory provisions of the German Commercial Code (Handelsgesetzbuch/HGB) and supplementary provisions of the Articles of Association. The annual Individual Financial Statements of Joyou AG are the sole basis for profit distributions.

The annual Consolidated Financial Statements and the Group Management Report are prepared in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 German Commercial Code. The interim financial reporting consisting of condensed interim Consolidated Financial Statements (semi-annual and quarterly reports) in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim Group Management Report in accordance with the requirements of the German Securities Trading Act applicable to interim Group Management Reports are prepared in accordance with Sections 37w, 37x Para 3, 37y of the German Securities Trading Act (Wertpapierhandelsgesetz/WpHG) and Section 66 of the Exchange Rules of the Frankfurt Stock Exchange.

The annual Individual and Consolidated Financial Statements are prepared by the Management Board and audited by an independent auditor appointed by the Annual General Meeting. For the financial year 2010, Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Cologne, has been appointed as auditor by the Annual General Meeting on 15 March 2010. Thereafter, the auditor has been engaged by the Chairman of the Supervisory Board on behalf of Joyou AG. Furthermore, the independent auditor was engaged to review the three condensed interim Consolidated Financial Statements and the interim Group Management Reports published in 2010 in accordance with the German generally accepted standards for the review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). The Supervisory Board has agreed with the independent auditor that the Chairman of the Supervisory Board would be informed immediately of any grounds for disqualification or impartiality occurring during the audit or reviews, unless such grounds are eliminated immediately, and that the independent auditor would report immediately on any findings or occurrences during the audit which have a significant bearing on the duties of the Supervisory Board. It was also agreed that the independent auditor would inform the Supervisory Board or make a note in the audit report of any facts ascertained during their examination that conflict with the Declaration of Conformity issued by the Management Board and Supervisory Board pursuant to § 161 of the German Stock Corporation Act.

The Supervisory Board examines and approves the annual Individual Financial Statements and the Management Report as well as the annual Consolidated Financial Statements and the Group Management Report. The independent auditor takes part in the Supervisory Board's deliberations on the annual Individual Financial Statements and Consolidated Financial Statements and reports on the essential results of its audit.

7 Transparency

Our investors and shareholders as well as the interested public are provided with information on Joyou AG and Joyou Group as well as on major business events particularly through financial reports (annual reports and interim reports), analyst meetings and conferences, annual press conference, press releases, ad-hoc notifications as well as other notifications required by law. All this information is published in German and English. In addition, our shareholders are provided with respective information at the Annual General Meeting and all other General Shareholders Meetings. The Financial Statements, ad hoc releases and notifications on directors' dealings as well as press releases can also be viewed on the Company's website at www.joyou.de.

Group Management Report

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Group Management Report

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). Joyou AG's shares are traded on the Prime Standard, a segment of the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange. The first day of trading of Joyou's shares occurred on 30 March 2010.

Joyou Hong Kong, a directly owned subsidiary of Joyou AG, is an intermediate holding company for three legal entities located in Nan'an City, Quanzhou, Fujian Province, People's Republic of China ("China" or "PRC"), 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.

2 Business and Operating Environment

2.1 Overall Economic Development

The global economy recovered from the recession in 2010. Around the world, the Gross Domestic Product (GDP) showed strong growth of 4%. While the emerging economies registered an increase of around 7%, the industrial countries exceeded the prior-year level by about 2.5%. A major growth driver was the very expansive money and fiscal policies adopted by individual countries. On an international level, consumer confidence recovered quickly.

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. In 2010 China's total nominal GDP replaced Japan's as the world's second largest economy after the United States of America. Despite being affected by the worldwide financial crisis and an average inflation rate of 3%, China's GDP continued its growth by 9.8% in 2010 year on year to USD 3,989 per capita representing one of the highest GDP growth rates worldwide.

China's gross domestic product is now over USD 5 trillion. The excess liquidity pumped in by the Chinese government in response to the financial crisis is still having its ramification. According to data of the People's Bank of China, Chinese banks granted USD 1.2 trillion of RMB-denominated new loans in 2010, with China's broad money supply (M2), which covers cash in circulation and all deposits, jumping 19.7% year on year to RMB 72.58 trillion at the end of 2010.

China's consumer price index (CPI) grew by approx. 3.3% in 2010. The CPI hit a high of plus 5.1% in November 2010 and rose by 4.6% in December, according to a Bloomberg survey. In addition, with an estimated USD 2.6 trillion in foreign exchange reserves, the RMB was under tremendous pressure to an exchange rate adjustment. During the year under review, the RMB appreciated against the EUR and the USD by 10.8% and 3.6% respectively, and depreciated against the AUD by 9.3%.

During 2010, the Chinese Central Bank raised the base interest rate twice to 5.81% as of 31 December 2010 (31 December 2009: 5.31%). In addition, China raised the bar for a minimum requirement for bank reserve, effectively taking EUR 350 billion liquidity out of the financial system.

China's sustainable historic GDP growth was accompanied by rising income levels in particular for urban residents. During the period from 2001 to 2010, the disposable income per capita of Chinese urban residents increased by 6.5% annually to RMB 19,109 which indicates the great power of Chinese consumers 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 urbanization will be the major driver for China's continued GDP growth over the next two decades.

Economic growth, increasing disposable incomes, growth of the Chinese population, the urbanization process and the demand for increasing per capita floor space are all major factors contributing to a rapid development of China's building and construction industry. In 2009 the area of national real estate sales reached 937,130,000 square meters, an increase of 42.1% (no information about 2010 available at the time of publication of this report). Across China and more so in first tier cities, such as Beijing, Shanghai and Guangzhou, the government started to make an effort to build more affordable houses, which helps the sales of middle- and low-end bathroom products.

The plan is to supply 10 million units of affordable houses to be implemented throughout 2011, which represents a 72% increase on the 2010 figure of 5.8 million units of affordable social housing. These houses will be a large potential market for bathroom products in the middle price segment.

Property developers are now shifting their focus to second, third or even fourth tier market. In the future, second, third and fourth tier cities are forecasted as potential markets for sanitary ware. According to BSRIA (a UK research and consultancy association), in 2010, the floor space of buildings under construction showed an increase of 29% on 2009 figures.

In April 2010 the State Council introduced a series of property market restriction policies which were aimed at eliminating a looming housing price bubble, however, they only achieved a modest effect by the end of 2010. The State Council stepped up the pressure by adopting more powerful financial and administrative policies including much higher down payment requirements, increased mortgage rates, prohibition on mortgages on 3rd apartment ownership, and more importantly, for the first time in history the levy of a property tax, as well as serious implementation of holding officials accountable for construction of public and affordable housing projects.

2.2 Development of the Chinese Sanitary Ware Industry

2.2.1 Market Development

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 strongly depends on consumer preferences which are influenced by changes in income levels caused by general economic growth, and, in particular, the growth of the Chinese GDP.

While housing prices and consumer prices rise, water prices have come in the focus of people's daily life. As the most populous country, China is also one of the most water-scarce countries, owning only 6% of the global water resources. Furthermore, China's water resource per capita equals only 200 cubic meters, which equals only one fourth of the world average. Therefore, water-consuming sanitary ware products sell well not only by reducing water costs but also by saving scarce national water resources.

In 2010, government policies to restrict speculative property market behavior put pressure on the sales of bathroom products in the commercial project sector; sales, however remained buoyant regardless of these measures. An emerging, third market segment, the so-called economically affordable housing market, surprisingly increased by more than the commercial buildings market for the first time in history. Domestic suppliers of sanitary ware will continue to significantly benefit from this development.

In 2010, China has become the largest market for not only the production but also the consumption of sanitary ware products, commanding 30% of world sales in sanitary ware and 35% of sanitary ware accessories. Overall value of the Chinese Sanitary Ware Market, which comprises of faucets, ceramics and bathtubs, was at EUR 2,673 million in 2010, a 22.7% growth over EUR 2,177 million in 2009, with volumes increasing to 103.5 million units sold in 2010 vs. 98.7 million unit sold in 2009. This indicates that price increases contributed significantly to the overall growth as a result of a general shift in the market to higher quality and more expensive products.

The production facilities and processes employed meet major international quality and environmental standards.

Shots from around the Luncang Facility and the new Meiyu Facility

Market Trends

Several trends have become more prevalent in the market landscape in 2010 and years to come. These include:

Inflationary pressure and volatile commodity price – China's producer price index (PPI), a major measure of inflation at the wholesale level, rose by 5.5% in 2010, according to the Chinese National Bureau of Statistics (NBS). As the result of the response to the world financial crisis in 2008 and 2009, an enormous liquidity package was released to the economy which made real interest rates effectively negative and asset as well as commodity prices rise in 2010.

Increase in labor cost – Labor shortage across China led to rising labor costs.

Technology and Product Offering – Sanitary ware product with technology content such as thermostatic shower systems, water-saving technology, and products with digital control functionality are becoming increasingly important in order to obtain market share and increased sales, especially in the coastal and economically advanced regions. Being able to sell a large product variety means having the opportunity to increase sales with less marginal cost.

Brand power – The ability to establish a strong brand brings along a convincing value proposition to customers which has increasingly become important to grow sales.

Increased competition and consolidation – The level of competition has intensified as traditional export players enter the domestic market and top tier foreign competitors realign their strategies and enter into the lower tier cities. Consolidation will continue as weaker competitors are driven out of the market or acquired.

Providing Solutions – In the mid-range segment, market trends are shifting toward purchasing the whole bathroom suite from one brand while in the upper-high segment, fitting the room with diverse brands is still the most common practice. This trend means that brands will try to offer a comprehensive bathroom solution.

Faucets

According to the BSRIA's "China Bathroom Study" 2011 , 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 RMB 8.858 billion (EUR 984.2 million) in 2010, an increase of 7% from RMB 8.279 billion (EUR 867.8 million) in 2009 (measured in EUR terms this corresponds to a 13% market value increase). The volume of faucets sold in 2010 was 48,329 thousand, compared to 46,027 thousand 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's "China Bathroom Study" 2011 , the value of ceramic and non-ceramic sanitary ware sold increased from RMB 8.577 billion (EUR 899 million) in 2009 by 23% to RMB 10.574 billion (EUR 1,174.9 million) in 2010 (measured in EUR terms this corresponds to a 32% market value increase).

Bathtubs

Finally, the market for bathtubs represents the smallest segment of the entire sanitary ware market in China. It does not have growth rates similar to the faucet segment. The segment is subdivided into the categories bathtubs and hydro massage baths. In 2010, total sales accounted for RMB 4,622 billion (EUR 513.6 million), compared to RMB 3,917 billion (EUR 410.6 million) in 2009, equating to a growth rate of 18% (measured in EUR terms this corresponds to a 25% market value increase).

2.2.2 Market Competition

Although there are no dominant players in the Chinese sanitary ware market, key players with a strong brand name enjoy entrenched market positions. Global brands continue dominating the luxury and high-end market segment with domestic brands occupying middle and lower-end market segments.

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.

The top five players in the faucet segment hold 37.1% of the market in 2010, which is 0.2% lower than 37.3% in 2009.

Group	Brand	Country	Value (in EUR million)	Market share 2010 in %
Joyou	Joyou	China	116.1	11.8
Jomoo	Jomoo	China	65.9	6.7
Toto	Toto	Japan	63.0	6.4
Sunlot	Sunlot	China	61.0	6.2
Kohler	Kohler	USA	59.1	6.0
Grohe	Grohe	Germany	49.2	5.0
Fortune Brand	Moen	USA	47.2	4.8
Masco Corp.	Hansgrohe	Germany	40.4	4.1
INAX	AS	Japan	30.5	3.1
Roca	Roca	Spain	22.6	2.3
Minpo Corp.	Delong	China	14.8	1.5
Other			414.4	42.1
Total			**984.2**	**100.0**

Source BSRIA's "China Bathroom Study" 2011

According to the estimate put forward by BSRIA, Joyou's market share in 2010 for taps and mixers (faucets) was 11.8% in value of the taps and mixers sold, which is slightly higher than 11.5% in 2009 and 8.1% in 2008. Joyou's market share in 2010 for sanitary ware was 1.8%, a 0.5% increase from 1.3% in 2009, and was unranked in 2008. Joyou's share of the bathtub sector grew by 800% to 0.4% of the market share in 2010 from 0.05% in 2009.

2.2.3 Distribution Channels

The distribution network plays an essential role in selling bathroom sanitary ware products across China. Although there are some forms of direct selling to property developers or commercial projects, the service provided is usually in cooperation with the distribution network. Distributors are divided into two groups: regional distributors and sub-distributors. Regional distributors only sell the brand they represent.

The retail distribution channel in China is unique in its own nature compared to the distribution network in Western countries where the "do-it-yourself"-markets (DIY) and installer channels make up the majority of sales. Both channels represent only a small part of distribution in China.

There are six types of retail distribution channels which vary significantly in their market relevance:

Decoration malls: These are decoration material shopping malls usually located in larger cities that sell everything from sanitary ware to sofas with competing brand segments from high- to mid-level.

Decoration markets: located in less densely populated urban areas and serve mid- to lower-level brands.

Online shopping: As Chinese consumers have quickly adopted the eCommerce concept, online shopping is gaining momentum. The products sold through this channel are usually standardized and easier for installation with ease for express delivery.

Installer or decoration: products distributed through installer are usually sold from mid- to high-end brands. In sum, this channel is seen as either unreliable or unaffordable but that perception is slowly changing.

DIY store: Different from the situation in large parts of Europe, the share of DIY shops (such as B&Q, OBI) in China is relatively small due to consumer purchasing behavior.

Hardware stores: These stores are scattered around street corners in residential areas and sell a large variety of lower value merchandises ranging from faucets to mail boxes and light bulbs. They typically sell products without brands.

2.3 Development of Joyou

Frankfurt Stock Exchange Listing

With a successful initial public offering at the Prime Standard of the Regulated Market (Registrierter Markt) of the Frankfurt Stock Exchange in March 2010, Joyou has achieved a strategic milestone in its development and becomes one of the first Chinese sanitary ware companies publicly listed outside of China and the first to be listed on the regulated market in Germany. The listing provides Joyou not only with the capability to tap vast resources of a capital market, but also with a brand-building opportunity, new-found business relationships, product and technology resources, and the ability to grow faster and stronger in a fragmented market that is growing fast and consolidating.

Growth in Market Share

According to BSRIA's "China Bathroom Study" 2011 , Joyou is still the leading single-brand manufacturers of bathroom, kitchen and other faucets in China in terms of revenues and market share. The statistics indicate that Joyou has expanded its market share to 11.8% as of the end of 2010, having grown from 11.5% at the end of 2009, and 8.1% at the end of 2008, which Joyou believes reaffirms its unique market positioning and business strategy.

The year 2010 was characterized by a number of key initiatives that are instrumental and critical for the years to come. These include:

Mr. Ke CHEN, Grohe Sales and his team


Design

Mr. Tiansheng ZENG, Quality Control

Expansion of Distribution Channels
To capitalize on the momentum following an IPO, Joyou embarked on an accelerated store opening initiative. As a result of the continuously high level of openings, Joyou has expanded its sales network by an additional 1,069 stores in 2010. Year-on-year, this represents a growth rate of 42.3% for the sales network but 102% for the number of new shops added year-on-year. The company has achieved a higher than expected number of new store openings and has reached more than the full year target of 1,000 new stores.

Most of the new outlets have been opened in small and medium-sized Chinese cities (tier 3 and tier 4) as they show the greatest growth potential with the largest majority of Chinese citizens living in these cities. About 70% of the new outlets are exclusive stores, selling only Joyou branded products. This is in line with the company's strategy of focusing growth on smaller and medium-sized locations and strengthening the Joyou brand. In 2010, Joyou opened a total of 39 new flagship stores which is also an important part of strengthening the Joyou brand, and an integral part of the overall retail marketing strategy.

Marketing and Brand-Building Activities
A long-lasting, strong brand is essential in the segment in which Joyou has chosen to compete. Joyou has positioned itself as a mass premium sanitary ware product producer that offers quality, service, and increasingly lifestyle.

Focused marketing campaigns and advertising activities are usually carried out during store openings to achieve the desired level of brand awareness. These campaigns usually include regional TV and outdoor billboard advertising, limited product promotion, and sponsored events to associate the Joyou brand with 'sports' and a 'low carbon lifestyle', thereby portraying a more modern, active lifestyle. Throughout 2010, various marketing events were hosted around store opening events across China.

In January Joyou sponsored a "Pan China Celebrity Performance Show" which was broadcasted live by CCTV, reaching an estimated 300 million Chinese TV viewers. More than a dozen Chinese household-name entertainment celebrities from China, Hong Kong and Taiwan were invited and together staged a live broadcast event with an audience of more than 40,000 people.

As part of the B2B brand-building activities within the sanitary ware sector in China, Joyou Group participated in the 15th China International Kitchen & Bath Show in May 2010 and occupied a spacious, 400-square-meter booth. During the show, several well attended brand-building activities were held, such as the guest appearance of Guo Jingjing, Joyou's brand ambassador. It was also used to showcase Joyou's commitment to "Water Saving Technology" through demonstration of Joyou's extensive water saving product portfolio. Another focus was on the commitment to low-carbon emissions and environmental protection, both of which will be the key factors in Joyou's future development. The purpose of such marketing activities is to reaffirm Joyou's leading market position and to grow Joyou's brand equity.

Strategic Alliance with Developers
With a growing brand, recognized first class quality and an expanding store network, together with being the master distributor of the Grohe Asian product range, Joyou started capitalizing on these advantages by forming a strategic alliance with a number of real estate developers. As the property market becomes more competitive, commercial property developers are looking for bathroom and kitchen products with not only price and quality but also supplier capability and brand strength to satisfy increasingly selective customers. This step into the hotel, shopping mall, and premium residential project markets will allow Joyou to capture this under-served market.

In October 2010, Joyou was awarded the "Golden Partner Prize" in the 2nd Innovation Forum for Real Estate Engineering Procurement. This forum is a purchasing alliance among the nation's top 100 real estate developer and is a key platform for demonstrating Joyou's product superiority and company strength.

In December 2010, Joyou opened its 1,200 sqm (13,000 sqft) projects exhibition office in Beijing, which showcases both Joyou and Grohe products. Beijing was chosen because a large concentration of property developers have their head offices in Beijing.

Acquisition Galvanization Facilities
The local government has ceased issuing new galvanization licenses and seriously curtailed expansion of current galvanization lines. Due to increased production needs, Joyou's current galvanization capacities are insufficient to meet expected future demand.

In September 2010, Joyou's Management Board was granted the approval of the Supervisory Board to acquire a 100% stake in Quanzhou Yongsheng Galvanization Industrial Co. Ltd., ("Yongsheng Galvanization") a galvanization plant in the Shui Tou Galvanization Industry Park in Nan'an, Fujian Province. The galvanization plant was established in March 2010 in the Shui Tou Galvanization Industrial Park, a government controlled and centralised galvanization facility set up to tackle environmental issues related to the galvanization process. The total investment in the acquisition will be EUR 12.2 million (RMB 106 million), and a prepayment of EUR 4.347 million has been paid by the end of the year under review. As planned, Joyou will invest parts of the proceeds of its IPO in order to expand the capacity of existing galvanization lines. The Yongsheng Galvanization currently has a capacity of some 46 million pieces per year compared to Joyou's current facility of 25 million pieces per year. The acquisition will take longer than planned due to unanticipated government registration processes in regard to changes in ownership of the galvanization license, but this is expected to be completed in Q2 2011.

Preferential Tax Status in China

Joyou Sanitary Technology and Joyou Building Materials were granted a preferential income tax treatment of 15%, reduced from 25%, by the Tax Bureau of China for a three-year period, as a result of its high-tech company status recognized by the Fujian Provincial Science Bureau. The preferential tax status will take effect retroactively starting from 1 January 2010 and is renewable as long as the companies maintain the criteria required for high-tech status.

Expansion of Product Mix

Continuously broadening the product mix and providing all customer needs for bathroom products and accessories are the essential drivers underpinning Joyou's growth. The introduction of new products into the distribution channel will effectively increase per square meter sales at diminishing marginal cost. These products include shower enclosures, a wider selection of bathtubs and also bathroom cabinets.

Joyou's Supervisory Board approved the investment and construction of a ceramics plant. The construction will take around 6–8 months and the first batch of products will be delivered to the market in mid 2011. During Q3 2010, trial stage production of some non-ceramics products including bathroom cabinets and shower enclosures were brought in-house to complement existing bathroom products.

The initiative to bring various non-ceramics bathroom product production in-house will not only significantly expand Joyou's product mix and profitability, it also provides the possibility to offer full bathroom solutions to the customers.

Grohe Business Relationship

In 2009, Joyou signed an exclusive distribution agreement with Grohe for the distribution of the Grohe Asian Product line. During 2010, great progress was made with this partnership, and Joyou opened a total of 143 Grohe branded stores in China to distribute this product range.

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.

3 Results of Operations, Financial Position and Net Assets

3.1 General Statement on Business Development

In financial year 2010, Joyou achieved better financial results than expected. The company increased its sales in 2010 by 43% year on year to a total of EUR 246.6 million (2009: EUR 172.3 million). During the period under review there was a 10.8% appreciation of the RMB to EUR. Adjusted for this currency effect, sales growth would have been 35%.

Operating income (EBIT) for full year 2010 increased by 12.3% to EUR 43.7 million, representing an EBIT margin of 17.7%. Net income grew at a higher rate of 49% to EUR 33.2 million in 2010 mainly due to EBIT and finance income increase, and obtaining a preferential income tax rate. The average price of copper, which makes up 51.8% of costs of sales in 2010, increased to EUR 4,796 (USD 6,403) per metric ton compared to 2009 levels of EUR 3,449 (USD 4,811) per metric ton.

With these results, Joyou exceeds both the guidance on full year 2010 sales of EUR 230 million to EUR 240 million and the revised guidance on EBIT of EUR 40 million to EUR 42 million.

The strong sales growth reflects the substantial expansion of the distribution network and the company's increased spending on marketing. In 2010, Joyou opened more than 1,000 stores. As of December 2010 the retail network comprised 3,596 Joyou branded stores and 143 Grohe branded stores.

3.2 Results of Operations

In order to present the 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 2010 together with the consolidated income statement for the year ended 31 December 2009.

The table also presents the results of operations as a percentage of revenue for the periods under review.

We operate one of the most advanced facilities in this industry in China. Our main Luncang facility was only completed in 2008.

Mr. Mengzhao ZHENG, Production and workers

Mr. Junhai HOU, R&D

	1 Jan. to 31 Dec. 2010		1 Jan. to 31 Dec. 2009		Variance	
	kEUR	%	kEUR	%	kEUR	%
Sales revenues	**246,625**	**100**	**172,327**	**100**	**74,298**	**43**
Cost of sales	-178,094	-72	-125,366	-73	-52,728	42
Gross profit	**68,531**	**28**	**46,961**	**27**	**21,570**	**46**
Other operating income	1,581	1	500	0	1,081	216
Selling and distribution expenses	-16,304	-7	-6,224	-4	-10,080	162
Administrative expenses	-8,575	-3	-2,077	-1	-6,498	313
Other operating expenses	-1,481	-1	-206	0	-1,275	619
EBIT	**43,752**	**18**	**38,954**	**22**	**4,798**	**12**
Financial results	-887	0	-8,308	-5	7,421	-89
EBT	**42,865**	**17**	**30,646**	**18**	**12,219**	**40**
Taxes on profit	-9,687	-4	-8,384	-5	-1,303	16
Profit	**33,178**	**13**	**22,262**	**13**	**10,916**	**49**

3.2.1 Revenues

Revenues are generated from the sale of Bathroom Faucets, Kitchen Products, Shower Products, Ceramics and Bathtubs, Bathroom Cabinets, Bathroom Accessories, Other Faucets and Sanitary Hardware and Components and Copper Semi-Finished products as well as – from 2010 – merchandise products from Grohe. Most of Joyou's revenues are generated through its own brand business (domestic sales) and its OEM/ODM business (export sales).

Revenues increased from kEUR 172,327 in the year ended 31 December 2009 by kEUR 74,298, or 43%, to kEUR 246,625 in the year ended 31 December 2010. This increase resulted from an increase in all sales volumes, mainly in respect of Bathroom Faucets, Shower Products as well as Ceramics and Bathtubs.

Increases refer mainly to the following movements in sales: The sale of Bathroom Faucets increased by kEUR 24,214 (a 29% increase over the year ended 31 December 2009), Shower Products by kEUR 16,766 (a 79% increase over the year ended 31 December 2009) and Ceramics and Bathtubs increased by kEUR 10,094 (a 166% increase over the year ended 31 December 2009).

3.2.2 Cost of Sales

Cost of sales comprise the costs of purchasing copper, zinc, other metals, 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 or merchandise 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 the total cost of sales for each category:

	1 Jan. to 31 Dec. 2010		1 Jan. to 31 Dec. 2009		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper[1]	92,297	51.8	68,737	54.8	23,560	34.3
Outsourced products	29,233	16.4	19,704	15.7	9,529	48.4
Other parts[2]	16,568	9.3	10,127	8.1	6,441	63.6
Other metals	11,651	6.5	5,321	4.2	6,330	119.0
Overheads/Other[3]	10,542	5.9	7,474	6.0	3,068	41.0
Zinc	9,092	5.1	9,053	7.2	39	0.4
Labor costs	5,755	3.2	2,475	2.0	3,280	132.5
Depreciation	2,956	1.7	2,475	2.0	481	19.4
Cost of sales	**178,094**	**100.0**	**125,366**	**100.0**	**52,728**	**42.1**

[1] Including certain semi-finished copper based products sourced from external manufacturers. In 2009, a 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 expensing of lease prepayments on land-use rights for land being used for production.

Cost of sales increased from kEUR 125,366 in the year ended 31 December 2009 by kEUR 52,728, to kEUR 178,094 in the year ended 31 December 2010. The increase in cost of sales in the year ended 31 December 2010 resulted mainly from an increase in sales.

3.2.3 Gross Margin

For the year ended 31 December 2010, the gross margin amounts to 27.8% and has slightly increased compared to 27.3% for the year ended 31 December 2009. This was the result of changes in the product mix, both within segment categories and also across product categories as well as an increase in Average Sale Prices (ASPs).

3.2.4 Selling and Distribution Expenses

Selling and distribution expenses comprise marketing costs and store refurbishments, and other 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 6,224 in the year ended 31 December 2009 by kEUR 10,080, or 162%, to kEUR 16,304 in the year ended 31 December 2010.

This increase resulted primarily from the growth of Joyou's operations, mainly its increased retail distribution network and marketing expenses associated with strengthening the brand to cover a larger number of product categories. Compared to 2009, selling and distribution expenses increased from 3.6% to 6.6% of sales revenues in 2010.

3.2.5 Administrative Expenses

Administrative expenses mainly comprise, among others, salaries of management and other employees with administrative functions (including social insurance payments), travel expenses and allowances for bad debts, and costs associated with running a publicly traded company such as audit, legal, investor relations and associated consultants.

Administrative expenses increased from kEUR 2,077 in the year ended 31 December 2009 by kEUR 6,498, or 313%, to kEUR 8,575 in the year ended 31 December 2010. The changes in administrative expenses are principally attributable to an increase in administrative salaries, travel costs, third party service providers and consulting fees. The increase is mainly caused by additional requirements to the Group due to the stock listing in March 2010. Compared to 2009, administration expenses increased from 1.2% to 3.5% of sales revenues in 2010.

3.2.6 Other Operating Income and Expenses

Other operating income increased from kEUR 500 in the year ended 31 December 2009 by kEUR 1,081 or 216%, to kEUR 1,581 in the year ended 31 December 2010. The increase is mainly attributable to a reimbursement of kEUR 829 of advisor fees in accordance with the IPO by a shareholder. Apart from this, government grants has slightly increased.

Other operating expenses increased from kEUR 206 in the year ended 31 December 2009 by kEUR 1,275 to kEUR 1,481. These variances primarily resulted from expenses on consulting fees for the Greenshoe shareholders and land-use rights, on which the new ceramics factory is under construction, and expenses on investment property.

3.2.7 Finance Result

Finance result comprises finance income less finance expenses. Finance income comprises interest income on bank deposits and foreign exchange gains. Finance costs comprise interest expenses on preferred shares (until conversion in March 2010), bank loans, exchange losses and bank charges on notes receivables provided by customers to Joyou.

Finance income increased from kEUR 454 in the year ended 31 December 2009 by kEUR 6,893 to kEUR 7,347 in the year ended 31 December 2010. This increase resulted mainly (kEUR +2,245) from deposits of IPO proceeds in short-term bank deposits in Australian Dollars. The IPO proceeds are kept on bank accounts outside China until Joyou receives the authorization by the government to transfer these funds to the operating entities for certified investment activities. These transactions in foreign currency exchange mainly from RMB to Australian Dollars and vice versa lead to an increase of exchange gains by kEUR 4,889. Bank deposits in the PRC are partially used as collateral for banks that issue letters of credit and bank notes for Joyou.

Finance costs decreased from kEUR 8,762 in the year ended 31 December 2009 by kEUR 528 to kEUR 8,234 in the year ended 31 December 2010. This decrease in comparison to previous year resulted primarily from the conversion of preferred shares into ordinary shares in March 2010 (kEUR -1,464). The preferred shares issued by Joyou Hong Kong are recorded under the accounting treatment of the preferred shares as a financial liability. More details can be found in Section 3.4.4 of this Group Management Report. This decrease is partially offset by an increase in interest on short-term bank loans (kEUR +902) and exchange losses (kEUR 383).

3.2.8 Taxes on Profit

Taxes on profit increased from kEUR 8,384 in the year ended 31 December 2009 by kEUR 1,303, or 16%, to kEUR 9,687 in the year ended 31 December 2010. This increase is under-proportionate to the increase in profit. Two of Joyou's operational entities received a preferential tax status as high tech enterprises for a period of three years, starting on 1 January 2010, which reduces the income tax rate for them in China from 25% in the year ended 31 December 2009 to 15% in the year ended 31 December 2010.

3.2.9 Earnings

	1 Jan. to 31 Dec. 2010		1 Jan. to 31 Dec. 2009		Variance	
	kEUR	**%**	kEUR	%	kEUR	%
EBIT	**43,752**		**38,954**		**4,798**	**12.3**
Depreciation and amortization	3,476		2,238		1,238	55.3
EBITDA	**47,228**		**41,192**		**6,036**	**14.7**
Expenses on lease prepayments on land-use rights	547		242		305	126.0
Adjusted EBITDA	**47,775**		**41,434**		**6,341**	**15.3**
EBT	**42,865**	**91.4**	**30,646**	**84.8**	**12,219**	**39.9**
Interest on preferred shares (now converted into equity)	4,047	8.6	5,473	15.2	-1,426	-26.1
Adjusted EBT	**46,912**	**100.0**	**36,119**	**100.0**	**10,793**	**29.9**

Mr. Yudong WU, Administration

Our headcount and operations are expanding in line with our overall development strategy. My role is one of active integrative support, to ensure the administration systems are in place that can be scaled to accommodate future growth.

Mr. Ian M. OADES, Head of Investor Relations with a client

Joyou is such a great place to work. There is always so much going on, so much substantial news to report. I have spent the best part of 20 years in China, which really helps me understand and communicate our progress and strategy to interested parties in Europe and around the world.

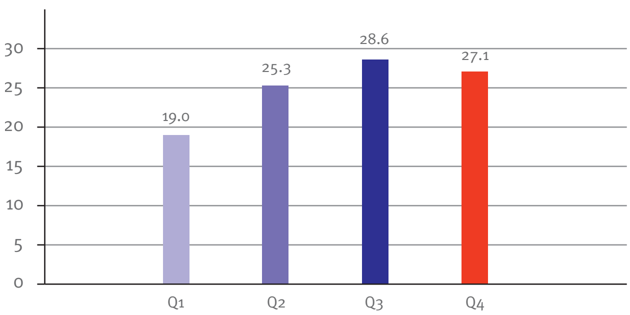
Investor Relations is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other stakeholders.

As mentioned in the prospectus on the IPO, the Management Board and Supervisory Board will not propose a dividend payment for the 2010 financial year.

3.2.10 Seasonality in Business

Having completed the 3rd full business year after starting to establish an extensive distribution network in China in the summer of 2007, it appears that Joyou's business is, to a certain degree, subject to the effects of seasonality. Sales generally decrease in the first quarter of a year but increase in the second quarter, with the third quarter and the beginning of the fourth quarter being the strongest period in terms of revenues. This is mainly due to the Chinese New Year Holiday, the exact date of which is ruled by the lunar calendar, which inevitably falls in Q1. This week long festival, coupled with the winter weather leads to a slow down in the business cycle. In financial year 2010, 17.8% of full year sales were realized in Q1.

Seasonal Average of 3 Years of Sales in %



3.3 Financial Position

kEUR	1 Jan. to 31 Dec. 2010	1 Jan. to 31 Dec. 2009	Variance
Cash flow from operating activities	19,340	-17,687	37,027
Cash flow from investing activities	-20,214	-8,748	-11,466
Cash flow from financing activities	74,758	49,902	24,856
Changes in cash and cash equivalents	73,884	23,467	50,417
Cash and cash equivalents at the start of the reporting period	34,291	11,762	22,529
Currency translation differences	5,006	-938	5,944
Cash and cash equivalents at the end of the reporting period	**113,181**	**34,291**	**78,890**

Net cash generated from operating activities increased from kEUR -17,687 in the year ended 31 December 2009 by kEUR 37,027, or 209%, to kEUR 19,340 in the year ended 31 December 2010. The increase was mainly attributable to a significant decrease of kEUR 20,420 in additional working capital and increased profit situation.

Cash flow used in investing activities increased from kEUR 8,748 in the year ended 31 December 2009 by kEUR 11,466, or 131%, to kEUR 20,214 in the year ended 31 December 2010. This increase is mainly attributable to new investments in a ceramics factory and new production lines as well as a deposit payment for a galvanization plant to be aquired.

Finally, cash flow from financing activities increased from kEUR 49,902 in the year ended 31 December 2009 by kEUR 24,856, or 49%, to kEUR 74,758 in the year ended 31 December 2010. In 2010, Joyou received proceeds from the IPO of kEUR 91,000 (less transaction costs of kEUR 6,691). Furthermore, Joyou was able to repay short-term bank loans of kEUR 5,364. In the comparative period, Joyou's cash flow from financing activity was influenced by proceeds from debt financing, especially by preferred shares of kEUR 31,528 issued by Joyou Hong Kong and bank loans of kEUR 22,898.

Joyou is required to deposit cash with certain banks to serve as collateral, mainly for letters of credit and notes payable. This so-called "restricted cash" may not be used in the ordinary course of business of these companies. Restricted cash as at 31 December 2009 and 2010 was kEUR 22,009 and kEUR 7,428 respectively.

3.4 Net Assets

The asset and capital structure developed as follows: the balance sheet total increased from kEUR 185,958 by kEUR 153,546 to kEUR 339,504. This rise is principally attributable to an increase in trade receivables, inventories and property, plant and equipment as well as cash and cash equivalents financed by the proceeds from the issuance of new shares and the profit for the year.

	31 Dec. 2010		31 Dec. 2009		Variance	
	kEUR	%	kEUR	%	kEUR	%
ASSETS						
Intangible assets	315	0	44	0	271	616
Property, plant and equipment	56,860	17	38,155	21	18,705	49
Investment property	2,066	1	1,962	1	104	5
Lease prepayments for land-use rights	24,003	7	22,014	12	1,989	9
Deferred tax assets	426	0	1,404	1	-978	-70
Non-current assets	**83,670**	**25**	**63,579**	**34**	**20,091**	**32**
Inventories	65,303	19	22,679	12	42,624	188
Trade receivables	55,349	16	41,348	22	14,001	34
Other receivables and prepayments	20,866	6	23,484	13	-2,618	-11
Amounts due from related parties	1,135	0	577	0	558	97
Cash and cash equivalents	113,181	34	34,291	18	78,890	230
Current assets	**255,834**	**75**	**122,379**	**66**	**133,455**	**109**
Total assets	339,504	100	185,958	100	153,546	83
EQUITY AND LIABILITIES						
Equity	**243,069**	**71**	**65,854**	**35**	**177,215**	**269**
Preferred shares	0	0	42,474	23	-42,474	100
Long-term bank loan	3,400	1	0	0	3,400	100
Other provisions	885	0	642	0	243	38
Deferred tax liabilities	0	0	892	0	-892	100
Non-current liabilities	**4,285**	**1**	**44,008**	**24**	**-39,723**	**100**
Short-term bank loans	43,752	13	52,516	28	-8,764	-17
Trade payables	8,679	3	968	1	7,711	797
Notes payable	32,720	10	19,167	10	13,553	71
Other payables and accruals	4,677	1	2,744	1	1,933	70
Amounts due to related parties	24	0	13	0	11	85
Income tax payable	2,298	1	688	0	1,610	234
Current liabilities	**92,150**	**27**	**76,096**	**41**	**16,054**	**21**
Total liabilities and equity	**339,504**	**100**	**185,958**	**100**	**153,546**	**83**

3.4.1 Non-Current Assets

Intangible assets comprise software and patents amounted to kEUR 44 as at 31 December 2009, and kEUR 315 as at 31 December 2010. Property, plant and equipment mainly comprise buildings, machinery and construction in progress. Property, plant and equipment increased by kEUR 18,705 to kEUR 56,860 as at 31 December 2010. This increase is attributable to the ongoing construction of a new ceramics factory and the purchase of machinery in respect of new production facilities. Investment property refers to a building which is used to receive rental income. The carrying amount of investment property increased from kEUR 1,962 by kEUR 104 to kEUR 2,066 as at 31 December 2010 due to currency translation adjustment. All above-mentioned movements in non-current assets have been offset, in part, by the depreciation charge for the year.

Lease prepayments for land-use rights refer to prepayments made to use property in the PRC over a period of up to 50 years. The non-current carrying amount of land-use rights amounted to kEUR 22,014 as at 31 December 2009, and kEUR 24,003 as at 31 December 2010, offset, in part, by the expensed cost 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 decreased by kEUR 978 or 70%, to kEUR 426 as at 31 December 2010. This decrease resulted primarily from deferred taxes on preferred shares which were reversed in 2010 due to the conversion of preferred shares into equity.

3.4.2 Current Assets

Inventories comprise raw materials and consumables, work in progress, finished goods and outsourcing products and merchandise products. They increased from kEUR 22,679 as at 31 December 2009 by kEUR 42,624, or 188%, to kEUR 65,303 as at 31 December 2010. The increase was caused by higher inventories due to the increased production volume and stock (raw material, work in process and finished goods) associated with increased product offering and sales volumes (kEUR +30,067) as well as the stock on merchandise products from Grohe (kEUR +12,557). Merchandise products are held in 2010 for the first time after entering into a distribution agreement with Grohe in 2009.

Trade receivables increased by kEUR 14,001 or 34%, to kEUR 55,349 as at 31 December 2010. Trade receivable turnover days [365 days/(revenues/average trade receivables)] decreased from 82 to 72 days. This decrease was mainly associated with further increased sales as a result of Joyou selling more products through its distribution network in China.

Other receivables and prepayments comprise mainly receivables from non-related companies, advances to suppliers and prepaid expenses. The decrease from kEUR 23,484 as at 31 December 2009 by kEUR 2,618, or 11%, to kEUR 20,866 as at 31 December 2010 was mainly due to a decrease of kEUR 6,534, in advances to suppliers, which is offset by an increase from a deposit payment of kEUR 4,347 on an intended acquisition of a galvanization plant.

Amounts due from related parties is increased by kEUR 558, or 97%, to kEUR 1,135 as at 31 December 2010, which resulted from advance payments to the supplier and related party Nan'an Longsheng Science and Technology Industry Co., Ltd. as well as currency fluctuations.

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 draft. A more detailed discussion of the development of cash and cash equivalents can be found in Section 3.3 of this Group Management Report.

3.4.3 Equity

Equity increased from kEUR 65,854 as at 31 December 2009 to kEUR 243,069 as at 31 December 2010, which is mainly due to proceeds from capital increases and a significant increase in retained earnings by the profit for the financial year 2010. The increase from capital increases refers to proceeds from the IPO (kEUR 91,000) and a contribution of shares in Joyou Hong Kong into Joyou AG by various private equity investors in the course of the corporate restructuring in connection with the IPO (kEUR 48,992), both offset by transaction costs net of taxes of kEUR 6,275. Due to the increase of equity by the restructuring agreement and the IPO as well as the profit for 2010 financial year, the equity ratio increased from 35% in 2009 to 72% in 2010 financial year.

3.4.4 Non-Current Liabilities

In 2009, Joyou issued via Joyou Hong Kong in a series of financing transactions preferred shares with a book value of kEUR 42,474 as at 31 December 2009. The preferred shares qualify as a compound financial instrument with split accounting to be applied. The fair value of the financial liability component is recorded as a liability on an amortized cost basis until extinguished on conversion into ordinary shares or redemption of the preferred shares. Dividends on all preferred shares are recognized in the statement of comprehensive income as interest expense.

At its General Meeting of Shareholders on 15 March 2010, the shareholders of Joyou AG increased the number of shares by 6,967,492 ordinary shares. The capital increase was recorded on the company register on 28 March 2010. The new shares were issued as no par value bearer shares with a notional amount of the share capital of each share to the investors in Joyou Hong Kong. As consideration for their interest in the shares of Joyou AG, the investors transferred their holdings of all preferred shares in Joyou Hong Kong to Joyou AG. The fair value of the Series A Preferred Shares and Series B Preferred Shares as at 15 March 2010 under IFRS accounting treated as financial liability amounted to kEUR 48,992, which were allocated as kEUR 6,967 to capital subscribed and kEUR 42,025 to capital reserve.

Long-term bank loan amounting to kEUR 3,400 as at 31 December 2010 refer to a secured bank loan, which is due for payment in 2013.

Other provisions mainly include provisions for potential payments to a financial advisor, the future cost of decommissioning plants on a discounted basis on the construction of those plants and warranty provisions. The provision for potential payments due financial advisor is the advisory fees for certain funds being raised by Joyou Hong Kong in 2009. The provision for the cost of decommissioning the production facilities at the end of the useful life of the land-use rights on which the plants have been erected has been estimated using existing technology in China. Warranty provisions are accrued on potential warranty claims by customers under Joyou's warranty policy.

Deferred tax liabilities disclosed in the financial year 2009 are mainly related to the capitalized IPO and were recorded in capital reserve at the date of the IPO at 30 March 2010.

3.4.5 Current Liabilities

Short-term loans comprise primarily unsecured bank loans and, to a lesser extent, secured bank loans. They decreased from kEUR 52,516 as at 31 December 2009 by kEUR 8,764 to kEUR 43,752 as at 31 December 2010. This decrease was available out of operating cash in flows.

Trade payables and notes payable increased significantly by kEUR 21,264 to kEUR 41,399 as at 31 December 2010 caused by increased purchases. Trade payables increased from kEUR 968 by kEUR 7,711 to kEUR 8,679 as at 31 December 2010 and comprise amounts payable to suppliers for the purchase of raw materials and products. Notes payable arise from the issuance of notes payable to suppliers. They increased from kEUR 19,167 as at 31 December 2009 by kEUR 13,553 to kEUR 32,720 as at 31 December 2010.

Other payables and accruals mainly comprise advance payments received from customers, accrued payroll, accrued expenses and other tax payables (including business tax, stamp tax and real estate transfer tax). The increase by kEUR 1,933, or 70%, to kEUR 4,677 as at 31 December 2010 results primarily from the increase of advances from customers, and security deposit payable to the distributors of Joyou due to the expansion of the distribution network.

3.5 Segment Reporting

The following table presents Joyou's revenues broken down by product categories for each of the two years ended 31 December 2010 and 2009. The table also presents each item as a percentage of total revenues. In 2010 Joyou Management Board decided to change the segment reporting classification from six categories (Bathroom Faucets, Kitchen Products, Shower Products, Other Bathroom Products and Accessories, Other Faucets and Sanitary Hardware, and Copper and Semi-Finished Products) to nine categories (Bathroom Faucets, Kitchen Products, Shower Products, Ceramics and Bathtubs, Bathroom Cabinets, Bathroom Accessories, Other Faucets and Sanitary Hardware, Copper and Semi-Finished Products, and Grohe Business). This change arises from a change in the reporting format provided to Joyou's chief operating decision maker.

Firstly the category Other Bathroom Products and Accessories which mainly comprised of ceramic sanitary ware, bathtubs, bathroom cabinets and bathroom accessories, and shower enclosures was split into three categories Ceramics and Bathtubs, Bathroom Cabinets, Bathroom Accessories. This was done due to the investments and factory build-up in the first two, and their expected increase as a percentage of sales. Also a new Category, Grohe Business was added which represents the trading of Grohe products in China at this stage. Further, to these category changes Shower Enclosures was taken out of the category and placed into Shower Products in order to create a truer picture of the Shower Products. Showers Enclosures was a new product, only introduced in 2010, and gained sales of kEUR 2,018, with COGS of kEUR 1,454 in the last nine months of 2010.

kEUR	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary Hardware	Copper and Semi-Finished Products	Grohe Business	**Total**
2010										
Revenue	**107,094**	**34,666**	**37,944**	**16,192**	**4,927**	**11,087**	**22,932**	**9,725**	**2,058**	**246,625**
COGS	**-74,381**	**-25,175**	**-26,721**	**-10,679**	**-3,311**	**-7,860**	**-20,767**	**-7,525**	**-1,675**	**-178,094**
GP	**32,713**	**9,491**	**11,223**	**5,513**	**1,616**	**3,227**	**2,165**	**2,200**	**383**	**68,531**
GP Margin (in %)	**30.5**	**27.4**	**29.6**	**34.0**	**32.8**	**29.1**	**9.4**	**22.6**	**18.6**	**27.8**
Segment Assets	**143,167**	**46,343**	**50,726**	**21,646**	**6,587**	**14,821**	**30,656**	**13,001**	**12,557**	**339,504**
2009										
Revenue	82,880	26,717	21,178	6,098	1,935	6,635	19,912	6,972	0	172,327
COGS	-58,688	-18,662	-14,960	-4,076	-1,322	-4,799	-16,385	-6,474	0	-125,366
GP	24,192	8,055	6,218	2,022	613	1,836	3,527	498	0	46,961
GP Margin (in %)	29.2	30.1	29.4	33.2	31.7	27.7	17.7	7.1	0	27.3
Segment Assets	89,435	28,830	22,853	6,580	2,088	7,160	21,487	7,525	0	185,958

Mr. Yujia LI, VP Production and his team


Mr. Qingjian LIU, Project Business


Mr. Wenwu LIN, Joyou Sales

We are creating sustainable relationships with the top 100 property developers and design houses in order to get our products built into the development.

The Joyou brand is now a well positioned market leader, and as such commands great attention in this busy market place.

Bathroom Faucets

Bathroom Faucets include basin faucets, bathtub faucets, bidet faucets, and sensor faucets which were manufactured by Joyou, except for limited sales of Bathroom Faucets, the production of which was outsourced to external manufacturers.

Revenues from the sale of Bathroom Faucets increased from kEUR 82,880 in 2009 by kEUR 24,214, or 29.2%, to kEUR 107,094 in 2010. Measured in RMB, revenues from the sale of Bathroom Faucets increased by 21.8% during this period. There was an increase in volumes, average sales prices (ASPs) and revenues across all subcategories with the major gains coming from Bidet Faucets and Sensor Faucets, the latter gain resulting from increased sales into commercial and civil projects.

The percentage of revenues from Bathroom Faucets to total revenues decreased from 48.1% in 2009 to 43.4% in 2010.

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 kitchen faucets whose production was outsourced to external manufacturers and all kitchen sinks were sourced from external manufacturers.

Revenues from the sale of Kitchen Products increased from kEUR 26,717 in 2009 by kEUR 7,949, or 29.8%, to kEUR 34,666 in 2010. Measured in RMB, revenues from the sale of Kitchen Products increased by 22.3% during this period.

There was an increase in volumes, ASPs and revenues across kitchen faucets, and a higher increase in revenues and volumes gained from kitchen basins, as increased store size allowed more stores to be stocked with this bulkier item.

The percentage of revenues from Kitchen Products to total revenues decreased from 15.5% in 2009 to 14.1% in 2010.

Shower Products

Shower Products mainly comprise shower faucets, shower heads, and shower enclosures. All shower products within this product category were manufactured by Joyou except for limited sales, whose production was outsourced to external manufacturers. All shower enclosures were manufactured by Joyou.

Revenues from the sale of Shower Products increased from kEUR 21,178 in 2009 by kEUR 16,766, or 79.2%, to kEUR 37,944 in 2010. Measured in RMB, revenues from the sale of Shower Products increased by 68.8% during this period.

There was an increase in volumes by 24.6% and also ASPs increased, which was in part attributable to an increase in shower enclosures which were only introduced in 2010, and a substantial increase in the volume of Shower Heads, which was mainly the result of an increased amount of stores being stocked with this item.

The percentage of revenues from Shower Products to total revenues increased from 12.3% in 2009 to 15.4% in 2010.

Ceramics and Bathtubs

Ceramics and Bathtubs mainly comprise ceramic sanitary ware such as wash basins and toilets, as well as bathtubs which were exclusively sourced from external manufacturers.

Revenues from the sale of Ceramics and Bathtubs increased from kEUR 6,098 in 2009 by kEUR 10,094 or 165.5%, to kEUR 16,192 in 2010.

Measured in RMB, revenues from the sale of Ceramics and Bathtubs increased by 150.2% during this period.

There was an increase in volumes overall by 101.0%, and ASPs increased which was mainly attributable to an increased marketing promotion acceptance in the channel and an increase in the volume sales of bathtubs by 1,491% after they were launched in late 2009.

The percentage of revenues from Ceramics and Bathtubs to total revenues increased from 3.5% in 2009 to 6.6% in 2010.

Bathroom Cabinets

Bathroom Cabinets mainly comprise free standing and wall-hung cabinets which in 2009 were exclusively sourced from external suppliers, while in 2010 the majority of sales derived from products produced by Joyou after the establishment of the production facility.

Revenues from the sale of Bathroom Cabinets increased from kEUR 1,935 in 2009 by kEUR 2,992, or 154%, to kEUR 4,927 in 2010. Measured in RMB, revenues from the sale of Shower Products increased by 140% during this period.

There was an increase in volumes by 108.6%, and an ASP increase which was mainly attributable to an increased marketing promotion acceptance in the channel.

The percentage of revenues from Bathroom Cabinets to total revenues increased from 1.1% in 2009 to 2.0% in 2010.

Bathroom Accessories

Bathroom Accessories mainly comprise baskets, soap trays, rook hooks, corner shelves and toilet paper holders. A mix of these products comes from products produced by Joyou and products bought from external manufacturers.

Revenues from the sale of Bathroom Accessories increased from kEUR 6,635 in 2009 by kEUR 4,452 or 67.1%, to kEUR 11,087 in 2010. Measured in RMB, revenues from the sale of Bathroom Accessories increased by 57.5% during this period.

There was an increase in volumes by 25.9%, and an ASP increase which was in greatly attributable to an increased marketing promotion acceptance in the channel.

The percentage of revenues from Bathroom Accessories to total revenues increased from 3.9% in 2009 to 4.5% in 2010.

Grohe Business

Grohe Business comprises commission sales gained from Asian Product Lines for which Joyou is the master China distributor. These products mainly comprise shower faucets, shower heads, basin faucets, and bathtub faucets. All of these products were purchased from Grohe.

Revenue from the sale from Grohe Business started in 2010, hence zero sales were achieved in 2009. In 2010 total sales reached kEUR 2,058, which represented 0.8% of total revenues.

Other Faucets and Sanitary Hardware

Other Faucets and Sanitary Hardware mainly comprise small faucets, drainage covers, angle valves, and crude products. All of these products were produced by Joyou.

Revenues from the sale of Other Faucets and Sanitary Hardware increased from kEUR 19,912 in 2009 by kEUR 3,020 or 15.2%, to kEUR 22,932 in 2010. Measured in RMB, revenues from the sale of Other Faucets and Sanitary Hardware increased by 8.5% during this period.

The percentage of revenues from Other Faucets and Sanitary Hardware to total revenues decreased from 11.6% in 2009 to 9.3% in 2010.

Copper and Semi-Finished Components

Other Copper and Semi-Finished Components mainly comprise unfinished products such as copper tubing and accessories. All of these products were produced by Joyou.

Revenues from the sale of Copper and Semi-Finished Components increased from kEUR 6,972 in 2009 by kEUR 2,752 or 39.5%, to kEUR 9,725 in 2010. Measured in RMB, revenues from the sale of Copper and Semi-Finished Components increased by 31.4% during this period.

The percentage of revenues from Copper and Semi-Finished Components to total revenues decreased from 4.1% in 2009 to 3.9% in 2010.

4 Other Factors that impacted on Results

4.1 Research and Development

Joyou's research and development is built on a system of interdepartmental coordination and participation. Joyou considers research and development as well as product design to be of key importance for its success.

Joyou is 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, Joyou is also focusing its research on the production of lead-free faucets. Joyou's R&D activities also include enhancing the standardization of product components in order to make its production processes more efficient.

As national and international regulatory bodies impose increasingly strict environmental standards on the production of sanitary ware products, Joyou places 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. Joyou has 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.

Joyou designs all faucets and showerheads that it sells under its own brand. In 2010, Joyou also began to engage in the designs for mid/high-end ceramic sanitary ware. It usually takes 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 to 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. Joyou believes this to be quicker than its peer group and regards it as part of its strategic competences.

Joyou's market research center is part of its R&D department. It 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, Joyou believes 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 Joyou 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.

In addition to Joyou's own research activities, cooperation with external research institutes is also an important part of its research strategy.

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.

On the reporting date, the Joyou Group held 96 (2009: 69) patents for design, invention and utility model, and 42 patents are in the process of application. The significant increase is attributed to the strong capability of its design team. Furthermore, Joyou's products have won quite a lot of design awards. For example, in January 2011, the Lady Artistic Faucet and the Miniature Garden Artistic Faucet designed by Joyou won the Kapok Prize of 2010, a China Innovation Design Award granted by the China Industrial Design Association and Guangzhou Design Week.

For the reporting period under review, research and development costs came to EUR 3.3 million in total and were double the level of the previous year (2009: EUR 1.7 million). The majority of the research and development costs can be attributed to increased efforts to develop new product.

4.2 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.

4.2.1 Supply of Raw Materials

For the periods under review, more than 70% of the cost of sales consisted of costs for raw materials. Joyou purchases copper, zinc, aluminum, lead, bismuth, and other raw materials and chemicals in order to produce its faucets. Joyou currently procures 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 are a sufficient number of suppliers for raw materials in the Chinese market, Joyou is not dependent on any one single supplier.

4.2.2 Supply of Finished Products and Product Components

In addition to raw materials to produce its own products, Joyou currently sources various finished products and components for products which it sells under its own brand. Finished products that Joyou procures 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 as well as related party producers manufacture these products according to Joyou's quality and design specifications. Due to the investments in a ceramic factory, which will be opened in mid of 2011, the supply chain will be shortened and dependency on suppliers will reduce.

Joyou also sources simple components for its 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 Joyou does not consider it to be economical to produce them in-house.

4.2.3 Supply of Merchandise Products

Since 2010, Joyou offers high-end bathroom products to its distributors and customers as well. These products are purchased as merchandise from the German manufacturer Grohe AG, with whom Joyou entered into an exclusive distribution agreement on specified products in China. Beside the Grohe products, Joyou does not offer any merchandise.

4.3 Production

4.3.1 Production

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

4.3.2 Production Facilities and Equipment

Joyou operates two facilities in Nan'an. The Dayu Facility is currently mainly used as the plant for faucets, bathroom cabinets and bathroom enclosures. The Luncang facility is the major facility and comprises production lines for faucets, faucet components, bathroom accessories and assembly lines for semi-finished products as well as galvanization lines.

Based on its own estimates, Joyou believes that the company is one of the faucet manufacturers in China with the highest production capacity. 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.

4.4 Distribution

4.4.1 Own Brand Products

Joyou sells its own brand products through a retail distribution network that it has established since mid 2007 in China. Joyou's retail distribution network consists of stores operated by unaffiliated shop owners who have been engaged by regional distributors that Joyou has chosen for specific regions of China, or by the regional distributors themselves. Joyou only has 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, Joyou divides 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 Joyou's largest retail points of sale. Flagship stores mainly serve representative purposes and are opened in higher tier cities, which are the major cities or 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 Joyou's products with a broad product offering, flagship stores also serve as a primary means of establishing its brand reputation as a high-quality producer of modern sanitary ware products.

Exclusive Stores: Exclusive stores are typically between 60 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 Joyou products within shopping centers focusing on sanitary ware. Their sales area is typically less than 90 square meters in size. The shopping centers in which authorized stores are located sell Joyou products and display its brand symbols in specific sales areas, but also sell non-competing products of other manufacturers. Although they offer the entire range of Joyou products from its catalogue, only a limited selection of products is displayed.

Joyou's regional distributors collect the products from the 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.

Joyou places 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, Joyou pays a subsidy to its regional distributors in the form of reimbursements for investments made for the decoration of shops. When a location for a new store has been located, Joyou will produce the design planogram in accordance with the uniform design format, defining everything from design to colors and materials to be used.


Mr. Yang TIAN, Procurement

To improve communication and interaction with these distributors, Joyou organizes annual meetings of its 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 the products. The 2010 annual distributor 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 its products to distributors, sales staff and installers of sanitary ware products who it considers to be important intermediaries in the retail chain for sanitary ware products.

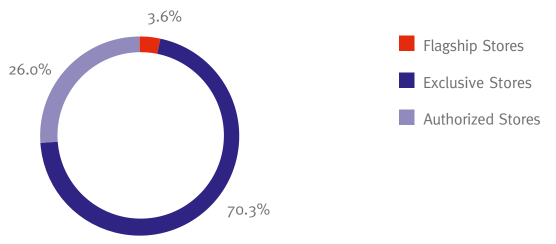
As at 31 December 2010, Joyou's retail distribution network included 55 regional distributors, covering most of the main business regions of China and consisted of 87 flagship stores, 1,677 exclusive stores and 1,832 authorized stores. Joyou intends to expand the total number of stores to 4,500 by the end of 2013.

Breakdown of Stores Opened in 2010

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total	%
Flagship Stores	0	7	18	12	2	39	3.6
Exclusive Stores	31	82	200	404	35	752	70.3
Authorized Stores	11	37	79	120	31	278	26.0
Total	**42**	**126**	**297**	**536**	**68**	**1,069**	
%	3.9	11.8	27.8	50.1	6.4		

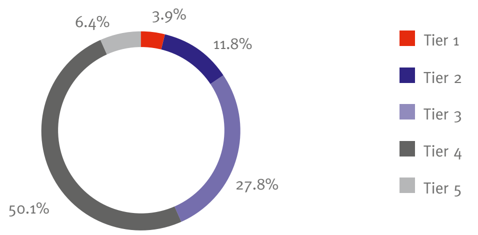
Note: Definition of Tiered Cities:
There is no officially recognized tier city classification to date in China. Joyou follows widely recognized methodology in classifying sales territory subject to its own adjustment, based on the strength of the local economy, GDP per capita, as well as property prices.
Tier 1: Beijing, Shanghai, Guangzhou, Shenzhen
Tier 2: Provincial capitals, Government controlled Municipalities (Tianjin, Chongqing), and Xiamen
Tier 3: Prefecture-level cities
Tier 4: County-level cities
Tier 5: Towns and villages

Joyou Branded Stores Opened by Type in 2010



Also, Joyou's focus is to expand into smaller tier 3 and tier 4 cities which hold the largest majority of Chinese citizens, where management believes the greatest growth potential can be seen. In line with this presumption, in year 2010, a total of 78% of the overall stores opened were opened in tier 3 and tier 4 cities. Compared to comparative store locations in upper tier cities, lower tier city stores tend to be smaller in size and carry narrower but more selective ranges of Joyou products suitable for local markets. Therefore, Joyou expects lower average sales generated per store in these areas, while, in general, the gross margin per store remain unaffected.

Joyou Branded Stores Opened by Tier of City in 2010



4.4.2 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 in turn sell these products under their own or a third party's brand.

Joyou's OEM/ODM sales are almost exclusively made to international markets. Joyou sells sanitary ware products through its OEM/ODM business directly to international companies, international wholesalers or trading companies that resell the products to international brands or other customers such as retail chains. In some cases, Joyou also produces OEM/ODM products for domestic sanitary ware manufacturers, who sell these products to international brands.

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

4.4.3 Distribution of Grohe Products

Grohe products are positioned in the high-value price segment. Only two German manufacturers successfully sell faucet products on the high-value price segment in China on any reasonable scale (Grohe and Hansgrohe). The distribution agreement with Grohe allows Joyou to enter this higher-value market in China. These products are sold by Joyou as merchandise under the brand "Grohe". Joyou is the master distributor for Grohe's Asian Product line (which is often termed the G2 line and DIY line), the distribution of which is carried out through either 1) direct sales to project developers, or 2) through the exclusive Grohe branded store network that Joyou has established to sell Grohe products, 3) through Joyou's existing network and 4) through Grohe's existing store network. Joyou also certified to act as a non-exclusive distributor for Grohe's premium product lines (often called G3+ lines) through its existing sales network. Grohe's established distribution base must purchase Asian product lines products through Joyou, thereby acting as sub-distributors to Joyou for this product line.

4.5 Employees

During the year under review, Joyou had an average of 2,244 employees (prior year: 1,684 employees). In comparison to the previous year, the number of employees increased by 560 employees, mainly in production.

The increase of employees in Joyou's production by 458 employees was caused by the initial start-up of new production lines in the factory in Luncang in 2010 and is in line with the increase in sales.

The increase of employees in Joyou's management and administration departments was caused by the increased business volume and additional administrative functions, partly as a result of the stock listing.

The increase in Joyou's sales and marketing department is attributable to the further development of its retail distribution network, which is caused by a restructuring of the sales team, the addition of Grohe business and project business, increased direct distribution and expansion of the number in distributors and point of sales.

5 Remuneration System

5.1 Remuneration of the Members of the Management Board

The agreed remuneration structure is appropriate taking into account the size, the activity and the economic and financial situation of Joyou. Remuneration for the members of the Management Board comprises mainly fixed remunerations and benefits in kind. Only the Chief Financial Officer received a variable bonus depending on a successful listing at the Stock Exchange as well as a stock option plan granted by a major shareholder. All other members of the Management Board received no variable remuneration or any other form of performance-related bonus. Benefits in kind mainly refer to private car usage.

Name **Position**	Jianshe CAI CEO	Jilin CAI COO	Gang ZHENG CFO	Zufang LI CAO	**Total**
Fixed remuneration	230,708	205,537	57,914	32,295	526,454
Variable remuneration	–	–	163,717	–	163,717
Stock options	–	–	89,638	–	89,638
Benefits in kind	27,946	29,038	77	460	57,521
Total	**258,654**	**234,575**	**311,346**	**32,755**	**837,330**

Mr. Huixing WU, Ceramics Production

The variable remuneration of EUR 163,717 (equals: kRMB 1,470) was paid to Mr. Gang ZHENG after successful listing of the company at the Frankfurt Stock Exchange as at 30 March 2010.

In December 2009, a stock option program was established by Mr. Jianshe CAI for the CFO Mr. Gang ZHENG, and was included in his employment contact. This program is to be seen as a part of the remuneration package for the CFO. Mr. CAI granted options on 50,000 shares to the CFO. For options granted to vest, the CFO has to remain employed for the agreed vesting period of five years. Upon vesting, each option tranche 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. Jianshe CAI. One ordinary share is valued at a purchase price of EUR 13.00, which is equal to the offer price of Joyou AG shares achieved in the stock listing at the Frankfurt Stock Exchange.

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	EUR 17.00 (estimated IPO offer price)
Volatility	40.0%
Option life	5 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

No special features inherent to the options granted were incorporated into the measurement of fair value.

The share based remuneration will be settled by shares delivered by Mr. Jianshe CAI. Joyou has no legal or constructive obligation to issue new shares on the stock option program and any obligation to repurchase or settle the options.

5.2 Remuneration of the Members of the Supervisory Board

In accordance with the Articles of Association, the General Shareholders Meeting of the Company has determined the annual gross compensation for each ordinary member of the Supervisory Board to be EUR 10,000 per annum, EUR 45,000 per annum of the Deputy Chairman, and EUR 60,000 per annum for the Chairman of the Supervisory Board. If a person is a member of the Supervisory Board for only part of a financial year, compensation is determined for a proportionate period of time. The members of the Supervisory Board are entitled to the reimbursement from the company of any expenses necessary and reasonable for the performance of their duties. Furthermore, they are entitled to the reimbursement of any VAT to be paid as a consequence of their activities in the capacity of Supervisory Board members.

Details of the fixed remuneration of the Supervisory Board for the financial year 2010 are provided on an individual basis in the table below.

Name **Position**	Dr. Rainer SIMON Chairman	Johnny CHEN Deputy Chairman	Wei WANG Member	**Total**
Remuneration	50,000	37,500	7,500	95,000
Remuneration of VAT	9,500	0	0	9,500
Expenses reimbursed	14,782	0	0	14,782
Total	**74,282**	**37,500**	**7,500**	**119,282**

The company has entered into a directors and officers insurance in its name, covering the members of Management Board and Supervisory Board.

6 Disclosures in Accordance with Sec. 315 Para. 4 HGB and Narrative Explanations

6.1 Composition of Capital Subscribed

The current registered share capital of the Company (eingetragenes Grundkapital) amounts to EUR 23,967,492.00 and is divided into 23,967,492 non-par value ordinary bearer shares (Inhaber-Stückaktien) with proportionate value of EUR 1.00 each.

The Company's registered capital was increased in connection with the Company's IPO from EUR 10,000,000.00 to EUR 23,967,492.00 in two legal steps as set out below:

As part of a corporate restructuring carried out at Joyou Group in connection with the IPO, various private equity investors contributed their shares in Joyou Hong Kong to Joyou AG by way of contributions in kind (Sacheinlage) against the issuance of 6,967,492 new shares in Joyou AG (the "Restructuring Capital Increase").

For the purpose of the offering of new shares in the IPO, 7,000,000 new shares in Joyou AG were issued against cash contributions (the "IPO Capital Increase").

Both the Restructuring Capital Increase and IPO Capital Increase became legally effective by registration in the commercial register at the local court of Hamburg on 29 March 2010.

6.2 Restrictions on Voting Rights or on the Transfer of Shares

Each share in Joyou AG carries one vote; no restrictions apply to voting rights or to the transfer of shares. The Management Board does not have any knowledge about corresponding shareholder agreements effective as at the reporting date 31 December 2010. For agreements on the restriction of voting rights and the transfer of shares concluded after the reporting period, please refer to the Notes to the Consolidated Financial Statements – Events after the reporting period.

6.3 Direct or Indirect Interests in the Capital Exceeding 10%

Based on voting rights notifications that the Company has received, as at the reporting date, there were two major shareholders holding direct or indirect interests in the capital exceeding 10%:

Mr. Jianshe CAI announced to the Company on 29 March 2010 that he holds 34.6% of the share in Joyou AG.

After the reporting period Grohe Holding GmbH announced to Joyou on 22 February 2011 that it indirectly holds 16.8% of the shares in Joyou AG. For further details and parties with indirect interests refer to the disclosure in the Notes to the Consolidated Financial Statements – Events after the reporting period.

6.4 Holders of shares with special rights conferring control powers

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

6.5 Voting right control in the event of employee ownership of capital

No voting right controls apply.

6.6 Statutory regulations and provisions of the Articles of Association concerning the appointment and recall of Members of the Management Board and Amendments to the Articles of Association

The appointment and dismissal of the Management Board are governed by Sec. 84 AktG. Accordingly, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. In accordance with Sec. 8 of the Articles of Association, the Management Board of Joyou AG comprises at least one member. The number of members is determined by the Supervisory Board. If the Management Board consists of more than one person the Supervisory Board can appoint a member of the Management Board as chairman and one member of the Management Board as vice chairman. The Supervisory Board can dismiss a member of the Management Board the chairman of the Management Board for good cause.

Amendments to the Articles of Association can be resolved by the Annual General Meeting by a simple majority of the capital represented (Sec. 179 Para. 2 AktG in conjunction with Sec. 26 of the Articles of Association) unless the provisions of statute impose larger majority requirements.

6.7 Management Board's Authorizations concerning the Possibility of Issuing or Buying Back Share

The Company has an authorized capital (genehmigtes Kapital) of EUR 11,983,764.00. According to Section 4, Paragraph 4 of the Company's Articles of Association (Satzung), the Management Board is authorized to increase the share capital of the Company with the consent of the Supervisory Board until 15 March 2015 once or several times by up to this amount.

6.8 Significant Agreements that apply in the Event of a Change of Control resulting from a Takeover Bid

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

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

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

7 Opportunities and Risk Report

7.1 Risk Policy

In 2010, Joyou Group has started establishing a risk management system which shall also operate as Joyou AG's risk early detection system as promulgated by Section 91 of the German Stock Corporation law. Taking opportunities and being able to recognize risks, analyze them and reduce them with appropriate strategies are important elements of the company's operating activities. Joyou defines risks as the possible occurrence of internal and external events, which may adversely affect the achievement of short-term or strategic goals. Systematic risk management is an ongoing task for the Management Board and for the management of each field of responsibility. However, even an appropriate and functioning risk management system cannot guarantee any absolute certainty.

7.2 Opportunity Management

Opportunity and risk management are closely interlinked within the Joyou Group. Joyou essentially derives its opportunity management from the goals and strategies of the business segments and ensures an appropriate relationship between opportunity and risk. Direct responsibility for the early and regular identification, analysis and management of opportunities rests with the Management Board. Joyou occupies itself intensively with analyses of the market and the competition, market scenarios, relevant cost drivers and critical success factors, including those in the political environment in which the company operates. In decision-making, Joyou relies on an opportunity-oriented approach, but does not neglect risks. Selected opportunity potentials for the Joyou Group are discussed in the forecast report.

7.3 Risk Management System

The methods used for risk survey extend from analyses of markets and competition through close contacts with customers, suppliers and other interest-related parties to observing risk indicators in an economic and socio-political environment. Risks will be assessed particularly with regard to the likelihood of materialization and to loss levels. The possible non-recurring or recurring impact on company objectives will then be processed in preparation for the adoption of decisions. A further building block of risk management will be the development of countermeasures taking account of alternative risk scenarios. Joyou will thus endeavor to systematically counter risks and consistently exploit opportunities.

By the end of 2010, the Management Board has defined Group-wide principles and rules of behavior as well as guidelines for systematic and effective risk management.

The risk management system consists of the following elements:
- a Group-specific handbook on risk management,
- persons responsible for risk management,
- risk map with risk assessment, and
- regular risk reporting.

Risk management will be structured in such ways that direct responsibility for early detection, analysis, control and communication of risks rests with the Management Board. If a risk can be reliably held in check by effective and appropriate measures, the focus of consideration will be on the residual risk. The Supervisory Board will be briefed by the Management Board on a regular and timely basis. In accordance with a Group-wide rule, transactions and measures of particular importance and scope require the approval of the Management Board and, in special cases, of the Supervisory Board, too.

The proper functioning of the risk management system of the Joyou Group is regularly reviewed by the internal audit department. In their opinion, the existing system is suitable for the early detection of such developments that could jeopardize the continued existence of the company.

7.4 Description of the Key Features of the Internal Control and Risk Management System with regard to the Group Accounting Process (Sec. 315 Para. 2 No. 5 of the German Commercial Code – HGB)

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

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

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

The consolidated financial statements are prepared by a German external service provider centrally on the basis of the data supplied by the included subsidiaries. The consolidation, certain reconciliation operations to group policies and monitoring of the related time schedules and procedures are performed by the accounting department of Joyou and a German external service provider. System-based controls are monitored by personnel and supplemented by manual inspection. At least one additional check by a second person is carried out at every level. Defined approval procedures must be observed at all stages in the accounting process.

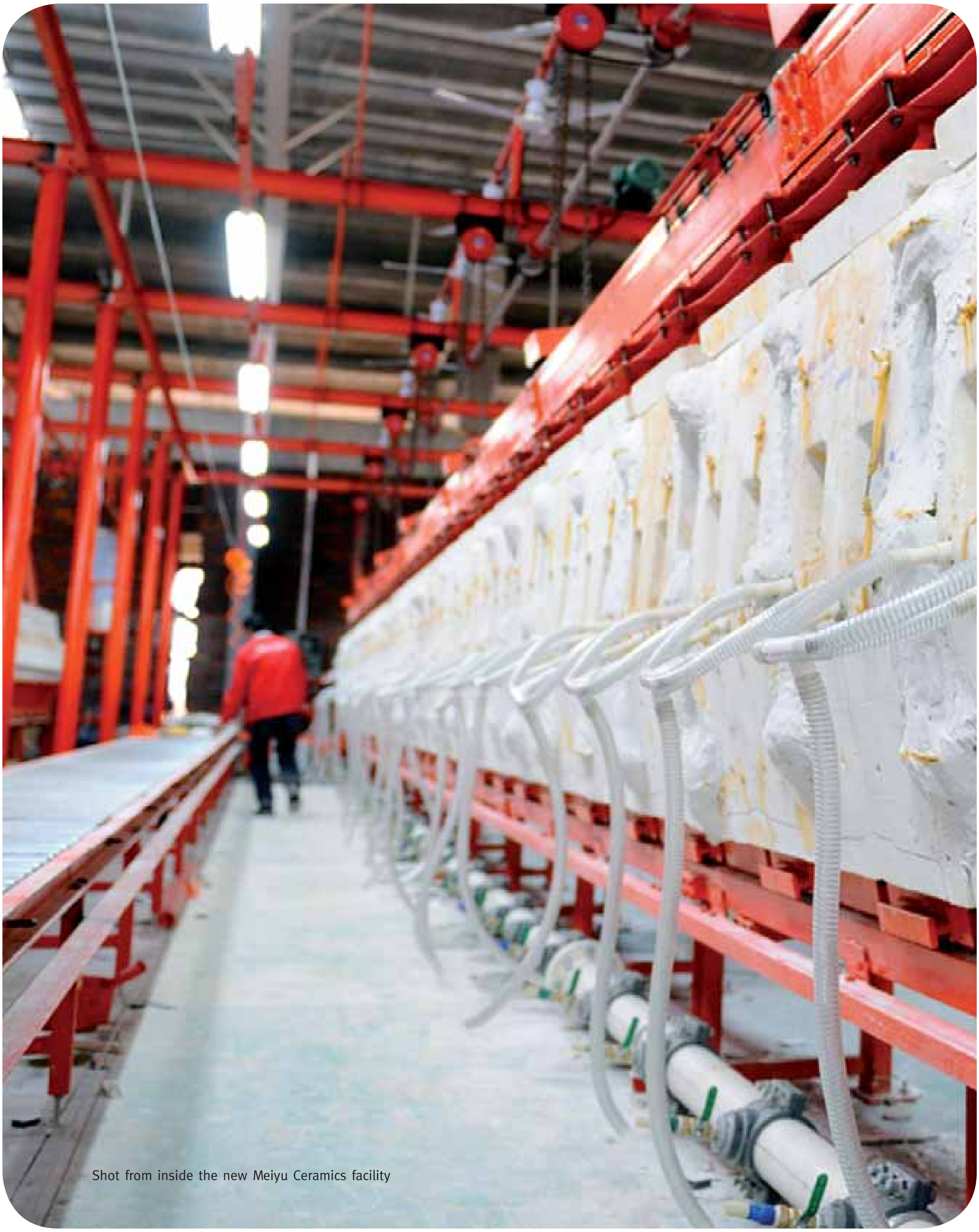
7.5 Major Risk and Opportunities

Management assessed that the following risk and opportunities are essential:

7.5.1 Economic Development in China

Joyou believes 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 Joyou considers the following factors as key drivers to success: the growth of an urban-professional middle class in rapidly urbanizing areas will trigger strong demand for sanitary ware. Amongst many places, including first tier cities like Beijing, Shanghai and Guangzhou the government started to make an effort to build more affordable houses. Increasing living standards supported by further growth in China's GDP will lead to changing consumer patterns resulting in expanded bathroom space and an 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.

Mr. Xibin LI, Ceramics R&D with a worker



Shot from inside the new Meiyu Ceramics facility

On the other hand, in the context of global financial turmoil and severe domestic situation, a series of new policies are about to be introduced, which might have an impact on the market development. In an attempt to cool down the economy, the Chinese government has lowered its GDP growth target for 2011 from 8% to 7%. Furthermore, new policies might be launched to eliminate the housing bubble. This could slow down demand on houses, which might have an impact on the bathroom market. Inflation rate is expected to remain at 3% to 5% in the next few years. Rising consumer prices could lead to further pressure for an increase in wages and salaries. Even if the rising wage costs can be passed partly on to customers via sales price increases and wages are not a major cost component, a rise in wages directly reduces the profit. If the Chinese Central bank opens the RMB to float, an increase in the RMB/USD exchange rate is highly probable. Because Joyou's major component copper is traded in the USD currency, changes in the RMB/USD exchange rate would affect the purchase prices on raw materials.

The expectations on the overall market situation for the sanitary products in China remain strong. Even if the growth rate in 2009 was higher in comparison than the rate in 2010, the market is increasing on a high level.

7.5.2 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. Joyou believes that the development of the Joyou brand is and will be one of the key competitive criteria for the further expansion in China and therefore intends to continue making substantial marketing investments to promote and increase awareness of the brand in the Chinese market and to position ourselves as a producer of high quality and design sanitary ware. However, as Joyou is still in the process of establishing its own brand in the Chinese market, and Joyou is thus particularly vulnerable to external events and factors which could adversely affect the reputation with Chinese consumers, there can be no assurance that Joyou 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 business, financial condition and results of operations. At the same time, when achieving the intended brand reputation, Joyou expects the "Joyou" brand to be one of the key factors to success which will enable Joyou to accomplish its goals with respect to business, financial condition and results of operations.

The 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 Joyou does not have direct control over the management of these retail points of sale, Joyou depends on the cooperation of its distributors. Such distribution agreements could adversely affect business if such retail points of sale selling the "Joyou" brand products are managed ineffectively or inappropriately.

Joyou intends to further substantially increase the total number of retail points of sale in order to cover all major business areas in China. Joyou depends 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 Joyou will be able to establish as many retail points of sale successfully as Joyou intends, or that demand for its 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 business, financial condition and results of operations.

7.5.3 Development of Products and Production Capacity

Joyou intends to expand its production capacity and the scope of its production range significantly. For this purpose, Joyou intends to build new production facilities for new and existing 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 Joyou builds and/or acquires these new facilities, they may prove to be unnecessary if demand for Joyou products declines below expectations.

As a result of Joyou's lack of relevant experience in the production of new products, the company could fail to build or acquire respective production facilities in a timely manner, within its budget or at all. In addition, Joyou 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, the margin for the sale of newly produced products may initially be lower compared to the sale of products sourced from third-party manufacturers. As Joyou expands its production scope, it 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/or components obtaining the necessary permits and licenses may prove to be difficult, expensive or even impossible.

7.5.4 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 USD, increases in the prices of these raw materials can be exacerbated by increases in the value of the USD. 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 U.S. dollar-denominated commodity prices against the RMB would increase Joyou's costs incurred in RMB and hence 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, Joyou might, 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 Joyou does 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 the results of operations.

7.5.5 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 Dayu facility 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.

7.5.6 Insufficient Financing Capabilities

In order to finance our growth strategy, Joyou may have to raise additional capital in the future through debt or equity offerings. Joyou 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 Joyou to general adverse economic and industry conditions. In addition, the terms of any financing agreement could limit the 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 Joyou cannot obtain necessary financing on reasonable terms, or at all, the company may be forced to scale back 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 IPO to finance its business, Joyou AG, as a holding company, or Joyou Hong Kong 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 Joyou were to fail to receive such registrations or approvals, the ability to use the proceeds of the IPO and its 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.

7.5.7 Foreign Exchange Rate and Interest Rate Fluctuations

The Consolidated Financial Statements of Joyou were 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 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.

By the end of 2010, Joyou discloses liabilities due from bank loans of EUR 47.2 million. The ongoing growths of Joyou Group will not allow to repay the bank loans within the near future. Joyou will be exposed to changes in market interest rates through the bank borrowings being renewed at interest rates different to those currently in place. Therefore, fluctuations in interest rates could have material adverse effects on the business, financial condition and finance results. However, the exposure to interest rates for the Group's funds deposited with banks is considered being immaterial.

7.5.8 Insufficient Business Insurance

The company's products may contain undetected defects, especially when first introduced or when new products are released. Product defects could result in the rejection of 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 except for the provision for product defects. 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.

7.5.9 Risks arising from Acquisitions and Investments

Opportunities, but also risks arise from the expansion of business activities through acquisitions and investments. Across the Group, there are high demands related to returns in every acquisition and investment decision. Joyou is monitoring the market environment in relation to appropriate acquisition projects or co-operations. Company valuations incorporating the findings of due diligence procedures and various analyses are of central importance in this respect. In addition, follow-up checks are carried out in the case of important investment and acquisition projects. Risks may arise from the integration of employees, processes, technologies and products. Moreover, acquisitions may negatively impact the level of indebtedness and the financing structure and result in an increase in noncurrent assets. Write-downs on such assets due to unforeseen business developments may result in negative effects. Hitherto unknown factors, including those of a legal, economic or political nature, could adversely impact profitability as well as the growth prospects assumed.

In the event of future acquisitions, a resultant lack of suitable acquisition objects could have a significant adverse effect on the growth prospects of the Joyou Group. Against this backdrop, Joyou is also looking for suitable partners in order to be able to reduce financial burdens and risks and better exploit opportunities.

7.5.10 Personnel Risks

The competence and commitment of the employees are important factors in Joyou's successful development. The vocational training contributes to securing and strengthening these factors. By means of practice based support for future generations of employees, targeted further training measures and encouragement for those who display potential, the Joyou Group has demonstrated that it is an attractive employer able to retain managerial personnel in particular over the long term. With this strategy, Joyou offers qualified employees promising career prospects and is thus well prepared for the increased competition on the labor market for specialist and managerial personnel.

Key positions are regularly analyzed with respect to forward-looking succession planning, and suitable candidates are prepared for such tasks. Further elements are assistance and advice geared towards target groups as well as attractive incentive systems. Furthermore, the Joyou Group maintains a good and constructive relationship with its employees.

Overall, even moderate effects on the net assets, financial position and results of operation from the personnel risks described are considered as unlikely.

Mr. Jingjiang QIAO, VP Ceramics production

7.6 Assessment of Overall Risk Situation

The overall risk is assessed on the basis of the risk management system being implemented since end of 2010 in conjunction with the planning, management and control systems used. The main potential risks to the future development of the Joyou Group are posed in particular by risks arising from development of products and production capacity and price changes in raw materials. Taking into account all the circumstances of which Joyou is aware, there is no group- or industry-specific risk that could individually or in conjunction with other risks have a lasting and material adverse influence on the net assets, financial position and results of operations of Joyou Group. Future opportunities have not been considered in assessing the overall risk. In terms of organization, all the conditions for being able to recognize possible opportunities and risks in good time have been fulfilled.

8 Report on Events after the Reporting Period

In January 2011, Joyou Hong Kong founded a wholly owned subsidiary with the name of Quanzhou Joyou Ceramics Ltd. seated in Nan'an, Fujian Province, PRC. The company was incorporated at 27 January 2011 and is intended to set up a ceramics factory in Nan'an. The proposed investment in the factory amounts to EUR 39,7 million (equals RMB 350 million). It is intended that the factory will start its operation by mid 2011.

On 28 March 2011 Grohe Asia AG (the "Offerer"), a subsidiary of Grohe Holding GmbH, submitted a takeover bid for all shares of Joyou AG at an offering price of EUR 13.50 for each share in Joyou AG. Further details are disclosed in Note 30.2 to the Consolidated Financial Statements.

Subsequent to the reporting period the group received a notification from HansGrohe AG of their intention to raise a claim in the PRC in respect of the infringement of two design patents. The amount being claimed is kEUR 68.

There have been no events material to the financial position or financial performance of Joyou occurred after the reporting period.

9 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. 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.

9.1 Future Economic Environment

Global Economy

The world economy is set to continue growing in 2011. The global GDP is anticipated to grow by around 3%. Private consumption is likely to increase by a good 2.5%, with industrial output experiencing considerably stronger growth of some 6%.

Economic Development in China

In 2011, GDP Growth in the Chinese economy is expected to slightly slow down to 7%. The slowdown reflects tighter monetary conditions, a weaker contribution from net exports and slower investment growth. Nevertheless, the next few years will see a sustained rapid growth in consumption. The World Bank forecasts China's economy to grow 8.4% in 2012.

On Monday, 14 March 2011, the PRC National People's Congress approved China's 12th Five Year Plan and the outline of the plan was released to the public. Amongst other things, the Plan develops a model, of dependency on massive infrastructure projects that are in a great part aimed at lifting GDP of rural areas, and developing Central and Western Regions. The Chinese government will focus more resources on rural areas and bridge the income divide between the urban and rural areas. It is partly a focus shift from the export-led sectors to increasing domestic consumer demand by raising Chinese laborers' incomes to allow all Chinese residents prosper in this new era. Joyou believes that this plan will have strong benefits for its local business development plan.

Inflation risk in China is considered to be high as oil prices and food costs are rising and wages have increased substantially. In February 2011, consumer prices rose at an annual 4.9% rate. According to the Chinese National Statistics Bureau, the average consumer price rise for full year 2011 will be around 4%. The Chinese Central Bank announced a further interest rate rise in February and April 2011 in a bid to curb inflation problems.

Urbanization Development

Currently, around 630 million Chinese now live in cities, yet that represents only 45% of the population, compared with more than 80% in the United States. Research by the McKinsey Global Institute projects that by 2025 China's cities will grow by 325 million people. Following the current trend, the country's urban population will reach 926 million by 2025 and top 1 billion by 2030.

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 infrastructure which includes building, construction and refurbishment of housing and office space. These trends will also strongly support the need for sanitary ware products.

Growing segment of Middle Income Affluent Consumers (MAC)

Joyou's target market is China's growing Middle Income Affluent Consumer (MAC). According to the Boston Consulting Group (BCG), over the next decade, China's continuing growth will bring an additional 270 million consumers into the MAC segment. Joyou believes that this will continue to create growth for the company.

9.2 Future Business Environment

Based on these general economic parameters, the Chinese sanitary ware industry is expected to continue to grow in 2011 and beyond.

BSRIA predicts the taps and mixers market size in 2011 to grow by 5.5% in volume to 50,987 units. Also, in the mid-term until 2015 this market segment is expected to reach annual growth rates of 5% to 6%. The growth rates for the other segments of the sanitary war market are predicted at around 5% for ceramics and non-ceramics and 10% for bathtubs.

With regard to Chinese consumer patterns, in the mid-range segment, market trends are shifting toward purchasing the whole bathroom suite from one brand.

9.3 Future Development of Joyou Group

9.3.1 Business Development Strategy

The Chinese market for sanitary ware has grown significantly over the last few years and Joyou expects this growth to continue in the foreseeable future. In order to benefit from this growth, Joyou intends to:

- further expand its distribution network
- benefit from the strategic cooperation with Grohe Holding GmbH (Grohe)
- expand its product portfolio offering and shift from outsourced production to own manufacturing
- further increase brand awareness and market share and
- expand its business from the project segment.

Distribution Network Expansion

As a fundamental part of Joyou's business model, the Group will continue to expand its network both in number and market influence. Joyou will not only increase the number, but expand the size of many stores in strategic locations, and remodel many existing stores to carry more of the comprehensive product offering. Further expansion will be focused on larger scale exclusive stores and flagship stores which have greater influence on the overall retail strategy.

Strategic Cooperation with Grohe

Joyou believes that this partnership will not only lead to increasing sales volumes as seen in the second half of 2010, but also continue to create value moving forward in other areas such as component sourcing and technology and skill transfer. And Joyou further believes that Grohe's increased participation will further increase its growth in many areas both locally and internationally.

Product Portfolio Expansion

Joyou believes that in the domestic market, there is a trend towards consumers, channel partners, and professional buyers preferring to buy a single branded bathroom solution, and brands that can supply such a ‘bathroom solution’ from in-house production will have strong advantages.

Brand and Market Share Development

Joyou’s brand strategy is to continue to focus on the MAC Market, which is believed to be the most profitable market segment in China. This will be carried out through both localized and national marketing campaigns in partnership with Joyou’s regional distributors.

Expansion of Project Business

According to BSRIA and Joyou’s own estimates, this segment which is made up of fully fitted residential property, commercial and civil project, comprises roughly 30% of the overall market. In 2010, Joyou initiated the first moves of the Project Expansion Strategy to build the foundations in this segment of the market, opening the Beijing projects office, and building relationships with the top property developers. As a result, Joyou expects to increase it’s the percentage of overall sales from this segment in 2011 and moving forward.

9.3.2 Outlook

On the basis of an attractive general economic environment and a continuing robust development of the Chinese sanitary ware industry, Joyou intends to continue to grow profitably. Joyou expects dynamic growth to continue in 2011.

The Group has set its guidance for full year 2011 at sales of EUR 300 million to EUR 320 million and an EBIT of EUR 53 million to EUR 56 million. These expected results are based on an exchange rate of 1 EUR = 9 RMB.

9.4 General Statement of the Future Business Development

The economic development in China as well as mega-trends such as urbanization 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 2011 and beyond.

With our sound financial position, our innovative products and our “Joyou” brand being further strengthened, Joyou is well prepared for the coming changes in the Chinese sanitary ware industry. Therefore, we strongly believe that Joyou will be able to further strengthen its market position in the Chinese sanitary ware market and further increase sales and profit.

Frankfurt, 19 April 2010

Jianshe CAI Jilin CAI Gang ZHENG Zufang LI

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for the accounting period ended 31 December 2010

Consolidated Statement of Comprehensive Income

kEUR	Notes	2010	2009
Revenue	5.	246,625	172,327
Cost of sales	6.	-178,094	-125,366
Gross profit		**68,531**	**46,961**
Other operating income	5.	1,581	500
Selling and distribution expenses	7.	-16,304	-6,224
Administrative expenses	8.	-8,575	-2,077
Other operating expenses	9.	-1,481	-206
Operating profit		**43,752**	**38,954**
Finance income	23.	7,347	454
Finance costs	23.	-8,234	-8,762
Profit before income tax		**42,865**	**30,646**
Income tax	24.	-9,687	-8,384
Profit for the period		**33,178**	**22,262**
Exchange differences on translating foreign operations		10,231	-1,938
Other comprehensive income for the period		**10,231**	**-1,938**
Total comprehensive income for the period		**43,409**	**20,324**
Profit attributable to:			
Owners of the parent		33,178	22,262
Total comprehensive income attributable to:			
Owners of the parent		43,409	20,324
Earnings per share (in EUR)			
Basic		1.62	2.32
Diluted		1.62	1.32

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).
The accompanying policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

kEUR	Notes	31.12.2010	31.12.2009	01.01.2009
ASSETS				
Current assets				
Inventories	17.	65,303	22,679	24,772
Trade receivables	18.	55,349	41,348	35,815
Other receivables and prepayments	18.	20,866	23,484	7,962
Amounts due from related parties	27.	1,135	577	1,488
Cash and cash equivalents	19.	113,181	34,291	11,762
		255,834	**122,379**	**81,799**
Non-current assets				
Property, plant and equipment	11.	56,860	38,155	36,423
Investment property	12.	2,066	1,962	2,121
Intangible assets	13.	315	44	52
Lease prepayments for land-use rights	14.	24,003	22,014	19,464
Deferred tax assets	16.	426	1,404	976
		83,670	63,579	59,036
Total assets		**339,504**	**185,958**	**140,835**
LIABILITIES				
Current liabilities				
Short term loans	15.	43,752	52,516	31,097
Trade payables	21.	8,679	968	20,215
Notes payable	21.	32,720	19,167	21,588
Other payables and accruals	21.	4,677	2,744	7,689
Amounts due to related parties	27.	24	13	7,845
Income tax payable	24.	2,298	688	6,959
		92,150	**76,096**	**95,393**
Non current liabilities				
Preferred shares	15.	0	42,474	0
Longterm loans	14.	3,400	0	0
Provisions	21.	885	642	138
Deferred tax liabilities	24.	0	892	301
		4,285	**44,008**	**439**
Total liabilities		**96,435**	**120,104**	**95,832**
CAPITAL AND RESERVES				
Equity attributable to owners of the parent:				
Share capital	20.	23,967	10,000	10,000
Capital reserves	20.	115,445	6,070	5,544
Statutory reserves	20.	7,893	5,500	3,012
Currency translation reserve	20.	11,125	894	2,832
Retained earnings	20.	84,639	43,390	23,615
Total equity		**243,069**	**65,854**	**45,003**
Total liabilities and equity		**339,504**	**185,958**	**140,835**

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).
The accompanying policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

kEUR	Share capital	Capital reserves	Statutory reserves	Currency translation	Retained earnings	Total equity
Balance as at 1 January 2009	**10,000**	**5,544**	**3,012**	**2,832**	**23,615**	**45,003**
Preferred shares (equity component)	0	511	0	0	0	511
Stock Options	0	15	0	0	0	15
Transfer to reserves	0	0	2,488	0	-2,488	–
Total comprehensive income	0	0	0	-1,938	22,262	20,324
Balance as at 31 December 2009	**10,000**	**6,070**	**5,500**	**894**	**43,390**	**65,854**
Capital increase (IPO)	7,000	84,000	0	0	0	91,000
Capital increase (Contribution in kind)	6,967	42,025	0	0	0	48,992
Transaction costs net of tax	0	-6,275	0	0	0	-6,275
Stock Options	0	89	0	0	0	89
Transfer to reserves	0	0	2,393	0	-2,393	–
Withdrawl from reserves	0	-10,464	0	0	10,464	–
Total comprehensive income	0	0	0	10,231	33,178	43,409
Balance as at 31 December 2010	**23,967**	**115,445**	**7,893**	**11,125**	**84,639**	**243,069**

A detailed analysis and explanation on equity positions are stated in Note 20.

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).
The accompanying policies and explanatory notes form an integral part of the financial statements

Consolidated Statement of Cash Flows

kEUR	Notes	2010	2009
Operating activities			
Profit before tax		42,865	30,646
Adjustments for non-cash items	26.	5,242	10,463
Net changes in working capital	26.	-23,885	-44,305
Income tax paid		-4,882	-14,491
Cash flow from operating activities		**19,340**	**-17,687**
Cash flow from investing activities			
Purchase of intangible assets	13.	-273	0
Lease prepayments on land-use rights	14.	-116	-3,722
Purchase of property, plant and equipment	11.	-18,012	-5,150
Deposit payment for galvanization plant		-4,271	0
Interest received		2,458	124
Cash flow used in investing activities		**-20,214**	**-8,748**
Cash flow from financing activities			
Increase from capital injection	20.	91,000	0
Transaction costs from capital injection	20.	-6,691	-2,726
Issue of convertible bonds/preferred shares		0	31,528
Increase/(Decrease) in bank borrowings		-5,364	22,898
Increase/(Decrease) in related party loans		0	1,483
Interest paid		-4,187	-3,281
Cash flow from financing activities		**74,758**	**49,902**
Net increase in cash and cash equivalents		**73,884**	**23,467**
Cash and cash equivalents at beginning of period	19.	34,291	11,762
Foreign exchange movements		5,006	-938
Cash and cash equivalents at end of period	19.	**113,181**	**34,291**

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).
The accompanying policies and explanatory notes form an integral part of the financial statements

Notes to the Consolidated Financial Statements

for the accounting period ended 31 December 2010

General Notes

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 Stadthausbrücke 1-3, 20355 Hamburg, Germany. Additionally, Joyou has a further office in Westhafentower, Westhafenplatz 1, 60327 Frankfurt am Main. Joyou AG's shares are traded on the Prime Standard, a special segment of the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange. The first day of trading of Joyou's shares occurred on 30 March 2010.

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 10,000 divided into 10,000 ordinary shares and did not carry out any operative business. 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 2010 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 and in accordance with Section 315a Paragraph 3 of the German Commercial Code.

The Consolidated Financial Statements of Joyou Group are drawn up in Euros. Amounts are stated in thousands of Euros (EUR thousand or kEUR) except where otherwise indicated.

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

The Consolidated Financial Statements for the accounting period ended 31 December 2010 (including comparative information relating to the accounting year 2009) were approved and authorized for issue by the Management Board on 19 April 2011. They were approved by the Supervisory Board in its meeting of 19 April 2011.

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 summarized below.

With the exception of the changes in the accounting policy as set out in Note 3.1.2, the Consolidated Financial Statements have been prepared in accordance with the accounting policies adopted in the Consolidated Financial Statements for the year ended 31 December 2009, or which have been adopted early (see Notes 3.1 and 3.2). With reference to changes in accounting policies mentioned under Note 3.1.2 the accounting policies have been applied consistently throughout the Group for the purpose of preparation of these Consolidated Financial Statements.

An overview of Standards, amendments and interpretations issued, but not yet effective is given in Note 3.1.3.

3.1.2 Changes in Accounting Policies and Errors

Changes in accounting policies relate to the recognition of warranty provisions: In the 3rd quarter of 2010 management was able to finalize an analysis of items to be replaced by Joyou as part of its warranties policy. As at reporting date, Joyou Group for the first time has recognized a provision for warranties. As management implemented a new measurement basis, this change does not represent a change in estimation but a change in accounting policies. Management believes that its estimation based on the new measurement basis represents its best estimate of future costs associated with the remediation of defects. As the amount is seen to be immaterial, no adjustment to prior periods has been made. Given the growing number and variety of items to be produced and sold, the measurement basis and therefore the estimation itself may be subject to change. The effects arising in the current year can be seen in Note 21.3.

Retrospective restatements due to accounting errors relate to the classification of land-use rights and investment property. The reclassifications do not give rise to any impact on the consolidated statement of comprehensive income or earnings per share in the current or prior year:

Until 31 December 2009, land-use rights acquired by Joyou Group in China have been accounted for as intangible assets. Therefore, land-use rights were stated at cost less accumulated amortization and impairment losses. Amortization of land-use rights was 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 were included in cost of sales, other operating expenses and administrative expenses. This accounting policy was in line with Chinese Accounting Standards for Business Enterprises (ASBE 6) which are regarded as being substantially reflective of IFRS.

As current Chinese law does not allow PRC subsidiaries of Joyou Group to acquire land in the PRC, IAS 17 “Leases” is to be seen as the preferable accounting approach for land-use rights under IFRS. As promulgated by IAS 17.4, a lease is an agreement whereby the lessor (i.e. PRC government) conveys to the lessee (Joyou Group) in return for a payment the right to use an asset (land) for an agreed period of time. Therefore, Joyou has amended its accounting policy as of 31 December 2010 accordingly and has also changed the presentation for land-use rights for all prior period disclosure. The amounts paid for the right to use the land over the period agreed upon are now accounted for as operating leases and classified as prepayments to the lessor and expensed during the period over which the land-use rights are expected to be economically useable by Joyou Group. Lease prepayments to be expensed in the forthcoming twelve month period are disclosed under “other receivables and prepayments” with the remaining lease prepayments being disclosed in a separate line item “lease prepayments for land-use rights” under non-current assets. Said period over which the land-use rights are expected to be economically useable is unchanged to the period assumed as the useful life when being disclosed as intangible asset. All prior periods presented in the statement of financial position are adjusted accordingly to reflect this change. The profit for this accounting period as for all other periods remains unchanged as are the single line items within the statement of comprehensive income.

As a result, the following adjustments have been made to the statement of financial position, in order to apply the newly adopted accounting policy retrospectively in prior periods:

kEUR	Notes	31.12.2009	01.01.2009
Intangible assets (before adjustment)	13.	22,605	19,758
Adjustment	14.	-22,561	-19,706
Intangible assets	13.	44	52
Non-current assets		63,579	59,036
Lease prepayments for land-use rights	14.	22,014	19,464
Current		122,379	81,799
Other assets	18.	547	242

Due to the reverse acquisition the transfer from retained earnings into statutory reserves at the PRC subsidiaries must be disclosed separately as reserves of the parent company Joyou AG. Accordingly the amounts were reclassified retrospectively from retained earnings into statutory reserves:

kEUR	Notes	31.12.2009	01.01.2009
Statement of financial position	20.		
Retained earnings (before adjustment)		45,878	23,615
Adjustment		-2,488	0
Retained earnings		43,390	23,615
Statutory reserves (before adjustment)		3,012	3,012
Adjustment		2,488	0
Statutory reserves		5,500	3,012

Until 31 December 2009, all buildings owned by Joyou Group in China were reported in property plant and equipment. However, the company became aware that the treatment of one of its buildings was incorrect as it qualified under IAS 40 as an investment property. Accordingly the building has been reclassified in the statement of financial position and accounted for as an investment property using the cost model. Costs related to investment property are disclosed as other operating expenses. As a result, the following adjustments have been made to the statement of financial position and to the statement of comprehensive income both retrospectively applied in prior periods:

kEUR	Notes	31.12.2009	01.01.2009
Statement of financial position			
Property plant and equipment (before adjustment)	11.	40,117	38,544
Adjustment	12.	-1,962	-2,121
Property plant and equipment	11.	38,155	36,423
Statement of comprehensive income	9.		
Other operating expenses (before adjustment)		50	
Adjustment		156	
Other operating expenses		206	

3.1.3. Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the 2010 financial year

The Joyou group has applied the following releases of the IASB as well as their changes or revisions for the first time in the 2010 financial year:

- IAS 27: "Consolidated and separate financial statements" (Revised 2008)
- Changes to IAS 39: "Financial instruments: recognition and measurement" (Eligible Hedged Items)
- IFRS 1: "First-time adoption of IFRS" (Revised 2008)
- Changes to IFRS 1: "First-time adoption of IFRS" (Additional Exemptions for First-Time Adoptors)
- Changes to IFRS 2: "Share-based payment" (Share-based Payment Transactions among Group Entities)
- IFRS 3: "Business combinations" (Revised 2008)
- Changes to IFRS 5 und IFRS 1: "Non-current assets held for sale and discontinued operations" and "First-time adoption of IFRS" (changes from the "Annual Improvements Project 2008")
- IFRIC 12: "Service Concessions Arrangements"
- IFRIC 15: "Agreements for the Construction of Real Estate"
- IFRIC 16: "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17: "Distributions of Non-cash Assets to Owners"
- IFRIC 18: "Transfers of Assets from Customers"

No material effect arose on the statement of financial position, statement of cash flows or statement of comprehensive income of the Joyou Group as a result of the first-time application of these Standards, Interpretations or changes or revisions to them as well as changes from the Annual Improvements Project 2009.

3.1.4. Published but not yet applied Standards, Interpretations and Amendments

At the time of preparation of the group financial statements, the following releases of the IASB as well as their changes and revisions had either not been endorsed by the European Union or were not compulsorily applicable in the 2010 financial year, and were therefore not applied by the Joyou Group:

- IAS 24 and changes to IFRS 8: "Related party disclosures"
- Changes to IAS 32: "Financial instruments: presentation" (Classification of Rights Issues)
- Changes to IFRS 1 and IFRS 7: "First-time adoption of IFRS" and "Financial instruments: disclosures" (Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adoptors)
- Changes to IFRIC 14: "The Limit on an Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (Prepayments of a Minimum Funding Requirement)
- IFRIC 19 and consequential changes to IFRS 1: "Extinguishing Financial Liabilities with Equity Instruments" and "First-time adoption of IFRS"

The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the Joyou group from the 2011 financial year. Material effects on the statement of financial position, statement of cash flows or statement of comprehensive income as a result of the first-time application of these Standards, Interpretations or changes to them are not expected.

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.

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 EUR (kEUR).

3.2.2 Basis of Consolidation

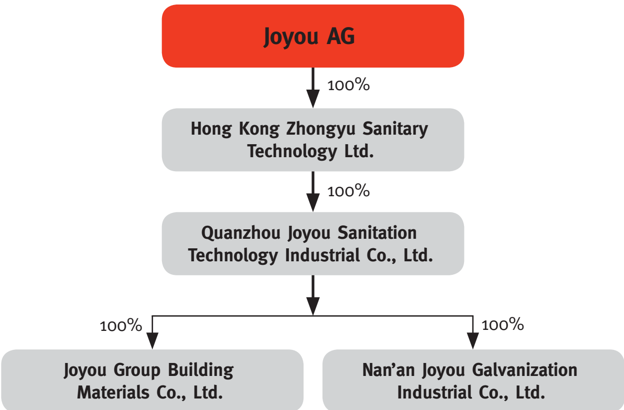
The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2010. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. All subsidiaries have an annual reporting date of 31 December.

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.

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 reverse acquisition was completed by issuance of ordinary shares in Joyou AG against contribution in kind of all shares in Joyou Hong Kong. By this contribution Joyou AG became the sole shareholder in Joyou Hong Kong. After legal completion of these transactions Joyou converted the Series A and Series B Preference Shares in Joyou Hong Kong into ordinary shares. The conversion was registered on the company register of Hong Kong on 26 April 2010. Further details are given in Note 20.1.

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 the PRC 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 IFRS standards applicable in 2008, business combinations of 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 – is 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 PRC 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 PRC 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.

3.2.3.2 Reverse Acquisition

According to IFRS 3.B 19 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 by issuing equity interests 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 3.2.3.

3.2.4 Foreign Currency Translation

3.2.4.1 Functional Currency

The Management Board has 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 and recognized in the consolidated statement of comprehensive income on disposal of the subsidiary.

3.2.4.2 Presentation 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:

EUR 1.00 =	Currency	Period end rates	Average rate
31 December 2010	**RMB**	**8.8231**	**8.9789**
31 December 2009	RMB	9.7772	9.5283
1 January 2009	RMB	9.4956	

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

Assets and liabilities for the statement of financial position are presented at the closing rate ruling at that reporting date. Income and expenses for the statement 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 presentation 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 Management Board of Joyou AG, which makes strategic decisions.

In identifying its nine operating segments, Management Board 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, bidet faucets, and sensor faucets which were manufactured by Joyou, except for limited sales of Bathroom faucets, the production of which was outsourced to external manufacturers. The Kitchen Product Segment includes the sale of kitchen faucets and kitchen basins. The Shower Products Segment represents the sale of shower faucets, showerheads and shower enclosures. The Segment of Ceramics and Bathtubs mainly comprise of bathtubs and ceramic sanitary ware such as basins and toilets. The Segment Bathroom Cabinets includes free standing and wall-hung cabinets. The Segment Bathroom Accessories mainly comprise baskets, soap trays, rook hooks, corner shelves and toilet paper holders. Other faucets and sanitary hardware mainly comprise small faucets, drainage covers, angle valves, and crude products. In the Segment of Copper and semi-finished Components unfinished products such as copper tubing and accessories are combined. Finally, the Segment Grohe Business comprises of commission sales gained mainly from Asian product lines of Grohe products, for which Joyou is the master China distributor.

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. With the exception of the assets recorded in the Grohe segment, which can be separately identified, 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.

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 directly 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 patents 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 3.2.12. Amortization has been included within administrative expenses and cost of sales.

3.2.9.1 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 ten years. All amounts charged in respect of the amortization of software are included in administrative expenses.

3.2.9.2 Patents

Patents are capitalized on the basis of cost incurred to acquire and bring it to the intended use condition.

Patents are stated at cost less accumulated amortization and any impairment losses. The costs are amortized using a straight-line method over an estimated useful life in accordance with legal requirements. All amounts charged in respect of the amortization of patents are included in cost of sales.

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 2010, development costs have not met all these criteria for capitalization and as a result, they are expensed as incurred.

3.2.10 Lease Prepayments for Land-use Rights

As stated under 3.1.2. Lease prepayments for land-use rights are accounted for under IAS 17 "Leases" as operating leases. The amounts paid for the right to use the land over the period agreed upon are classified as prepayments to the lessor and expensed during the period over which the land-use rights are expected to be economically useable by Joyou Group. Prepayments to be expensed in the forthcoming twelve month period are disclosed under "other receivables and prepayments" with the remaining prepayments being disclosed in a separate line item under non-current assets.

The amounts expensed in respect of lease prepayments for land-use rights are included under cost of sales, other operating expenses and administrative expenses, depending on the nature of their use.

3.2.11 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.

3.2.12 Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation and are accounted for using the cost model. Investment properties are stated at cost, less accumulated depreciation and 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 useful lives mentioned under Note 3.2.11.

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 investment property. The carrying values of investment property are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Rental income and operating expenses from investment property are reported within "other operating incomee" and "other operating expenses" respectively, and are recognized as described in Note 3.2.6 and Note 3.2.7.

3.2.13 Impairment of Intangible Assets, Property, Plant and Equipment and Investment Property

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 basis over its remaining useful life.

3.2.14 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 and financial liabilities are measured initially at fair value.

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 mandatorily 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 recognized and included in shareholders' equity, net of income tax effects.

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

3.2.14.1 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 receivables, notes receivable and amounts due from related parties 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.

3.2.14.2 Financial Liabilities

The Group's financial liabilities include interest-bearing bank loans, trade and other payables, notes payable and amounts due to related parties.

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 necessary.

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'.

3.2.15 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 but excluding borrowing costs
Merchandise products	purchase cost on a weighted average basis

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 17.

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

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax 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 3.2.22.2.

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.

3.2.17 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.

3.2.18 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 the issue of share capital. As at the reporting date the amount reflects the amounts in Joyou Hong Kong and – as additions in 2010 financial year – a premium arising from the increase in the holding for shares in Joyou Hong Kong in exchange for ordinary shares in Joyou AG, as well as proceeds from the initial public offering on the Frankfurt stock exchange, both in March 2010. Any transaction costs associated with the issuing of shares have been deducted from capital reserve, net of any related income tax benefits.

Statutory reserves arise from the requirement under PRC law to transfer 10% of the profit after tax as reported in their PRC statutory financial statements to the statutory reserve 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-in capital, provided that the reserve does not fall below 25% of the registered capital.

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.

3.2.19 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.

3.2.20 Share-based Employee Remuneration

The Group operates an equity-settled share based remuneration plan for its chief 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 value of the remuneration is 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 debit 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 share 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.

3.2.21 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. Provisions are not recognized for future operating losses. 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 and remove 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.

3.2.22 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:

3.2.22.1 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 written 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.

3.2.22.2 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.

3.2.22.3 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, generally the rebate for the individual distributor is calculated.

3.2.23 Estimation Uncertainty

3.2.23.1 Useful Lives of Depreciable and Amortizable Assets

Management reviews the useful lives of depreciable and amortizable assets at each reporting date. The useful life of the Group's intangible assets is to be within 10 to 20 years and property, plant and equipment and investment property is to be within 8 to 25 years. These are common life expectancies applied in sanitary ware industry in the PRC. At 31 December 2010 management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analyzed in Notes 13, 12 and 11. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

3.2.23.2 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.

3.2.23.3 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 recognizes provisions for warranties which cover cost of repairs. Provisions are estimated on management's past experience and the future expectations of defects. Further explanations are given in Note 3.1.2.

4 Segment Reporting

Management currently identifies the Group's nine product categories (previous year: six product categories) as operating segments as further described in Note 3.2.5. Due to the expansion of segments, the segment reporting of the comparative period was restated on the same basis as the segments for the current year. The segment presentation is in accordance with the expanded cost accounting system and management's expectation of future business developments. These operating segments are monitored and strategic decisions are made on the basis of segmental gross margins.

2010 kEUR	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary	Copper Semi-Finished Products	Grohe Business	Total
Twelve months ended 31 December 2010										
Revenue	107,094	34,666	37,944	16,192	4,927	11,087	22,932	9,725	2,058	246,625
Cost of sales	-74,381	-25,175	-26,721	-10,679	-3,311	-7,860	-20,767	-7,525	-1,675	-178,094
Gross Profit	32,713	9,491	11,223	5,513	1,616	3,227	2,165	2,200	383	68,531
Segment assets	**143,167**	**46,343**	**50,726**	**21,646**	**6,587**	**14,821**	**30,656**	**13,001**	**12,557**	**339,504**

2009 kEUR	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary	Copper Semi-Finished Products	Grohe Business	Total
Twelve months ended 31 December 2009										
Revenue	82,880	26,717	21,178	6,098	1,935	6,635	19,912	6,972	0	172,327
Cost of sales	-58,688	-18,662	-14,960	-4,076	-1,322	-4,799	-16,385	-6,474	0	-125,366
Gross Profit	24,192	8,055	6,218	2,022	613	1,836	3,527	498	0	46,961
Segment assets	**89,435**	**28,830**	**22,853**	**6,580**	**2,088**	**7,160**	**21,487**	**7,525**	**0**	**185,958**

The gross profit disclosed in the segment reporting equals the segment operating profit. All of the group's non-current assets are located in the PRC.

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

kEUR	2010	2009
Domestic: own brand	203,123	136,516
Export (indirectly)	39,102	32,682
Export (directly)	2,342	3,129
Domestic: Grohe business	2,058	0
Total	**246,625**	**172,327**

Revenues from external customers in the Group's economic domicile, PRC, have been identified on the basis of the internal reporting system.

During 2010 kEUR 9,857 (2009: kEUR 11,652) or 4% (2009: 7%) of the groups' revenues depended on a single customer.

Domestic sales relate to customers located in the PRC. Export indirectly relates to sales to domestic customers that normally export the goods for resale. Export directly relates to sales to customers located outside the PRC, i.e. rest of the world. Finally, Domestic Grohe business concerns sales of merchandise products acquired from Grohe.

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:

kEUR	2010	2009
Gross profit	**68,531**	**46,961**
Other operating income	1,581	500
Selling and distribution expenses	-16,304	-6,224
Administrative expenses	-8,575	-2,077
Other operating expenses	-1,481	-206
Operating profit	**43,752**	**38,954**
Finance income	7,347	454
Finance costs	-8,234	-8,762
Profit before income tax	**42,865**	**30,646**
Income tax	-9,687	-8,384
Profit for the period	**33,178**	**22,262**

Notes to the Statement of Comprehensive Income

5 Revenue and Income

kEUR	2010	2009
Revenue	**246,625**	**172,327**
Other operating income		
Government grant	411	144
Rental income	313	214
Reimbursements	829	0
Others	28	142
	1,581	**500**
Finance income		
Interest income	7,347	454
Total income	**255,553**	**173,281**

Governments grants relate mainly to compensation for expenses (kEUR 262; previous year kEUR 54) research and development expenses (kEUR 93; previous year kEUR 4) and marketing, sales and training expenses (kEUR 36; previous year kEUR 86), which had already been incurred. There are no unfulfilled conditions or contingencies relating to recognized government grants.

The rental income derived from investment property is stated in Note 12.

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 4.

6 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 costs of sales for the period under review for each category:

kEUR	2010	2009
Copper	92,297	68,737
Zinc	9,092	9,053
Other metals	11,651	5,321
Other parts	16,568	10,127
Labor costs	5,755	2,475
Depreciation	2,956	2,475
Outsourced products	29,233	19,704
Overheads/Others	10,542	7,474
Total	**178,094**	**125,366**

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

7 Selling and Distribution Expenses

Selling and distribution expenses comprise mainly 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), subsidies 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.

8 Administrative Expenses

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

kEUR	2010	2009
Administrative labor costs	3,499	1,332
Travel and entertainment costs	1,830	761
Office cost	991	280
Consulting fees	1,284	266
Depreciation of fixed assets	407	51
Other taxes	386	216
Bad debt provision (reversal)	-753	-829
Others	931	0
Total	**8,575**	**2,077**

9 Other Operating Expenses

kEUR	2010	2009
IPO costs relating to Greenshoe shareholders	829	0
Expenses on lease prepayments for land-use rights on property under construction	290	0
Expenses on investment property	166	156
Donation	89	35
Tax late fee	1	15
Others	106	0
Total	**1,481**	**206**

IPO costs relating to Greenshoe shareholder have been refunded and the corresponding income is reported under other operating income.

10 Operating Profit

kEUR	2010	2009
After charging/(crediting)		
Cost of inventories recognised as expense	129,608	93,238
Depreciation of property, plant and equipment	3,360	2,134
Staff costs	9,229	4,050
Amortization of intangible assets	8	6
Expensing on lease prepayments for land-use rights	547	242
Allowance for doubtful trade debts/ (no longer required)	-423	-925
Allowance for doubtful non-trade debts/ (no longer required)	-330	96
Research and development charge	3,265	1,674

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 Statement of Financial Position

11 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:

kEUR	Buildings	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
Costs						
Balance as at 01.01.2009	19,279	19,169	271	127	3,402	42,248
Currency translation adjustment	-553	-551	-8	-3	-98	-1,213
Additions	0	3,174	241	118	1,617	5,150
Balance as at 31.12.2009	18,726	21,792	504	242	4,921	46,185
Currency translation adjustment	2,025	2,357	55	26	532	4,995
Additions	35	2,867	1,532	1,194	12,384	18,012
Reclassifications	8,933	1,173	0	0	-10,106	0
Disposals	0	-752	0	0	0	-752
Balance as at 31.12.2010	29,719	27,437	2,091	1,462	7,731	68,440
Accumulated depreciation						
Balance as at 01.01.2009	1,338	4,420	60	7	0	5,825
Currency translation adjustment	22	48	1	0	0	71
Charge for the year	852	1,240	39	3	0	2,134
Balance as at 31.12.2009	2,212	5,708	100	10	0	8,030
Currency translation adjustment	244	612	11	1	0	868
Charge for the year	1,200	1,910	192	58	0	3,360
Disposals	0	-678	0	0	0	-678
Balance as at 31.12.2010	3,656	7,552	303	69	0	11,580
Net carrying amount						
As at 1 January 2009	17,941	14,749	211	120	3,402	36,423
As at 31 December 2009	16,514	16,084	404	232	4,921	38,155
As at 31 December 2010	26,063	19,885	1,788	1,393	7,731	56,860

The group has a contractual commitment at the reporting date for the completion of a new ceramics plant of kEUR 6,568 (31 December 2009: kEUR 0).

As at 31 December 2010, buildings with total carrying values of kEUR 15,431 (31 December 2009: 13,080) are subject to a first charge to secure the group's bank loans. The cost of property, plant and equipment on which pledges have been granted is kEUR 17,238 (31 December 2009: kEUR 14,159), accumulated depreciation is kEUR 1,807 (31 December 2009: kEUR 1,079).

Construction in progress includes an amount of kEUR 279 in respect of interest capitalized on qualifying assets. For further information regarding capitalized interest please refer to Note 23.

12 Investment Property

Investment properties comprise a building rented in the surrounding area of Joyou's production site in Nan'an, PRC.

kEUR	Total
Costs	
Balance as at 01.01.2009	2,239
Currency translation adjustment	-64
Balance as at 31.12.2009	2,175
Currency translation adjustment	235
Balance as at 31.12.2010	**2,410**
Accumulated depreciation	
Balance as at 01.01.2009	118
Currency translation adjustment	-3
Charge for the year	98
Balance as at 31.12.2009	213
Currency translation adjustment	23
Charge for the year	108
Balance as at 31.12.2010	**344**
Net carrying amount	
As at 1 January 2009	2,121
As at 31 December 2009	1,962
As at 31 December 2010	2,066

No professional valuation has been carried out on the above investment property. However the management is of the opinion that there is no significant difference between the fair value and net carrying amount.

Rental income from investment property for 2010 amounts to kEUR 313 (2009: kEUR 214) and is included in "other operating income". No contingent rents were recognized. Direct operating expenses of kEUR 166 (2009: 156 kEUR), mainly for amortization of land-use rights, depreciation on investment property and property-related taxes, were reported in other operating expenses.

The property is leased out under an operating lease agreement until the end of the 2011 financial year. Future minimum lease payments, which become due within one year amount to kEUR 313.

13 Intangible Assets

The Group's intangible assets comprise acquired software licenses and patents. All intangible assets are purchased externally. The carrying amounts for each of the reporting periods under review can be analysed as follows:

kEUR	Software	Patents	Total
Costs			
Balance as at 01.01.2009	59	0	59
Currency translation adjustment	-2	0	-2
Balance as at 31.12.2009	57	0	57
Currency translation adjustment	7	0	7
Additions	46	227	273
Balance as at 31.12.2010	**110**	**227**	**337**
Accumulated depreciation			
Balance as at 01.01.2009	7	0	7
Currency translation adjustment	0	0	0
Charge for the year	6	0	6
Balance as at 31.12.2009	13	0	13
Currency translation adjustment	1	0	1
Charge for the year	8	0	8
Balance as at 31.12.2010	**22**	**0**	**22**
Net carrying amount			
As at 1 January 2009	52	0	52
As at 31 December 2009	44	0	44
As at 31 December 2010	88	227	315

No intangible assets have been pledged as security for liabilities.

14 Lease Prepayments for Land-use Rights

The company prepaid rights to use land in the PRC, which are accounted for as operating leases. No further payments arise in the future on these land-use rights. The land-use rights are leased over a period of 50 years in maximum and are expensed over their lease period. As at 31 December 2010, the land-use rights have remaining lease periods of 13 to 50 years.

kEUR	Total
Balance as at 1 January 2009	**19,706**
Currency translation adjustment	-625
Additions	3,722
Expensed for the year	-242
Balance as at 31 December 2009	**22,561**
Currency translation adjustment	2,410
Additions	116
Expensed for the year	-547
Balance as at 31 December 2010	**24,540**
Thereof current	537
Thereof non-current	24,003

As at 31 December 2010, lease prepayments for land-use rights (current and non-current portions) with a total carrying value of kEUR 9,997 (31 December 2009: kEUR 9,898) are subject to a first charge to secure the Group's bank loan. The cost of the lease prepayments for land-use rights pledged is kEUR 10,696 (31 December 2009: kEUR 10,553) and the related amount expensed is kEUR 700 (31 December 2009: kEUR 655).

15 Financial Assets and Liabilities

15.1 Categories of Financial Assets and Liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Loans and Receivables

kEUR	Note	2010	2009
Trade receivables	18.	55,349	41,348
Other receivables and prepayments	18.	4,345	3,520
Cash and cash equivalents	19.	113,181	34,291
Total		**172,875**	**79,159**

Financial liabilities measured at amortized costs

kEUR	Note	2010	2009
Non-current			
Long-term loans/Preferred shares	15.	3,400	42,474
Current			
Short-term loan (bank loans)	15.	43,752	52,516
Trade payables	21.	8,679	968
Notes payable	21.	32,720	19,167
Other payable and accruals	21.	3,792	1,437
Amounts due to related parties	27.	24	13
Total		**88,967**	**116,575**

See Note 3.2.14 for a description of the accounting policies for each category of financial instruments. The fair values of the financial assets and liabilities approximate to their fair values. A description of the group's risk management objectives and policies for financial instruments is given in Note 29.

15.2 Preferred Shares

In 2009 Joyou Hong Kong issued two different kinds of preferred shares, which were converted into ordinary shares in March 2010.

Issuance of Series A 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 qualified as a financial liability and the investors had no direct interest in equity, no non-controlling interest had been accounted 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. Jianshe CAI amounting to kEUR 8,161 or kRMB 80,000. The proceeds had been used by Mr. Jianshe CAI 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. Jianshe CAI 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.

Issuance of Series B Preferred Shares

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 31 December 2009 the fair value of Series B1 Preferred Shares amounts to kEUR 9,041 and of Series B2 Preferred Shares to kEUR 33,433.

Stock swap into ordinary shares in Joyou AG by the Joyou Hong Kong shareholder's

On 15 March 2010, the shareholders of Joyou AG increased the number of shares from 10,000,000 by 6,967,492 up to 16,967,492 ordinary shares. As consideration for their interest in the shares of Joyou AG, the investors transferred their holdings of Series A Preferred Shares and Series B Preferred Shares in Joyou Hong Kong to Joyou AG.

The fair value of the Series A Preferred Shares and Series B Preferred Shares as at 15 March 2010 amounted to kEUR 48,992. The fair value of the new issued shares is valued at EUR 13.00 per issued share, which is equal to the offering stock price at Joyou's IPO at 30 March 2010. The surplus between the fair value of the Series A Preferred Shares and Series B Preferred Shares of kEUR 48,992 and the fair value of the new issued shares of kEUR 6,967 amounts to kEUR 42,025 and is attributed to the capital reserve: Any transaction costs associated with the issuing of the new shares in Joyou AG is deducted from capital reserve, net of any related income tax benefits.

Conversion of preferred shares into ordinary shares in Joyou Hong Kong

By contribution in kind Joyou AG became the sole shareholder of Joyou Hong Kong. As a result the preferred shares stated in the 2009 Consolidated Financial Statements as non current liabilities were converted into equity in March 2010. The carrying amounts of preferred shares as well as the reclassification into other items of the statements of financial position can be analyzed as follows:

kEUR	Total
Preferred shares	
Preferred as at beginning of the year	42,474
Foreign exchange valuation	2,451
Interest on preferred shares	4,047
Deferred taxes	20
Total amount of preferred shares stated as non current liability before conversion	48,992
Conversion into equity	
Capital subscribed	-6,967
Capital reserve	-42,025
Total as at 31 December 2010	**0**

After legal completion of these transactions Joyou AG converted the Series A and Series B Preference Shares in Joyou Hong Kong into ordinary shares. The conversion was registered at the company register of Joyou Hong Kong on 26 April 2010.

15.3 Short-term Loans

Short-term loans include the following financial liabilities:

kEUR	2010	2009
Secured bank loans	15,788	10,926
Unsecured bank loans	27,964	41,590
Total	**43,752**	**52,516**

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 14 and 11) as well as guarantees granted by related parties (see Note 27.3.4). Current interest rates are fixed and average 5.33% (previous year: 5.50%).

15.4 Long-term Loans

Long term loans relate to a bank loan which was granted in 2010 and is due for repayment in 2013. Management considers the carrying amount recognized in the statement of financial position to be a reasonable approximation of the fair value. The loan is denominated in Chinese RMB.

The long-term loan is secured by land-use rights and property, plant and equipment owned by the Group (see Notes 14 and 11) as well as guarantees granted by related parties (see Note 27.3.4). The loan bears interest at 5.40%.

16 Deferred Tax Assets and Liabilities

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

kEUR	1 January 2010	Foreign exchange adjustments	Recognized in equity	Recognized in profit and loss	31 December 2010
Allowance for trade and other receivables	974	74	0	-527	521
Preferred shares	707	63	0	-770	0
Provisions	35	0	0	165	200
Inventories	10	2	0	43	55
Amounts due from related parties	-19	-1	0	20	0
Trade liabilities	0	0	0	-34	-34
Land-use right	0	0	0	44	44
Taxable losses	0	0	2,250	-2,250	0
Property, plant and equipment	-302	102	0	-160	-360
Deferred IPO costs	-892	0	892	0	0
Total	**512**	**240**	**3,142**	**-3,469**	**426**
Recognized as					
Deferred tax asset	1,404				426
Deferred tax liability	892				0
Total	**512**				**426**

kEUR	1 January 2009	Recognized in equity	Recognized in profit and loss	31 December 2009
Allowance for trade and other receivables	1,129	0	-155	974
Preferred shares	0	0	707	707
Provisions	33	0	2	35
Inventories	52	0	-42	10
Amounts due to related parties (fair value and interests)	-51	0	51	0
Other payables and accruals	80	0	-80	0
Amounts due from related parties	0	0	-19	-19
Property, plant and equipment	-272	0	-30	-302
Deferred IPO costs	-296	0	-596	-892
Total	**675**	**0**	**-162**	**512**
Recognized as				
Deferred tax asset	976			1,404
Deferred tax liability	301			892
Total	**675**			**512**

With the exception of future benefits from taxable losses carried forward in Germany as detailled in Note 24.2 all deferred tax assets (including tax losses and other tax credits) and liabilities, if any, have been recognized in the statement of financial position.

17 Inventories

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

kEUR	2010	2009
Raw materials and consumables	16,758	6,885
Finished goods and outsourcing products	16,493	5,582
Merchandise products	12,557	0
Work in process	19,495	10,212
Total	**65,303**	**22,679**

Merchandise products relate to products purchased from Grohe in accordance with the distribution agreement.

In the twelve months ended 31 December 2010, a total of kEUR 129,608 (31 December 2009: kEUR 93,238) of inventories was included in profit and loss within cost of sales as an expense. This includes an amount of kEUR 3 (31 December 2009: kEUR 168) resulting from reversals on write downs of inventories made in previous years.

18 Trade and other Receivables

kEUR	2010	2009
Trade receivables	56,594	42,860
Allowance for trade receivables	-1,245	-1,512
Total	**55,349**	**41,348**

Other Receivables and Prepayments

kEUR	2010	2009
Other receivables	4,345	3,520
Advances to suppliers	12,053	18,587
Current portion of lease prepayments for land-use rights	537	547
Prepaid expenses	1,212	342
Deferred charges (IPO)	0	2,261
Prepayments made on acquisitions	4,347	0
Allowance for other receivables and prepayments	-1,628	-1,773
Total	**20,866**	**23,484**
Related parties		
Amounts due from related parties	1,135	577

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 are as follows:

kEUR	2010	2009
Thereof not past due		
within 30 days	22,210	10,555
31–90 days	28,823	21,259
	51,033	**31,814**
Thereof past due		
91–180 days	4,727	9,645
181–360 days	226	1,166
1–2 years	452	224
2–3 years	138	2
over 3 years	18	9
	5,561	**11,046**
Total	**56,594**	**42,860**

Deferred IPO Costs

Deferred IPO costs, reported in the 2009 financial year, were deducted from new equity gained from the issue of new shares as part of Joyou's IPO on the Frankfurt stock exchange in March 2010. Further details are presented in the statement of movements in equity.

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, Joyou makes provisions on trade and other receivables, which amount as follows:

kEUR	2010	2009
Provision for trade receivables	1,245	1,512
Provision for other receivables	1,628	1,773
Total	**2,873**	**3,285**

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. The movements in provision for trade receivables are as follows:

kEUR	2010	2009
Provision for trade receivables		
Balance as at 1 January	1,512	2,486
Currency translation adjustment	156	-49
Impairment loss reversed	-423	-925
Balance as at 31 December 2009	**1,245**	**1,512**

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. The movements in the provision for other receivables are as follows:

kEUR	2010	2009
Provision for other receivables		
Balance as at 1 January	1,773	1,730
Currency translation adjustment	185	-53
Impairment loss reversed (provided)	-330	96
Balance as at 31 December 2010	**1,628**	**1,773**

Net gains and losses on loans and receivables amounted to a net loss of kEUR 753 (period ended 31 December 2009: kEUR 829).

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 as they are expected to be recoved within twelve months.

19 Cash and Cash Equivalents

Cash and cash equivalents include the following components:

kEUR	2010	2009
Cash on hand	19	5
Cash in banks	105,734	12,277
Security deposits for letters of credit	373	1,091
Security deposits for notes payable	7,055	7,353
Security deposits for short term loan	0	12,032
Security deposits for bank draft	0	1,533
Total	**113,181**	**34,291**

For the purpose of providing security on the issue of loan notes, the Group is required to deposit cash into restricted accounts with its bankers. The amount of cash and cash equivalents inaccessible to the Group as at 31 December 2010 amounts to kEUR 7,428 (31 December 2009: kEUR 22,009). The restrictions on bank deposits are normally removed on settlement of the underlying notes.

20 Capital and Reserves

20.1 Share Capital – Joyou AG

The share capital of Joyou AG consists only of fully paid ordinary shares without nominal value (Nil-par shares), having a proportional amount of the subscribed capital of EUR 1.00 each. All shares are equally eligible to receive dividends and repayments of capital and represent one vote at the shareholder's meeting of Joyou AG.

kEUR	2010	2009
Shares issued and fully paid:		
Beginning of the year	10,000	10,000
Issued against contribution in kind	6,967	0
Issued against cash contribution on IPO	7,000	0
Shares issued and fully paid:	23,967	10,000
Shares authorised	11,984	5,000
Total shares authorised at 31 December	**35,951**	**15,000**

At its shareholders' general meeting on 15 March 2010, the shareholders increased the number of shares by 6,967,492 ordinary shares. The capital increase was recorded on the company register on 28 March 2010. The new shares were issued as no par value bearer shares with a notional amount of the share capital of each share to the investors in Joyou Hong Kong. As consideration for their interest in the shares of Joyou AG, the investors transferred their holdings of Series A Preferred Shares and Series B Preferred Shares in Joyou Hong Kong to Joyou AG. The fair value of the Series A Preferred Shares and Series B Preferred Shares as at 15 March 2010 amounted to kEUR 48,992.

After registration of the implementation of the capital increase against contribution in kind, the shareholders of Joyou AG resolved in their meeting dated 15 March 2010 to increase the number of shares from 16,967,492 by up to 7,000,000 to up to 23,967,492 ordinary shares. The new shares are vested with full dividend rights from the beginning of the financial year. The shares were issued for the purpose of the Initial Public Offering, in which all shares were admitted to trading on the Regulated Market of the Frankfurt Stock exchange (Prime Standard). Joyou went public on 30 March 2010 with an initial share price of EUR 13.00 per Nil par value share.

Finally, at the same shareholder meeting on 15 March 2010, the previously authorized capital was abolished and a new authorized capital 2010 was created. The Management Board is authorized, in the period until 15 March 2015, to increase the subscribed capital of Joyou AG, with the agreement of the Supervisory Board, once or more than once, by up to EUR 11,983,746, via the issue of up to 11,983,746 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 Management 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 ended 31 December 2010, no capital increases were resolved from this authorized capital. The authorized capital as at 31 December 2010 amounts to EUR 11,983,746.

20.2 Capital Reserves

Proceeds received in addition to the nominal value of the shares issued during the year have been included in the capital reserve, less advisory expenses, registration and other regulatory fees, net of related tax benefits. These amounts can be analyzed as follows:

kEUR	Gross proceeds	Transaction costs	Tax benefits	Transaction costs net of tax	Changes in capital reserve
Contribution in kind	42,025	4,699	-2,023	2,676	39,349
Cash contribution on IPO	84,000	4,718	-1,119	3,599	80,401
Total contributions	**126,025**	**9,417**	**-3,142**	**6,275**	**119,750**

In 2010 Joyou AG transferred an amount of kEUR 10,464 from capital reserve to retained earnings to bring retained earnings in Joyou AG's statutory financial statements from kEUR -10,464 to zero.

The amounts in the capital reserve, with the inclusion of the above movements arising from capital increases are as follows:

kEUR	Total
Balance as at 1 Janurary 2009	**5,544**
Equity component of preferred shares	511
Stock options	15
Balance as at 31 December 2009	6,070
From capital increase	119,750
Stock options	89
Transfer to retained earnings/statutory reserves	-10,464
Balance as at 31 December 2010	**115,445**

20.3 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 in capital, as long as the reserves amount to at least 10% of the share capital. At 31 December 2010 the statutory reserve of Joyou AG amounts to Nil (31 December 2009: Nil).

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 reserve 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-in capital, provided that the reserve does not fall below 25% of the registered capital. The statutory reserve of the PRC companies amounts to kEUR 7,893 at 31 December 2010 (31 December 2009: kEUR 5,500).

20.4 Foreign Currency Translation Reserve

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

20.5 Retained Earnings

The retained earnings reserve comprises the cumulative net gains and losses recognized in the Group's statement of comprehensive income.

21 Trade and other Payables, Provisions

21.1 Trade and other Payables

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

kEUR	2010	2009
Trade payables	8,679	968
Accrued expenses	1,172	1,050
Accrued payroll	784	458
Other payables	1,309	676
Advances from customers	1,202	396
Other tax payables	210	164
Total	**4,677**	**2,744**

kEUR	2010	2009
Amount due to related parties	24	13
Total	**24**	**13**

Trade Payables
All trade payables are non-interest bearing.

Advances from Customers
Advances from customers relate to prepayments by clients 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.

21.2 Note Payables

Note payables refer to acceptances of suppliers.

21.3 Provisions

All provisions are considered non current and relate to warranty, 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. The carrying amounts may be analyzed as follows:

kEUR	2010	2009
Carrying amount as at beginning	642	138
Currency translation adjustment	70	-4
Accumulation of interest	12	8
Additional provisions	161	500
Carrying amount as at end	**885**	**642**

Management was able to finalize an analysis of items to be replaced by Joyou as part of its warranties policy in 2010. For the first time Joyou AG has recognized a provision for warranties. This estimation is based on an average return rate multiplied with total revenues gained during the respective warranty period. Claims are usually settled between one and six months from initiation.

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 costs.

In 2009 financial year 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 fulfill 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 Management Board of Joyou AG and major shareholder of Joyou AG, Mr. Jianshe CAI, 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. Jianshe CAI which is disclosed under the line item “Amounts due from related parties” as described in Note 27.2.

The carrying amounts may be analyzed as follows:

kEUR	Warranty	Decommissioning	Potential payments	Total
Carrying amount as at beginning	0	142	500	642
Currency translation adjustment	0	15	55	70
Accumulation of interest	0	12	0	12
Additional provisions	126	35	0	161
Carrying amount as at end	**126**	**204**	**555**	**885**

22 Employee Remuneration

22.1 Employee Benefits Expense

Expenses recognized for employee benefits are analyzed below:

kEUR	2010	2009
Wages and salaries	9,028	3,759
Social security costs	201	291
Total	**9,229**	**4,050**

The employee payroll costs can be allocated as follows:

kEUR	2010	2009
Cost of sales	6,694	2,470
Operating expenses	479	284
Administrative expenses	1,855	1,005
Total	**9,028**	**3,759**

The employee social insurance costs can be allocated as follows:

kEUR	2010	2009
Cost of sales	0	5
Operating expenses	0	0
Administrative expenses	201	286
Total	**201**	**291**

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

kEUR	2010	2009
Management and administration	270	245
Sales	138	61
Production	1,836	1,378
Total	**2,244**	**1,684**

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:

kEUR	2010	2009
Waiver on convertible loan	0	240
Interest income	2,458	213
Exchange gain	4,889	1
Total	**7,347**	**454**

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

kEUR	2010	2009
Interest on bank and other loans	3,799	2,897
Interest on preferred shares and shareholder loan	4,047	5,473
	7,846	**8,370**
Bank charges	238	350
Exchange losses	418	35
Other	11	7
Total finance expenses	**8,513**	**8,762**
Less: Interest expenses capitalised	-279	0
Total finance costs	**8,234**	**8,762**

The borrowing costs have been capitalised at a rate of 5.81% per annum (2009: Nil).

24 Taxation

24.1 Major Components of Income Tax Expense

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

kEUR	2010	2009
Current income tax	6,218	8,222
Deferred income tax induced by tax rate deductions	440	0
Deferred income tax induced by write down of future benefits from taxable losses	3,380	0
Deferred income tax induced by temporary differences	-351	162
Subtotal	**3,469**	**162**
Total	**9,687**	**8,384**

24.2 Relationship between Tax Expense and Accounting Profit

The relationship between the expected tax expenses based on domestic effective tax rate of Joyou Group and the reported tax expense in profit or loss can be reconciled as follows:

kEUR	2010	2009
Accounting profit before income tax	**42,865**	**30,646**
Tax at respective companies' domestic income tax rate	6,485	7,662
Effect of deduction in tax rate	440	0
Tax-exempt income/expenses	-778	0
Tax benefits from tax losses of the prior year	-1,293	0
Taxable losses written down or not capitalized	3,380	592
Deferred taxes expenses on preferred shares	1,438	-84
Non-deductible expenses	15	214
Total income tax	**9,687**	**8,384**

In 2009, Joyou AG did not recognize deferred tax assets relating to tax losses carried forward amounting to kEUR 1,293. In the course of 2010, it became probable that these losses could be used, due to anticipated future interest and dividend income. By the end of 2010, as a result of the intended acquisition of the majority of the shares in Joyou AG by Grohe AG, all tax of the losses are deemed to have expired under Section 8 c of the German Corporate Tax Act. Benefits of kEUR 3,380 were consequently written off in 2010. As at 31 December 2010, Joyou has not recognized deferred tax assets on tax losses amounting to kEUR 10,977 (prior year: kEUR 4,006).

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 2010, 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 taxable profits during the accounting period ended 31 December 2010 (2009: Nil), no German corporate income taxes have been provided for.

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

In general the taxable profits of the PRC subsidiaries were determined by reference to the accounting profit, adjusted for non-deductible items. In general the applicable rate of corporate income tax is 25%, in accordance with Chinese income tax law.

In April 2010 the Fujian national tax bureau of China has granted a preferential tax treatment to the two PRC entities of the Joyou Group as a high tech enterprise. For a three year period starting at the beginning of the financial year 2010 these two PRC entities of Joyou's corporate income tax rate is reduced from 25% to 15%.

24.3 Income Tax Payable

Taxation payable in the statement of financial position represents:

kEUR	2010	2009
Balance of provision relating to previous years	688	6,959
Currency translation adjustment	274	-2
Foreign enterprise income tax provision for the year	6,218	8,222
Income tax paid	-4,882	-14,491
Total	**2,298**	**688**

25 Earnings per Share and Dividends

25.1 Earnings per Share

The basic earnings per share have been calculated using the profit attributable to owners 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 and diluted earnings per share** for the twelve month period ended 31 December 2010 amounted to 20,475,619 shares.

After the investors in Joyou Hong Kong restructured their investments in Joyou Hong Kong into ordinary shares in Joyou AG by 15 March 2010 the diluted earnings per share of Joyou AG is equal to basic earnings per share for the financial year 2010.

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 in kEUR	2010	2009
Profit for the period (Joyou AG)	33,178	22,262
Adjustments at the level of Joyou Hong Kong:		
Interest on preferences shares and convertible bond (net of tax)	0	21
Non-controlling interest	0	-9,098
Profit after adjustments (Joyou AG)	33,178	13,185

The weighted average number of shares for the purposes of diluted earnings per share in 2009 can be reconciled to the weighted average number of ordinary shares in 2009 used in the calculation of basic earnings per share as follows:

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

The weighted average number of shares for the purposes of diluted earnings per share in 2010 is the same as the weighted average number of ordinary shares used in the calculation of basic earnings per share.

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.

Under the income tax law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the Consolidated Financial Statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26 Cash Flow Adjustments and Changes in Working Capital

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

kEUR	2010	2009
Adjustments for non-cash items:		
Amortization of intangible assets	8	6
Expenses on lease prepayments for land-use rights	547	242
Changes in other provision	243	504
Allowance for doubtful trade other receivables	-753	-829
Depreciation of property, plant and equipment	3,360	2,134
Depreciation of investment property	108	98
Interest income	-2,458	-454
Interest cost	4,187	8,762
Total adjustments	**5,242**	**10,463**

kEUR	2010	2009
Net changes in working capital		
(Increase)/decrease in:		
Inventories	-42,202	2,149
Trade receivables	-14,807	-5,815
Other receivables and prepayments	10,863	-15,964
Amounts due from related parties	-559	0
Increase/(decrease) in:		
Trade payables and notes payable	21,263	-21,889
Other payables and accruals	1,547	-2,778
Amounts due to related parties	10	-8
Total changes in working capital	**-23,885**	**-44,305**

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

In previous years Joyou Group companies entered into several transactions with related parties. After restructuring the investments in Joyou Hong Kong into ordinary shares of Joyou AG transactions with related parties are reduced to bank guarantees, other guarantees and purchase of showerheads.

Related parties to the Company include Members of the Management Board and Supervisory 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 out 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 1 January 2010 and 31 December 2010.

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

27.2 Transactions and Amounts due from/to Related Parties

In financial year 2010 the group purchased showerheads of kEUR 884 from the related party Nan'an Longsheng Science and Technology Industry Co., Ltd., which is recorded under "costs of sales".

Beside this 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:

kEUR	2010	2009
Mr. Jianshe CAI	639	577
Nan'an Longsheng Science and Technology Industry Co., Ltd.	496	0
Total	**1,135**	**577**

The amount due from Nan'an Longsheng Science and Technology Industry Co., Ltd. is the prepayment made to Nan'an Longsheng Science and Technology Industry Co., Ltd. for the showerheads. The amount due from Mr. Jianshe CAI are the interests accrued and carried forward, and the reimbursement of Joyou by Mr. Jianshe CAI for a risk on potential legal claim of a financial advisor as stated in Note 21.3.

Related Party	Type of business	Business scope of the license	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. Zhiqiang WANG (a cousin of Mr. Jianshe CAI)
Nan'an Longsheng Science and Technology Industry Co., Ltd.	One of the suppliers of Joyou for showerheads	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. Jiaping ZHOU (the wife of Mr. Jilin CAI)
Fujian Nan'an Pengxin Copper Co., Ltd.	No material actual business activity	Manufacturing and selling copper pipes, copper bars, copper pipes of water faucets and hardware	The shares are held by Ms. Caifen CHEN (The daughter-in-law of Mr. Jianshe CAI) (48%) and Mr. Jinsheng WANG (A cousin of Mr. Jianshe CAI) (52%)
Mr. Jianshe CAI			Chairman of the Management Board (Vorstandsvorsitzender), Shareholder holding 34.6% of the company's shares
Mr. Jiansheng CAI			Member of the Supervisory Board until 15 March 2010, Shareholder holding 1% of the company's shares
Mr. Jilin CAI			Member of the Management Board (Vorstandsmitglied), Shareholder holding 1.7% of the company's shares

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

kEUR	2010	2009
Mr. Jianshe CAI	24	13
Total	**24**	**13**

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 2010 financial year:

27.3.1 Management Board Members

- Mr. Jianshe CAI, businessman, Fujian Province, PRC, Chairman
- Mr. Jilin CAI, businessman, Fujian Province, PRC
- Mr. Gang ZHENG, businessman, Shanghai, PRC
- Mr. Zufang LI, businessman, Fujian Province, PRC

27.3.2 Supervisory Board Members

- Dr. Rainer SIMON, businessman, Isernhagen, Germany, Chairman (appointed 15 March 2010)
- Mr. Johnny CHEN, financial consultant, Shanghai PRC
- Mr. Wei WANG, businessman, Beijing PRC (appointed 15 March 2010)
- Mr. Jiansheng CAI, businessman, Fujian Province PRC, Deputy Chairman (until 15 March 2010)
- Mr. Ho Tan LI, financial consultant, Fujian Province PRC (until 15 March 2010)

27.3.3 Key Management Remuneration

27.3.3.1 Management Board's compensation

The remuneration for the members of the Management Board comprises mainly fixed remuneration and benefits in kind. Only the Chief Financial Officer received a variable bonus depending on a successful listing at the Stock Exchange as well as a stock option plan granted by a major shareholder. All other members of the Management Board received no variable remuneration or any other form of performance-related bonus. Benefits in kind mainly relate to private car usage. The members of the Management Board did not receive any compensation from Joyou AG in the financial year. All compensation was paid through the Chinese subsidiaries of the Joyou Group. The total compensation of the members of the Management Board amounted to EUR 837,330.00 in the 2010 financial year.

As at December 2009 the Group introduced one equity settled share-based payment for employee remuneration. This program is part of the remuneration package of the Chief Financial Officer. For options granted to vest, the financial officer has to remain employed by the group for the agreed vesting period of five 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. Jianshe CAI. One ordinary share is valued at a purchase price of EUR 17.00, which is equal to the estimated offer price of Joyou AG's 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.

At the beginning and the end of the year under review, the Chief Financial Officer held 50,000 options, which were granted to him by Mr. CAI. During the course of the year there were no movements in the number of options held by the Chief Financial Officer. At the end of the year none of the options were exercisable. The weighted average exercise price of the options at all times during the year was EUR 13.00.

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	EUR 17.00 (estimated IPO offer price)
Volatility	40.0%
Option life	5 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 89 of employee remuneration expense (all of which equity-settled shared based payment transactions) has been included in profit or loss for 2010 (previous year: 15 kEUR) and credited to capital reserve.

More detailed information on the compensation paid to members of the Management Board is presented in section 5 of the Group Management Report.

27.3.3.2 Supervisory Board's compensation

The chairman of the supervisory board receives basic compensation of EUR 60,000.00 per calendar year and the deputy chairman receives basic compensation of EUR 45,000.00 per calendar year. Each of the other supervisory board members receives basic compensation of EUR 10,000 per calendar year. If the work of a supervisory board member does not cover a full calendar year, compensation is paid on a time proportionate basis (pro rata temporis). In addition to the basic compensation, the members of the supervisory board are reimbursed for their expenses and outlay that they incur in performance of their duties as supervisory board members. They are also reimbursed for any sales tax (VAT) on the supervisory board's compensation, insofar as they are entitled to invoice the Company separately for the sales tax and they exercise this right. The total compensation of the supervisory board amounted to EUR 119,282.00 in the 2010 financial year. More detailed information on the compensation paid to members of the Supervisory Board is presented in Section 5 of the Group Management Report.

27.3.4 Credit Guarantees

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

- On 28 April 2010, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 180,000,000 to secure loans by Joyou Building Materials during the period from 28 April 2010 to 28 April 2011 under a credit facility agreement concluded between Joyou Building Materials and China CITIC Bank Qingyuan Sub-branch with a credit facility of up to RMB 180,000,000. Under such credit facility, in 2010 Joyou Building Materials took out five loans in the total amount of RMB 80,000,000, among which two loans in the total amount of RMB 40,000,000 are additionally secured by a joint and several guarantee from Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. ("Joyou Sanitation Technology") with a ceiling amount of RMB 150,000,000 on 28 April 2010 and the other three loans in the total amount of RMB 40,000,000 are additionally secured by a joint and several guarantee from an unaffiliated party with a ceiling amount of RMB 30,000,000.
- On 10 October 2010, Mr. Jianshe CAI, Mr. Jiansheng CAI, Mr. Jilin CAI and two non-affiliated parties provided a joint and several guarantee with a ceiling amount of RMB 30,000,000 to secure loans by Joyou Building Materials during the period from 10 October 2010 to 10 October 2011 under a credit facility agreement concluded between Joyou Building Materials and Bank of Quanzhou Fengze Sub-branch with a credit facility of up to RMB 30,000,000. Under such credit facility, in 2010 Joyou Building Materials took out one loan in the amount of RMB 29,500,000.
- On 28 July 2010, Mr. Jianshe CAI provided a joint and several guarantee with a ceiling amount of RMB 150,000,000 to secure loans to be taken out by Joyou Building Materials from China Construction Bank Nan'an Sub-branch during the period from 28 July 2010 to 28 July 2012. Under such credit facility, in 2010 Joyou building Materials took out one loan in the amount of RMB 30,000,000. This loan is additionally secured by a mortgage from Joyou Building Materials with a ceiling amount of RMB 33,000,000 on 2 August 2008.
- On 15 January 2010, Mr. Jianshe CAI, Mr. Jilin CAI and Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 100,000,000 to secure loans by Joyou Building Materials under a credit facility agreement concluded between Joyou Building Materials and China Everbright Bank Quanzhou Branch with a credit facility of up of RMB 100,000,000 during the period from 15 January 2010 to 14 January 2011. Under such credit facility, in 2010 Joyou Building Materials took out two loans in the total amount of RMB 30,000,000.
- On 14 July 2009, Mr. Jianshe CAI provided a joint and several guarantee with a ceiling amount of RMB 58,900,000 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 first took out two loans in the amount of RMB 30,000,000 with a term from January 18, 2010 to July 18, 2010. These loans have been repaid. Under such credit facility, Joyou Building Materials again took out the loan in the amount of RMB 30,000,000 with a term from 21 July 2010 to January 21, 2011.

- On 19 September 2009, Mr. Jianshe CAI, Mr. Jiansheng CAI and Mr. Jilin CAI and on 16 January 2010 a non-affiliated party provided a joint and several guarantee with a ceiling amount of RMB 40,000,000 for loans to be taken out by Joyou Building Materials from Huaxia Bank Fuzhou Branch Mindu Sub-branch from 16 September 2009 to 16 September 2010. In 2010, Joyou Building Materials has taken one loan in an amount of RMB 15,000,000 with a term from 1 February 2010 to 1 February 2011. This loan is additionally secured by a joint and several guarantee provided by an unaffiliated party. The said loan has been fully repaid.
- On 29 June 2009, Mr. Jianshe CAI, Mr. Jiansheng CAI, Mr. Jilin CAI and Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 33,000,000 for loans to be taken out by Joyou Building Materials from Shanghai Pudong Development Bank Fuzhou Branch during the period from 29 June 2009 to 29 June 2010. In 2010, Joyou Building Materials took one loan in an amount of RMB 30,000,000 with a term from 28 June 2010 to 28 December 2010. The said loan has been fully repaid.
- On 7 April 2009, Mr. Jianshe CAI, Mr. Jiansheng CAI and Mr. Jilin CAI 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 China Merchants Bank Quanzhou Branch ("CMB") and Joyou Building Materials for a credit facility of up to RMB 6,000,000, under which Joyou Building Materials took out one loan in the amount of RMB 6,000,000 with a term from 26 March 2010 to 7 October 2010 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 on 7 April 2009 and a unaffiliated party, with a ceiling amount of RMB 14,000,000), under which in 2010 Joyou Building Materials took out two loans in the total amount of RMB 14,000,000, of which one loan is in an amount of RMB 10,000,000 with a term from 25 March 2010 to 7 October 2010 and the other loan is in an amount of RMB 4,000,000 with a term from 26 March 2010 to 7 October 2010. The said loans have been fully repaid.

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

- On 4 March 2010, Mr. Jianshe CAI, Mr. Jilin CAI and Joyou Building Materials provided a joint and several guarantee with a ceiling amount of RMB 100,000,000, a non-affiliated party provided a mortgage with a ceiling amount of RMB 39,000,000 and Joyou Building Materials provided a mortgage with a ceiling amount of RMB 12,000,000 to secure loans by Joyou Sanitation Technology under a credit facility agreement dated 4 March 2010 concluded between Joyou Sanitation Technology and China Everbright Bank Quanzhou Branch with a credit facility of up of RMB 100,000,000. Under such credit facility, in 2010, Joyou Sanitation Technology took out two loans in the total amount of RMB 20,000,000.
- On 27 October 2010, Mr. Jianshe CAI, Mr. Jilin CAI, Mr. Jiansheng CAI and Joyou Building Materials provided a joint and several guarantee with a ceiling amount of RMB 30,000,000 to secure one loan taken out by Joyou Sanitation Technology from Shanghai Pudong Development Bank Fuzhou Branch in the amount of RMB 30,000,000 during the period from 27 October 2010 to 27 April 2011.
- On 20 December 2010, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 88,000,000 and Joyou Hong Kong provided a joint and several guarantee with a ceiling amount of USD 14,000,000 to secure loans by Joyou Sanitation Technology under a credit facility agreement dated 6 December 2010 concluded between Joyou Sanitation Technology and HSBC Xiamen Branch with a credit facility of up of RMB 80,000,000. Under such credit facility, in 2010 Joyou Sanitation Technology has taken out two loans in the total amount of RMB 60,000,000.
- On 27 December 2010, Mr. Jianshe CAI provided a joint and several guarantee with a ceiling amount of RMB 46,000,000 to secure two loans taken out by Joyou Sanitation Technology in the total amount of RMB 13,250,000 from Industrial and Commercial Bank of China ("ICBC") Nan'an Luncang Sub-branch, among which one loan in the amount of RMB 5,300,000 is additionally secured by a joint and several guarantee from a non-affiliated party with a ceiling amount of RMB 33,200,000 and the other loan in the amount of RMB 7,950,000 is additionally secured by a joint and several guarantee on 6 July 2009 from Joyou Building Materials with a ceiling amount of RMB 100,000,000.

- On 19 November 2009, Mr. Jianshe CAI 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 on 24 November 2009 to secure loans by Joyou Sanitation Technology under a credit facility agreement concluded with HSBC 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 a term from 26 May 2010 to 26 November 2010. The said loan has been fully repaid.

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

- On 29 April 2009, 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 2010, Fujian Nan'an Pengxin Copper Co., Ltd. has taken 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 2010 to 15 December 2010 and the other loan is in an amount of RMB 7,250,000 with a term from 12 January 2010 to 23 December 2010.

None of the guarantees were provided against consideration.

27.3.5 Other Guarantees

In October 2009, Mr. Jianshe CAI 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 2010, Joyou Group has contractual commitments from the construction of a ceramics plant of kEUR 6,568 (2009: Nil).

28.2 Contingent Liabilities

Up to 31 December 2010, as a warrantor, the Group has guaranteed the bank loans of third parties to an aggregate amount of kEUR 7,361 (previous year: kEUR 3,273). The financial statements of the warrantees indicate that the debtors are able to pay their debts as they mature, and the management is 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 improbable. As at reporting date, Joyou believes that such claim would not exceed kEUR 2,000. As at 30 October 2009 Mr. Jianshe CAI 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 2010, 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. Jianshe CAI 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 summarized in Note 15. The main types of risks are market risk, credit risk and liquidity risk.

In 2010, the group has established a preliminary risk management system. Due to the rapid growth the group has experienced in recent years, it is aware of the need to advance such a system.

The Group does not 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 and interest rate risk, which result from its operating, investing and financing 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 U.S. dollars (USD). In contrast to the prior year as a result of the IPO in March 2010, the group now also holds cash balances denominated in U.S. dollars (USD) and Australian Dollars (AUD). The cash balances must be kept by Joyou Hong Kong, until the Chinese government permits conversion into RMB, Joyou Hong Kong hold these funds mainly in Australian Dollar in order to maintain the group's capital. During the course of the period, the average balance 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 U.S. 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.

kEUR	2010	2009
Short-term exposure USD		
Financial assets	1,593	1,414
Financial liabilities	-3,589	-43
Total exposure	**-1,996**	**1,371**
Short-term exposure GBP		
Financial assets	131	0
Financial liabilities	-2	0
Total exposure	**129**	**0**
Short-term exposure AUD		
Financial assets	32,948	0
Financial liabilities	0	0
Total exposure	**32,948**	**0**

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/foreign currency exchange rate for the year ended 31 December 2010. This percentage has been determined based on the average market volatility in exchange rates in the previous twelve months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

If the RMB had strengthened against the USD, AUD and GBP by 10% respectively then this would have had the following impact:

	Profit for the year				Equity			
kEUR	USD	AUD	GBP	Total	USD	AUD	GBP	Total
31 December 2010	-216	3,284	10	3,000	-216	3,284	10	3,000
31 December 2009	171	–	–	171	171	–	–	171

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

	Profit for the year				Equity			
kEUR	USD	AUD	GBP	Total	USD	AUD	GBP	Total
31 December 2010	382	-2,985	-9	-2,612	382	-2,985	-9	-2,612
31 December 2009	-189	–	–	-189	-189	–	–	-189

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Therefore, the sensitivity analysis is uprepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

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 2010, 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 year		Equity	
kEUR	+2%	-2%	+2%	-2%
31 December 2010	-943	943	-943	943
31 December 2009	-1,193	1,193	-895	895

29.2 Credit Risk Analysis

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

kEUR	Notes	2010	2009
Trade receivables	18.	55,349	41,348
Other receivables and prepayments	18.	4,345	3,520
Cash and cash equivalents	19.	113,181	34,291
Total		**172,875**	**79,159**

The Group's credit risk is primarily attributable to its trade and other receivables. Cash is placed with credit-worthy 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:

kEUR	31.12.2010	31.12.2009
Thereof past due, but not impaired		
91–180 days	4,491	9,163
181–360 days	113	584
Total	**4,604**	**9,747**

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. For details on impaired receivables and the factors considered in determining that they are impaired please refer to Note 18.

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

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the Group to finance its operations and mitigate the effects of fluctuations in cash flows. The Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants. Net cash requirements 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. 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 2010, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	Current		Non-current	
kEUR	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**later than 5 years**
Bank loans	25,693	19,597	3,400	0
Trade payables	8,679	0	0	0
Other payables	4,677	0	0	0
Notes payable	32,720	0	0	0
Amounts due to related parties	24	0	0	0
Total	**71,793**	**19,597**	**3,400**	**0**

This compares to the maturity of the Group's financial liabilities as at 31 December 2009 as follows:

	Current		Non-current	
kEUR	**within 6 months**	**6 to 12 months**	**1 to 5 years**	**later than 5 years**
Bank loans	19,303	34,918	0	0
Trade payables	968	0	0	0
Other payables	2,744	0	0	0
Notes payable	19,167	0	0	0
Amounts due to related parties	13	0	0	0
Total	**42,195**	**34,918**	**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 and is subject to change if changes in interest rates differ to those estimated at the end of the reporting period.

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 summarized as follows:

kEUR	2010	2009
Total equity	243,069	65,854
Preferred shares	0	42,474
Cash and cash equivalents	-113,181	-34,291
Total	129,888	74,037
Total equity	243,069	65,854
Bank loans	47,152	52,516
Notes payable	32,720	19,167
Total	**322,941**	**137,537**
Capital-to-overall financing ratio (in %)	**0.41**	**0.54**

The Group's intention is to use its IPO proceeds to invest in capital projects for the expansion of the group's operations. However until the proceeds are fully converted into RMB the funds are mainly being held in Australian Dollar with the aim of maintaining the group's capital.

30 Events after the Reporting Period

30.1 New Subsidiary

In January 2011 Joyou Hong Kong founded a wholly owned subsidiary with the name of Quanzhou Joyou Ceramics Ltd. seated Nan'an near, Quanzhou, Fujian Province, PRC. The company was incorporated at the company register at 27 January 2011 and is intended to set-up a ceramics factory in Nan'an.

30.2 Takeover Offer by Grohe Asia AG

On 28 March 2011 Grohe Asia AG (the "Offerer"), a subsidiary of Grohe Holding GmbH, submitted a takeover bid for all shares of Joyou AG at an offering price of EUR 13.50 for each share in Joyou AG.

With the offer Grohe Holding GmbH aims to expand its existing stake in Joyou AG through its subsidiary Grohe Asia AG and plans, as strategic anchor shareholder, together with Messrs Jianshe CAI and Jilin CAI, who together hold approximately 36.30 % of the share capital and voting rights in Joyou AG, to further expand the business relationships between the Grohe Group and the Joyou Group for their mutual benefit, in particular in China.

For this purpose it is planned to coordinate the shareholdings in Joyou AG between Grohe Holding GmbH and Messrs Jianshe CAI and Jilin CAI. A letter of intent ("Letter of Intent") was signed for this purpose on 14 February 2011 which aims to contribute part of the share package of Messrs Jianshe CAI and Jilin CAI in Joyou AG to Grohe Asia AG and thereby establish a joint venture ("Joint Venture") with regard to the Offeror as future majority shareholder of Joyou AG.

According to the Letter of Intent Grohe Holding GmbH and Messrs Jianshe CAI and Jilin CAI intend to conclude a shareholders' agreement with regard to Grohe Asia AG ("Shareholders' Agreement") as soon as Messrs Jianshe CAI and Jilin CAI are no longer bound by a lock-up agreement concluded in March 2010 signed in connection with the IPO of Joyou AG, and which ends at the latest on expiry of 30 September 2011.

On the occasion of the IPO of Joyou AG in March 2010 Grohe Holding GmbH acquired a stake of 7.08% in Joyou AG by way of a share swap. As a result of the acquisition of 697,603 Joyou shares (equivalent to approximately 2.91% of the share capital and voting rights in Joyou AG) by the Offeror, in October 2010 Grohe Holding GmbH indirectly increased its shareholding to 9.99% of the share capital and voting rights in Joyou AG. This acquisition as well as the other prior acquisitions of the Offeror mentioned in the offer document were financed by Grohe Holding GmbH.

The intended Shareholders' Agreement between Grohe Holding GmbH and Jianshe CAI and Jilin CAI provides that Messrs Jianshe CAI and Jilin CAI, in particular, subject to clearance of the transaction by the Chinese cartel authorities (Ministry of Commerce of the PRC), contribute 6,855,263 Joyou shares to the share capital of the Offeror (equivalent to approx. 28.60% of the equity capital of Joyou AG) against the issue of new shares by the Offeror. After the contribution, the Offeror would hold approximately 57.22% of the shares in Joyou and would therefore control Joyou AG and consolidate it in the financial statements.

After new shares are issued by the Offeror to Messrs. Jianshe CAI and Jilin CAI the share capital of the Offeror would be EUR 99,980.00. Of this, Grohe Holding GmbH would hold 50,000 shares (or 50.01% of the share capital), and Messrs Jianshe CAI and Jilin CAI would hold 49,980 shares (or 49.99% of the share capital) together.

In addition to the Shareholders' Agreement, according to the Letter of Intent the Offeror and Messrs Jianshe CAI and Jilin CAI also intend to conclude an agreement relating to the management of the business operations of Grohe China ("Grohe China Business Management Agreement"). For this purpose, a special business management company is to be set up ("Grohe China Management Company"). Joyou Group will hold a majority and Messrs Jianshe CAI and Jilin CAI will directly or indirectly hold less than 50% of the capital in the Grohe China Management Company.

Further agreements with Joyou shareholders

According to the offer document, the Offeror has also concluded the following agreements with Joyou shareholders:

a) Agreement on the basis of which the Offeror can demand conclusion of a sale and transfer agreement regarding Joyou shares

On 15 February 2011 the Offeror acquired 1,619,100 Joyou shares (approximately 6.76% of the share capital and voting rights in Joyou AG) from Bathware Holdings Luxembourg S.à r.l. ("Bathware Holdings") and on 11 February 2011 had already acquired a call-option to conclude a purchase agreement to acquire a further 479,000 Joyou shares (equivalent to approx. 2.00% of the share capital and voting rights in Joyou AG) from Bathware Holdings.

b) Irrevocable undertakings

Five shareholders holding a total of 2,365,554 Joyou shares, which is approx. 9.87% of the share capital and voting rights in Joyou AG, have agreed irrevocably vis-à-vis the Offeror to accept the takeover offer of the Offeror with regard to the Joyou shares they hold.

This involves the following shareholders:

- Hauck & Aufhäuser Banquiers Luxembourg S.A. with 716,628 Joyou shares,
- PreIPO International Limited with 509,865 Joyou shares,
- PreIPO Capital Partners Limited with 130,179 Joyou shares,
- Poly Gain Group Limited with 499,017 Joyou shares,
- Star Elite Enterprises Limited with 509,865 Joyou shares.

When the agreements regarding the irrevocable undertakings of the five shareholders mentioned are executed and before acceptance of the takeover offer by other shareholders of Joyou AG, according to the offer documents together with prior acquisitions of Bathware Holdings including acquirable Joyou shares based on the option from Bathware Holdings the Offeror will hold a shareholding of 6,858,006 Joyou shares. This corresponds to approx. 28.61% of the share capital and the voting rights of Joyou AG.

c) Non-acceptance obligation

In an agreement dated 14 February 2011 Messrs Jianshe CAI and Jilin CAI agreed inter alia vis-à-vis the Offeror and Grohe Holding GmbH not to offer to sell the Joyou shares held by them to the Offeror in the context of the takeover offer.

d) Voting powers of attorney by Messrs Jilin CAI and Jianshe CAI and agreement on non-exercise of voting rights

Messrs Jianshe CAI and Jilin CAI have granted the Offeror certain voting powers of attorney and concluded an agreement regarding the non-exercise of voting rights.

Mr. Jilin CAI has authorised the Offeror from the point in time when the German Federal Regulatory Authority (BaFin) approves the offer document to exercise the voting rights, belonging to Mr. Jilin CAI, for 359,513 Joyou shares (this is approx. 1.50% of the share capital and voting rights of Joyou AG).

Mr. Jianshe CAI has authorised the Offeror from the point in time after completion of the takeover offer to exercise the voting rights belonging to Mr. Jianshe CAI for 4,792,943 Joyou shares (this is the equivalent of approx. 20.00% of the share capital and voting rights of Joyou AG).

Further information on the takeover offer by Grohe Asia AG can be found in the offer document published on 28 March 2011 (published under http://www.grohe-offer.com) and the joint statement of the Management Board and Supervisory Board of Joyou AG (published on 11 April 2011 under http://www.joyou.de).

30.3 Patent infringement claim

Subsequent to the reporting period the group received a notification from HansGrohe AG of their intention to raise a claim in the PRC in respect of the infringement of two design patents. The amount being claimed is kEUR 68.

Beside these, no adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

31 Auditor's Fees

The following fees for services rendered by the auditor of the Consolidated Financial Statements, Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft in financial year 2010 and in the financial year before, were recognized as expense:

kEUR	2010	2009
Audits of the financial statements	125	77
Other assurance	363	0
Auditor's fees	488	77

32 Declaration on Compliance with the German Corporate Governance Code

The Declaration on Compliance with the German Corporate Governance Code according to Section 161 of the German Stock Corporations Act is openly available for inspection on the company's at www.joyou.de/ipo.

33 Affiliated Companies Included in the Consolidated Financial Statements

The following companies are included in the Consolidated Financial Statements. All information presented on equity and net income refers to the annual financial statements as at 31 December 2010:

Name	Headquarter	Currency	Group equity share in %
Hong Kong Zhongyu Sanitary Technology Ltd.	Hong Kong, PRC	HKD	100%
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Nan'an, PRC	RMB	100%
Joyou Group Building Materials Co., Ltd.	Nan'an, PRC	RMB	100%
Nan'an Joyou Galvanization Industrial Co., Ltd.	Nan'an, PRC	RMB	100%

Frankfurt, 19 April 2011
Joyou AG

Management Board

Jianshe CAI Jilin CAI Gang ZHENG Zufang LI

34 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt 19 April 2011
Joyou AG

Management Board

Jianshe CAI	Jilin CAI	Gang ZHENG	Zufang LI

35 Auditor's Report

We have audited the Consolidated Financial Statements prepared by Joyou AG, Hamburg, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the notes to the Consolidated Financial Statements, together with the Group Management Report for the business year from January 1, 2010 to December 31, 2010. The preparation of the Consolidated Financial Statements and the Group Management Report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (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, 19 April 2011

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar 2011

April 20	Annual Report 2010
May 30	Interim Report January through March of 2011
June 15	Annual General Meeting, Frankfurt am Main
August 24	Interim Report January through June of 2011
November 21–23	German Equity Forum, Analyst Conference, Frankfurt am Main
November 23	Interim Report January through September of 2011

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