

*Investing in Innovation.*  
Annual Report 2011



## Group Key Data

kEUR	2011	2010
Sales revenues	287,086	246,625
Cost of sales	-209,148	-178,094
<b>Gross profit</b>	<b>77,938</b>	<b>68,531</b>
Other operating income	687	1,581
Selling and distribution expenses	-15,459	-16,304
Administrative expenses	-16,990	-9,163
Other operating expenses	-891	-1,481
<b>Operating profit</b>	<b>45,285</b>	<b>43,164</b>
Finance income	4,691	7,347
Finance costs	-5,544	-8,234
<b>Profit before income tax</b>	<b>44,432</b>	<b>42,277</b>
<b>Adjusted profit before income tax<sup>1)</sup></b>	<b>44,432</b>	<b>46,324</b>
Income tax	-5,906	-9,497
Profit for the period	38,526	32,780
<b>Selected financial position data</b>		
Total assets	406,460	339,504
Total liabilities	102,110	96,435
Total equity	304,350	243,069
<b>Selected cash flow data</b>		
Cash flow from operating activities	17,554	17,955
Cash flow used in investing activities	-49,203	-20,214
Cash flow (used in) from financing activities	-15,818	74,758
Cash and cash equivalents at the end of period	68,696	113,181
<b>Other selected financial data</b>		
Gross profit margin <sup>2)</sup>	27.1%	27.8%
Adjusted EBITDA <sup>3)</sup>	50,552	47,187
Adjusted EBITDA margin <sup>4)</sup>	17.6%	19.1%
EBIT <sup>5)</sup>	45,285	43,164
EBIT margin <sup>6)</sup>	15.8%	17.5%
Number of employees <sup>7)</sup>	3,195	2,244
Number of stores	3,898	3,596

<sup>1)</sup> Adjusted for one-off non-cash interest expenses resulting from the IFRS account treatment of preferred shares issued before the IPO

<sup>2)</sup> Gross profit margin is calculated as gross profit divided by revenues times 100

<sup>3)</sup> Adjusted EBITDA is calculated as net income less interest income plus interest expense plus tax expenses plus depreciation and amortisation plus expenses from lease prepayments on land-use rights in the PRC

<sup>4)</sup> Adjusted EBITDA divided by revenues times 100

<sup>5)</sup> EBIT is calculated as net income less interest income plus interest expense plus tax expenses less tax refundable

<sup>6)</sup> EBIT margin is EBIT divided by revenues times 100

<sup>7)</sup> Own employees including contract workers and trainees

## *Company Statement*

*Joyou is a leading designer, manufacturer and marketer of bathroom solutions 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.*

### *Investing in Innovation.*

*We invest in our future through the technology that we employ and the designs that we create, thereby setting ourselves apart as a market-leading company. The following pages give an impression of how the employees of Joyou work together.*

## *Contents*

2	<i>Highlights of the Year 2011</i>
4	<i>Our Products</i>
6	<i>Letter to our Shareholders</i>
8	<i>Members of the Management Board</i>
10	<i>Report of the Supervisory Board</i>
13	<i>Members of the Supervisory Board</i>
14	<i>The Share</i>
16	<i>Corporate Governance Report</i>
21	<i>Combined Management Report</i>
61	<i>Notes to the Consolidated Financial Statement</i>
102	<i>Responsibility Statement</i>
103	<i>Auditor's Report</i>
	<i>Financial Calendar</i>
	<i>Contact and Imprint</i>

# Highlights of the Year 2011

## January

- National Joyou Distributor Conference in Quanzhou
- National Joyou Supplier Conference in Nan'an

## February

- Received information from Grohe Asia AG, that it intends to submit a takeover bid

## March

- Opening of First Brand Experience Centre
- Won China Innovative Design Award Kapok Prize for two faucets
- Signs first major 5 Star Hotel Projects
- Received First-choice Award of Real Estate Developers
- Grohe Asia AG published the Offer Document

## April

- Management Board and Supervisory Board issue Joint opinion on takeover offer of Grohe
- Exhibit Products at Frankfurt International Sanitary Ware Exhibition

## May

- The acrylic bathtubs production line came on line
- Exhibit at 2011 Shanghai International Kitchen & Bathroom Equipment Exhibition
- Launch of X-Time brand with Italian design team
- Grohe Asia AG tender offer concludes

## June

- Shareholder Agreement signed
- Exhibit at the fifth Straits Green Construction and Energy Saving Exhibition

## July

- Introduction of environmentally friendly lead-free brass for sanitary ware production
- "Patriotic Red Song" marketing campaign across China

## August

- 2011 Beijing Distributors Summit
- Joyou sponsors Bo'ao Real Estate Forum

## September

- Appointment of new Chief Financial Officer
- New 600,000 piece capacity ceramic plant is opened
- Won World Green Design Contribution Award
- Presented with the Annual Figure Award of Asia Brands

## October

- Attended the Vietnam International Sanitary ware trade fair

## November

- Attended the ASEAN sanitary ware summit

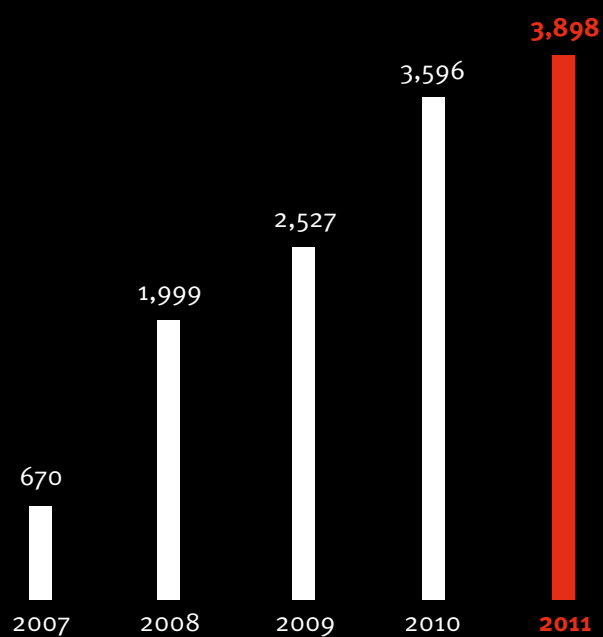
## December

- Won the Red Dot Design award for shower faucet
- Won China Innovative Design Award Kapok Prize for new faucet
- Begin new shower head factory with expected capacity of 7 million pieces

### Facts

- Sales growth of 16.4% to EUR 287.1 million
- Net profit increase by 17.5% to EUR 38.5 million
- Opened more than 300 new retail stores
- 3,195 employees

### Number of stores 2007–2011



## *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.



Mr. Jianshe Cai, CEO Joyou AG



# Letter to our Shareholders

## Dear Fellow Shareholders,

We can look back on a successful financial year in 2011 with a sense of pride. Despite the somewhat tense atmosphere in China's residential property market – an important market for us – we continued to pursue our strategy successfully in our home market and also reached some important milestones internationally.

Our sales revenues increased by 16.4% over the previous year, to EUR 287.1 million. There was however, only a modest rise in our operating result in the financial year. In the main this was because we increased our investment in Research and Design, and new project start-up costs, which amongst other positives resulted in us winning several international design awards for the first time in our history. This also allowed us to bring hundreds of new products and technologies to the market, and give us a 140% increase in patents. We were thereby able to sustainably reinforce our position as one of the market leaders in the sanitary ware industry.

As part of our internationalisation strategy, we were recently able to report on a very successful development: In March 2012 with Joyou's support, Grohe launched Joyou-branded products on the European market. The Joyou products were exhibited at the KBB trade fair in Birmingham, UK. At the same time, a sales agreement was signed with Robert Lee Distribution Ltd., one of the largest independent UK wholesalers of baths, showers, sanitary ware and plumbing products. This is an important first step for us. Further rollouts are planned for Europe, North America and the Middle East. Our long-term aim is to achieve recognition as an international brand.

We continued – in line with our strategy – opening new outlets, concentrating on small and medium-sized towns in China. We opened a total of 302 new outlets in 2011, and in so doing met our target. As of 31 December 2011, our distribution network in China comprised 3,898 points of sale. By 2013, we want to have expanded our distribution network further – the plan is for 4,500 outlets. I am very confident at this point in time that we will achieve this target, too.

The focus of our investment programme is on expanding our production capacity to meet our current and future sales

needs. For example, we are in the process of building a new production facility for plastic products, such as shower heads, which was one of our fastest-growing single items in 2011. Also, after completing the first phase, we are in the second phase of a ceramic sanitary ware facility for products such as washbasins, toilets and similar ceramic products which was one of our fastest-growing product segments in 2011. We will be better able to control quality and costs with our own production facilities. In addition, we will be able to achieve more stable gross margins than through our current outsourcing strategy.

We are pleased to say the partnership with Grohe has also resulted in a strengthening of the Supervisory Board: David HAINES, Chairman of the Management Board of Grohe AG, was appointed a member of the Supervisory Board of Joyou AG with effect from 30 September 2011. In addition, my colleague Zufang LI was appointed Chief Financial Officer of Joyou AG in September. He has been working with me as Financial Manager and as Joyou's Chief Accounting Officer for many years now. At this point, I would like to express my thanks and recognition to the former CFO, Gang ZHENG, for his valuable service to the Group.

Dear shareholders, I remain highly confident that the current market slowdown is a temporary phenomenon. The market for sanitary ware will benefit from strong macroeconomic trends in the medium term, such as urbanisation and the increase in the middle- and high-income population. These growth drivers are not significantly influenced by short-term market turbulence. For this reason, we will continue to invest in the sustainable growth of our business. We look to the future with optimism and expect to be able to continue on our growth course in 2012.

I would like to thank our employees for making 2011 a successful year. And I would like to thank you, dear shareholders, for the faith you have placed in us. I hope you will continue to support us, and I look to the new financial year with great confidence.



**Mr. Jianshe CAI**  
CEO  
Joyou AG

## Members of the 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. Zufang LI**

*Chief Financial Officer (CFO) (from 1 September 2011, previously Chief Accounting Officer (CAO))*

Mr. Zufang LI is the Company's Chief Financial Officer (CAO). He is responsible for accounting and record-keeping, as well as for managing the financial department. He is also responsible for taxation, controlling, investor relations, risk management, financial planning as well as financial reporting, in particular, communication of financial performance and guidance to the analyst community. 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 from 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.



### **Mr. Gerald MULVIN**

*Corporate Development Officer (effective 1 January 2012)*

Mr. Gerald MULVIN has been appointed as the Corporate Development Officer (CDO) of Joyou, and is responsible for the development of new international business opportunities for Joyou Group, and development and implementation of marketing strategies for Joyou Group internationally. Mr. Gerald MULVIN is also the Chief Marketing Officer for Grohe since 2005. Previous to Grohe, Mr. Gerald MULVIN was a partner at Bain & Company in London where he worked on numerous client engagements. Before he joined Bain & Company, Mr. Gerald MULVIN completed an MBA at INSEAD in Fontainebleau, France. He has a Master of Engineering from University College Dublin.

### **Mr. Gang ZHENG**

*Chief Financial Officer (CFO)  
(from 17 November 2009 to 1 September 2011)*

Mr. Gang ZHENG was the Company's Chief Financial Officer (CFO) and responsible up until 1 September 2011 for taxation, controlling, investor relations and risk management. Mr. Gang ZHENG was 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 previously worked and studied in the United States of America for approximately seven years where he received an MBA from Columbia University in New York. Afterwards he worked for General Motors, Delphi Automotive Systems and W. R. Grace, and he previously worked at the China International Trust and Investment Corporation.

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.

# 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 2011.

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 Supervisory Board and Management Board*

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

The Supervisory Board member Mr. Wei WANG resigned from his office at the end of the Shareholders' Annual General Meeting on 15 June 2011 with effect from 30 September 2011, which appointed Mr. David HAINES as a new member of the Supervisory Board with effect as of 1 October 2011.

The Management Board member Mr. Gang ZHENG resigned from his office of Chief Financial Officer with effect from 1 September 2011 at the Supervisory Board meeting on 24 August 2011. All his board responsibilities were passed to Mr. Zufang LI, who was appointed to the position of Chief Financial Officer at the same Supervisory Board Meeting 24 August 2011, taking effect on 1 September 2011.

Mr. Gerald MULVIN was elected to the Management Board as Corporate Development Officer during the Supervisory Board meeting on 22 November 2011, effective as of 1 January 2012 and is responsible for the develop new international business opportunities for Joyou Group, and development and implementation of marketing strategies for Joyou Group internationally.

No other changes occurred in the Supervisory Board or Management Board of the Company in 2011.

## *Important Matters in 2011*

The Supervisory Board discussed the business situation and the operational and strategic development of the Company and its areas of business in seven meetings, both face to face and by way of telephone conferences, in 2011. In addition, various resolutions were taken by way of written votes.

No Supervisory Board member participated in less than half of the Supervisory Board meetings in 2011, except for Mr. David HAINES, who was only elected to the Supervisory Board as of 1 October 2011.

On 14 February 2011, Joyou AG received notification from Grohe Asia AG that it intended to submit a voluntary public tender offer. The offer was published 28 March 2011, and subsequently the joint statement of the Management Board and Supervisory Board on the takeover offer of Grohe Asia AG was published on 11 April after a conference call between the Supervisory Board and Management Board. The takeover offer was discussed intensively between the Supervisory Board and Management Board before adopting the joint statement of the Supervisory Board and Management Board on the takeover offer and throughout the whole takeover process. The members of the Management Board Messrs. Jianshe CAI and Jilin CAI were not involved in taking the resolution on the adoption of the joint statement as they had an interest in the takeover offer.

In its meeting of 19 April 2011 in Nan'an, 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 Sec. 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 20 May 2011 in Nan'an, the Supervisory Board and Management Board reviewed Joyou's business and financial development in the first half of 2011, in particular development of revenues, margins, new product lines, financing of the Group and the development of Joyou's cooperation with Grohe. They also discussed the progress with investment projects, specifically those of the ceramics plant and the intended acquisition of Yongsheng galvanisation plant, as well as progress of the cooperation with Grohe AG and the reorganisation of the inter-company loan between Joyou AG and Joyou Hong Kong.

In its meeting in Frankfurt on 14 June 2011, the Supervisory Board and Management Board reviewed Joyou's business and financial development up to that date, 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, resolving that the Yongsheng galvanisation facility would need further due diligence and that part of the inter-company loan could be translated into equity of Joyou Hong Kong.

In its meeting on 24 August 2011, the Supervisory Board and Management Board reviewed Joyou's business and financial development up to that date, in particular development of revenues, margins, new product lines and financing of the Group. The Supervisory Board accepted the resignation of Mr. Gang ZHENG and elected Mr. Zufang LI as the CFO.

In a telephone conference on 27 September 2011, the Supervisory Board and Management Board discussed corporate financing issues of Joyou Group.

In its meeting on 22 November 2011 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 Management Board presented the potential investment in a new showerheads facility. The Supervisory Board approved the project in principle, however, it requested that the Management Board provide further analysis. Furthermore, the Supervisory Board elected Gerald MULVIN to the Management Board, effective as of 1 January 2012. The Supervisory Board also discussed Joyou's future dividend policy with the Management Board during this meeting. In particular, it was discussed for how long available cash flows should exclusively be used to further finance Joyou's growth strategy and when it would be in the best interest of the Company and its shareholders to commence dividend payments at the level of Joyou AG.

In a telephone conference on 21 December 2011, the Supervisory Board and Management Board discussed and approved the proposal for the investment of a greenfield showerheads plant in Shuitou, Nan'an city, and an ad-hoc notification was issued immediately.

#### *Committees*

The Supervisory Board has not established any committees.

#### *Conflicts of Interest*

Mr. David HAINES, Chief Executive Officer of Grohe AG, was appointed to be a member of the Supervisory Board of the Company as of 1 October 2011 at the Shareholders' Annual General Meeting of the Company on 15 June 2011. Mr. HAINES' appointment was made against the background of the completed takeover offer by Joyou Grohe Holding AG (formerly: Grohe Asia AG), the implemented joint venture between Grohe Holding GmbH and Messrs. Jianshe CAI and Jilin CAI, and the partnership between Joyou and Grohe established by this. The Company and Grohe AG therefore do not consider each other as competitors but rather as partners. However, Grohe AG, like Joyou AG, is active in the business of sanitary ware fittings, and could therefore be considered a competitor of Joyou, which could result in a conflict of interest of Mr. HAINES. Beyond that, as part of their intensified cooperation, Joyou and Grohe may enter into further bi-lateral agreements which may cause conflicts of interest for Mr. David HAINES. The Supervisory Board discusses all potential conflicts of interest openly. In case a conflict arises, Mr. David HAINES would abstain from voting in a resolution of the Supervisory Board.

Dr. Rainer SIMON, Chairman of the Supervisory Board of the Company, was on 9 September 2011 elected to be the Chairman of the Supervisory Board of Joyou Grohe Holding AG, which is the major shareholder of the Company and is jointly owned by Grohe Holding GmbH and Messrs. Jianshe CAI and Jilin CAI. Dr. Rainer SIMON considers himself to be independent of both Grohe and Messrs. Jianshe CAI and Jilin CAI. The purpose of his election to the Supervisory Board of Joyou Grohe Holding AG was that he fulfils the function of an independent member of the Supervisory Boards at both Joyou AG and Joyou Grohe Holding AG. His double function was discussed within the Supervisory Board. The Supervisory Board is convinced that, due to Dr. SIMON's personal independence, no conflict of interest will arise under his double function. In case a conflict of interest arises in future, Mr. SIMON would abstain from voting in a respective resolution of the Supervisory Board of the Company.

#### *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 enter-

prises (“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, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, (“Grant Thornton”) has audited the Financial Statements and the Combined Management Report of Joyou AG and the Consolidated Financial Statements 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 Combined Management Report of Joyou AG and the Consolidated Financial Statements and the Combined 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 Combined Management Report of Joyou AG, the Consolidated Financial Statements and the Combined 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 29 March 2012. 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 Combined Management Report of Joyou AG, the Consolidated Financial Statements and the Combined 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 Combined Management Report and, in particular, with the assessment of the future development of the enterprise.

As no significant retained profits (“Bilanzgewinn”) are disclosed in Joyou AG’s single Financial Statements according to German Commercial Code, the Supervisory Board and Management Board propose to carry forward the balance sheet profits shown (auf neue Rechnung vortragen).

The Supervisory Board thanks the members of the Management Board and all employees for their personal contribution and cooperation in the financial year 2011.

**Dr. Rainer SIMON**

Chairman of the Supervisory Board  
Frankfurt, 29 March 2012



# 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. From 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.

## **David J. HAINES**

*Member of the Supervisory Board of Joyou AG  
(effective as of 30 September 2011)*

David J. HAINES holds a first-class honours degree from the University of Greenwich, London/UK. He served Vodafone Group plc as Global Marketing Director between 2000 and 2004. Starting in 1998 he was Deputy Division President of The Coca Cola Company Germany. From 1989 to 1998, Mr. HAINES held a number of executive positions with Mars Incorporated, including CEO of Mars Inc. in Sweden and President of Mars in the C.I.S. Mr. HAINES was Chairman of the Board of Directors of Vimpelcom A/O, the NYSE-listed leading Russian mobile phone operator, for three years.

Since 2004, David J. HAINES has been Managing Director of Grohe Holding GmbH and Chief Executive Officer and Chairman of the Management Board of Grohe AG. He led the successful restructuring and transformation of Grohe in the years 2005 until 2008. Also during the economic crisis in 2009, he developed the new business model of Grohe which focuses on profitable growth and innovation, cash, state-of-the-art production and cost management and has proven to be resilient. Today, he has taken the company to its position as a leading premium brand in water technology with strong organic growth and winning market share in many regions, and a strong exposure to emerging markets.

## **Mr. Wei WANG**

*Member of the Supervisory Board (up to 30 September 2011)*

Mr. WANG is the Deputy Secretary of the China Building Ceramics and Sanitary Ware Association. Mr. WANG studied mechanical engineering at Beijing Union University from which he received a Bachelor of Engineering. From 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. From May 2007 until the present, Mr. WANG has been Deputy General Manager of Beijing Building Material Testing Center Company. From 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. From November 2008 until the present, Mr. WANG has been Deputy Secretary of China Building Ceramics & Sanitary Ware Association.

# The Share

## Development of the German Stock Market

The German benchmark indices DAX and SDAX were up slightly in the first quarter of 2011. The general mood on the capital markets was good. In March 2011, though, share prices around the world suddenly dropped. The cause of these dramatic losses was the earthquake catastrophe in Japan and the resulting nuclear disaster at the Fukushima power plant. The capital markets were quick to recover, however, and the DAX reached its Annual high of 7,527 points on 2 May 2011. The SDAX also continued to develop positively.

However a new downturn came in August. The European debt crisis was the culprit this time, rattling investors around the globe. On 8 August, the DAX fell below 6,000 points. And on 12 September, it hit its low for the year of 5,072 points. By the end of the year, the DAX managed to climb back to 5,867 points. Due to the turbulent year, both indices suffered losses on the year amounting to roughly 15%.

## Development of Joyou Shares

The Joyou share posted large losses this past financial year. In the first five months of the year, the share price was down only slightly. On 14 February, Grohe Asia AG, a subsidiary of Grohe Holding GmbH, announced a voluntary tender offer for all shares of Joyou AG, with a resultant offer price of EUR 13.50 per share. In June, the major shareholders and members of the Management Board Jianshe CAI and Jilin CAI signed an agreement on a long-term partnership with Grohe. Both Jianshe CAI and Jilin CAI together contributed 28.6% of Joyou AG's shares, the major part of their holdings, against the issuance of new shares in Grohe Asia AG. This amounted to a 49.99% stake in Grohe Asia AG. After the execution of this agreement, Grohe Asia AG held a total of 57.22% of Joyou AG. Accordingly, Joyou became an affiliated company of Grohe Holding GmbH and therefore of the Grohe Group. Grohe Asia AG subsequently changed its name to Joyou Grohe Holding AG. Influenced to an extent by the takeover bid, the share performed negatively over the course of the year, reaching its low of EUR 7.53 on 31 October 2011. It therefore mirrored the development of the German benchmark indices, the DAX and SDAX, through the first three quarters of the year. Since November 2011, the benchmark indices have increased in value, while the stock of Joyou AG has continued to perform below investor expectations. Its closing price for the year amounted to EUR 7.91 on 30 December 2011.

At the start of 2012, the price was fluctuating around the EUR 8 mark and increased to over EUR 9 after the announcement of the launch of international sales of Joyou-branded products.





## Investor Relations

During the financial year 2011, management and the Management Board held numerous meetings with potential investors as part of international road shows, hosted several investor tours of the Company's facilities and attended conferences around the world. Such events were done with the help of Morgan Stanley, Bank of America Merrill Lynch, Macquarie and WestLB. In the 2011 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.com](http://www.joyou.com).

## Analyst Coverage

The Joyou stock was evaluated by four institutions in 2011: Macquarie, WestLB, DZ Bank and Bank of America Merrill Lynch.

## Contact

### Joyou AG

Ian M. OADES  
Vice President of Finance &  
Head of Investor Relations  
Westhafentower, Westhafenplatz 1  
60327 Frankfurt am Main  
Germany

Tel.: +49 69-710 456 346

Fax: +49 69-710 456 348

E-mail: [ian.oades@joyou.net](mailto:ian.oades@joyou.net)



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. Cooperation between the two boards is characterised 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 Sec. 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 the Annual General Meeting

The shareholders exercise their rights and voting rights at the Shareholders' Annual General 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 Shareholders' Annual General 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 Shareholders' Annual General Meetings in person or by proxy, for which they can authorise 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 Shareholders' Annual General Meeting 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 Shareholders' Annual General Meeting, including the Annual report, will be published on the Company's website at [www.joyou.com](http://www.joyou.com) 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 organisation. 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.

Currently the Management Board of Joyou AG comprises four members. In 2011, members of the Management Board were Mr. Jianshe CAI (Chairman and Chief Executive Officer), Mr. Jilin CAI (Deputy Chairman and Chief Operating Officer) and Mr. Zufang LI (Chief Accounting Officer until 30 September 2011, Chief Financial Officer since 30 September 2011). The former Chief Financial Officer, Mr. Gang ZHENG resigned on 30 September 2011. On 1 January 2012 Mr. Gerald MULVIN became Corporate Development Officer.

The Company has entered into D&O insurance for its members of the Management Board which is in line with the statutory requirements of Sec. 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 2011 can be found in the Remuneration Report in the Group Management Report.

The members of the Management Board are obliged to disclose 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 2011:

- Mr. Jianshe CAI and Mr. Jilin CAI declared their respective shareholding in the Company as set out in Sec. 5 Directors' Shareholdings and Directors' Dealings.
- Mr. Jianshe CAI and Mr. Jilin CAI disclosed to the Supervisory Board that from 1 June 2011 they held together 49% of the shares in Grohe (Xiamen) Investment Management Co., Ltd. which was incorporated for the management of the business of Grohe Group in People's Republic of China, excluding Hong Kong and Macau. Quanzhou Joyou Sanitation Technology Industrial Co., Ltd., a wholly owned indirect subsidiary of the Company, held 51% of the shares in this management company. This shareholder structure was stipulated in the agreements in the connection with the joint venture between the Company and Grohe Group implemented on 6 July 2011 ("joint venture") and was approved by the Supervisory Board prior to the implementation of the joint venture.
- Mr. Jianshe CAI disclosed to the Supervisory Board that he was appointed as the Chief Executive Officer ("Vorstandsvorsitzender") of Joyou Grohe AG (formerly know

as “Grohe Asia AG”) with effect from 27 September 2011. Upon the implementation of the joint venture, Joyou Grohe AG acquired the majority shareholding in the Company. In addition, cooperation between the Company and the companies of Grohe Group increased. This appointment was stipulated in the agreements in the connection with the joint venture and was approved by the Supervisory Board prior to the implementation of the joint venture.

→ Mr. Jilin CAI disclosed to the Supervisory Board that he was appointed as the Chief Operative Officer (“Vorstandsmitglied”) of Joyou Grohe AG with effect from 27 September 2011. This appointment was stipulated in the agreements in the connection with the joint venture and was approved by the Supervisory Board prior to the implementation of the joint venture.

→ Mr. Gerald MULVIN disclosed to the Supervisory Board prior to his appointment as a member of the Management Board of the Company that he is a member of the Management Board of Grohe AG and Joyou Grohe Holding AG, respectively, and also works for the company Glacier Luxembourg Two S.à r.l. Upon the implementation of the joint venture, the Company and Grohe AG became the indirect subsidiaries of Grohe Holding GmbH and Glacier Luxembourg Two S.à r.l. The Supervisory Board approved his other activities when appointing Mr. Gerald MULVIN as a member of the Management Board of the Company.

### 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 Secs. 95 and 96 of the German Stock Corporation Act (“Aktengesetz/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. David HAINES.

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

The Company has entered into 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 2011 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 within the meaning of Sec. 1.4 of the Rules of Procedure of the Supervisory Board were disclosed by the Supervisory Board members in the financial year 2011:

Dr. Rainer SIMON disclosed to the Supervisory Board in September 2011 that he was elected as the Chairman of the Supervisory Board of Joyou Grohe AG with effect from 9 September 2011. This election was stipulated in the agreements in the connection with the joint venture and was approved by the Supervisory Board prior to the implementation of the joint venture.

Mr. David HAINES disclosed to the Supervisory Board prior to his election as a member of the Supervisory Board of the Company that he is also the Managing Director of Grohe Holding GmbH, the Chief Executive Officer (“Vorstandsvorsitzender”) of Grohe AG and a member of the Supervisory Board of Joyou Grohe AG. This election was stipulated in the agreements in connection with the joint venture and was approved by the Supervisory Board prior to the implementation of the joint venture.

### 4 Corporate Governance Statement

The Corporate Governance Statement in accordance with Sec. 289a of the German Commercial Code includes (1) the Declaration of Compliance in accordance with Sec. 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 Sec. 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 [www.joyou.com](http://www.joyou.com).





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

#### 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. In the business year 2011, Joyou finalised developing and started implementing an early risk detection system as defined under Sec. 91 Para. 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 Sec. 161 of the German Stock Corporation Act are available on its website [www.joyou.com](http://www.joyou.com).

#### 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 characterised 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 the 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

According to Sec. 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. In the financial year 2011, four transactions were reported to the Company. A detailed account of directors’ dealings can be found at [www.joyou.com](http://www.joyou.com) > Investor Relations > Financial Publications > Directors’ Dealings.

Prior to the implementation of the joint venture on 6 July 2011, Mr. Jianshe CAI and Mr. Jilin CAI held directly 34.6% and 1.7% of the shares of the Company, respectively. Upon the implementation of the joint venture, Mr. Jianshe CAI and Mr. Jilin CAI held directly 7.7% and 0% of the shares of the Company, respectively.

As at 31 December 2011, the members of Joyou's Management Board and Supervisory Board had the following direct shareholdings in the Company:

Name	Function	Shareholding vehicle	Number of shares	Percentage of shares
Jianshe CAI	CEO	Shares are held directly	1,844,737	7.7%
Jilin CAI	COO	Shares are held directly	45,152	0.2%

Mr. Jianshe CAI and Jilin CAI informed us in accordance with German Securities Trade Act (WpHG) that they held 70.05% of voting rights on 6 July 2011, respectively. Besides the direct shareholding (7.7% and 0.2%), the remaining voting rights were attributed to them in accordance with Sec. 22 Para. 2 Securities Trade Act. Detailed information can be found at [www.joyou.com](http://www.joyou.com) › Investor Relations › Financial Publications › Voting Rights Announcement.

## 6 Accounting and Auditing

Joyou AG prepares its Annual Individual Financial Statements and the Combined 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 are prepared in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a Para. 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 Sec. 37w, 37x Para. 3, 37y of the German Securities Trading Act ("Wertpapierhandelsgesetz/WpHG") and Sec. 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 2011, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been appointed as auditor by the Annual General Meeting on 15 June 2011. Thereafter, the auditor was engaged by the Chairman of the Supervisory Board on behalf of Joyou AG. Furthermore, the independent auditor and his subsidiary Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft were engaged to review the three condensed interim Consolidated Financial Statements and the interim Group Management Reports published in 2011, in accordance with the German generally accepted standards for the review of financial statements promulgated by 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 Sec. 161 of the German Stock Corporation Act.

The Supervisory Board examines and approves the Annual Individual Financial Statements and the Combined Management Report, as well as the Annual Consolidated Financial Statements. 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, 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 Shareholders' Annual General 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.com](http://www.joyou.com).

# *Combined Management Report*

for the reporting period ended 31 December 2011  
pages 22–60

## *Table of Contents*

<i>1 General Information on the Group</i>	<i>22</i>
<i>2 Business and Operating Environment</i>	<i>22</i>
<i>3 Results of Operations, Financial Position and Net Assets</i>	<i>33</i>
<i>4 Other Factors that Impacted on Results</i>	<i>42</i>
<i>5 Remuneration System</i>	<i>48</i>
<i>6 Disclosures in Accordance with Sec. 315 Para. 4 HGB and Narrative Explanations</i>	<i>49</i>
<i>7 Opportunities and Risk Report</i>	<i>50</i>
<i>8 Dependency Report</i>	<i>58</i>
<i>9 Corporate Governance Statement</i>	<i>58</i>
<i>10 Report on Events after the Reporting Period</i>	<i>58</i>
<i>11 Forecast Report</i>	<i>58</i>

# Combined Management Report of the Joyou Group and Joyou AG

## 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 core business of Joyou AG is the financing of the Joyou Group. As holding company without its own operational business, Joyou AG is only slightly influenced by the macro-economic situation in Germany, but depends heavily on the ability of the Chinese entities to repay loans and pay dividends to their shareholder Joyou AG.

Joyou Hong Kong, a directly owned subsidiary of Joyou AG, is an intermediate holding company for five 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") Nan'an Joyou Galvanisation Industrial Co., Ltd. ("Joyou Galvanisation"), Quanzhou Joyou Ceramics Ltd. ("Joyou Ceramics") established January 2011 and Grohe (Xiamen) Investment Management Co., Ltd. ("Grohe Xiamen Management") established June 2011. The sole shareholder of Joyou Galvanisation and Joyou Building Materials is Joyou Sanitation Technology, the sole shareholder of which is Joyou Hong Kong. The sole shareholder of Joyou Ceramics is Joyou Hong Kong, and Joyou Sanitation Technology is the 51% shareholder of Grohe Xiamen Management. Therefore, Joyou Group ("Joyou" or "Joyou Group") consists of Joyou AG, Joyou Hong Kong, Joyou Sanitation Technology, Joyou Building Materials, Joyou Galvanisation, Joyou Ceramics and Grohe Xiamen Management.

On 21 July 2011, Grohe Holding GmbH established Joyou International Trading Company Limited ("Joyou International"), a wholly owned subsidiary of Grohe Holding GmbH, with its legal seat in Hong Kong. On 6 September 2011, an assignment and assumption agreement was concluded among Joyou Building Materials, Joyou International and Grohe AG in which Joyou International replaced Grohe AG as contractual party to a Distribution Agreement dated 9 March 2010. On the same day, Joyou Building Materials entered with Joyou International into a permit agreement in which Joyou Building Materials permits Joyou International to use the trademark "Joyou" without any charge as part of the company name for continuing its business activities in the field of packing, marketing, selling and distributing Joyou products. The agreement enables Joyou to make use of

the existing distribution network of the Grohe group. Joyou can benefit from the existing business relationships of the Grohe group with customers worldwide. The Management Board of Joyou expects to extend Joyou's market potential to a global level, benefit from economies of scale and enhance Joyou's reputation worldwide. The domestic China business and the existing OEM/ODM business of Joyou Group are not affected.

Joyou designs, produces and sells products for bathroom solutions 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 in certain emerging markets. In addition, Joyou sells kitchen products, 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

Despite facing stiff headwinds from a flagging world economy and a festering eurozone debt crisis, China still managed to reach a year on year GDP growth rate of 9.2% in 2011, thereby effectively outpacing any other major economy in the world, reaching a GDP of 47.16 trillion RMB (7.26 trillion USD).

After expanding by 9.7% in 2010, the regional GDP in the east Asia and Pacific region grew an estimated 8.2% in 2011, but growth is projected to ease to 7.8% for both 2012 and 2013, according to a World Bank report.

The central bank made countering inflation its priority with tightened monetary measures throughout the year before unleashing signals of easing these measures in December 2011, when it reduced the banks' reserve requirement ratio by 50 basis points for the first time in three years. According to the National Bureau of Statistics (NBS), CPI in China was up 5.4% in 2011 from the previous year, which was well above the government's full-year inflation control target of 4%. The year saw volatile movement in the CPI index, with the year on year growth easing to 4.1% in December from a peak of 6.5% in July.

According to the NBS, retail sales in 2011 increased 17.1% year on year to 18.1 trillion RMB (2.9 trillion USD), slower than 18.4% growth in 2010. After deducting inflation, retail sales growth in real terms was 13.8% in December and 11.6% in 2011.



China's fixed-asset investment rose 23.8% year on year to 30.1933 trillion RMB (4.7736 trillion USD) in 2011, meanwhile, investment in the nation's property sector rose 27.9% year on year to 6.174 trillion RMB, down 4.1 percentage points from that in the first three quarters and 5.3 percentage points from last year.

China plans to begin construction on at least 7 million government-subsidized affordable housing units in 2012, adding to the 10 million units already under construction in 2011.

## 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 metres, which equals only one fourth of the world average. Therefore, water-saving sanitary ware products sell well not only by reducing water costs but also by saving scarce national water resources.

In 2010, the government began policies to restrict speculative property market behaviour, which put pressure on the sales of bathroom products in the project (residential, civil and commercial) and retail sectors. These policies were further increased and enforced throughout 2010 and 2011, and as a result property sales began to tilter significantly in the third quarter of 2011. Such measures included asking local governments to set new home price control targets, raising minimum down payments for second-home purchases, limiting purchases of new homes and introducing property taxes in the cities of Shanghai and Chongqing, in order to keep housing prices down. The central government started in July 2011 to prepare home purchase restrictions in the country's second and third-tier cities to prevent further price increases. Although only a few of them have so far adopted the policy.

The result was that more cities reported a slowdown in year on year increases in property prices in September as a result of the government's tightening efforts to cool the market, according to the National Bureau of Statistics. In September, 59 cities

out of the statistical pool of 70 major cities saw new home prices increase more slowly from a year earlier, compared with 40 cities in August. Property prices in first-tier cities, including Beijing, Shanghai, Shenzhen and Guangzhou, which are viewed as a barometer for the property market, all stayed flat month on month for the third straight month, according to the report. On a year on year basis, nine cities out of the 70 saw new home price declines in December, up from four in November. Growth of new home prices eased in 55 cities. As for resold housing units, 46 cities reported that second-hand home prices declined or stayed unchanged month on month in September, up from 43 in August.

According to one prominent analyst, property transaction volumes in Beijing, Shanghai and Shenzhen tumbled 60.3%, 60.5% and 62.9%, respectively, in September, a traditional boom season for property sales, and forecast predict that property transactions in the fourth quarter may drop further.

Joyou believes that these developments in the property market are having a detrimental effect on its business. Longer term, the property market is ultimately driven by urbanisation and growing needs for housing, the underlying trend of which is not to be interrupted by the introduction of temporary administrative policies.

An emerging, new market segment in addition to the commercial, residential and civil segments, the so-called "social" economically affordable housing segment increased by more than the private buildings market for the first time in over a decade. The 12<sup>th</sup> five year plan called for 36 million apartments to be built in the coming five years, which is on top of the 10 million to be built in the year 2011 up from 5.8 million in 2010, and 5 million in 2009. Domestic suppliers of sanitary ware in China will continue to significantly benefit from this development.

Although at the time of publication, no reliable source of data was available for the financial year 2011, in 2010, according to BSRIA, a market research company, the overall value of the Taps and Mixers market was EUR 984 million up from EUR 868 million in 2009 representing a growth of 7% in RMB terms, and the Sanitary ware market (WC, Urinals, Basin, Bidet, Cistern) was EUR 1,175 million up from EUR 899 million in 2009, representing a growth of 23.3% in RMB terms. The overall volume of the Taps and Mixers market was 48.3 million pieces up from 46 million pieces in 2009, representing a 5% growth, and is set to grow to 63 million pieces in 2015, and the Sanitary ware market (WC, Urinals, Basin, Bidet, Cistern) was 51.1 million pieces up from 48.8 million pieces in 2009, representing a 4.7% growth, and is expected to grow to 62 million pieces in 2015.



*Joyou's designs of bathtubs create a refreshing balance between functionality and lifestyle choice.*

### Market Trends

Several trends have become more prevalent in the market landscape in 2011. These include:

**Increase in labour cost – Labour shortage across China led to rising labour costs.**

**Technology and product offering – Sanitary ware products 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 Chinese 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.**

### Faucets\*

**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.**

According to 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. The predicted volume increase in 2011 on 2010 figures is 5.5%.

### 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). The predicted volume increase in 2011 on 2010 figures is 0.26%.

### 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). The predicted volume increase in 2011 on 2010 figures is 12%.

### 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.

\* Note: At the time of publication, no reliable source of data was available for the financial year 2011, hence the above report is quoted with the growth predictions at the time stated.

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
<b>Total</b>			<b>984.2</b>	<b>100.0</b>

Source BSRIA's "China Bathroom Study" 2011

According to the statistic 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 ceramic 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.

It is Joyou's experience that in the financial year 2011, the credit tightening policies enacted by the central government have especially put greater pressure on smaller, and/or less liquid players in the market, with some going bankrupt and/or being acquired. Joyou is however unaware of any direct competitor acquiring smaller competitors.

### 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 and are ranked below in their relevance to Joyou's strategic focus with the most relevant being placed at the top:

**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:** These are located in less densely populated urban areas and serve mid- to lower-level brands.

**Interior design/installer:** Products distributed through designers have usually sold from mid- to high-end brands, hence Joyou has made significant progress in this channel in 2011.

**Online shopping:** As Chinese consumers have quickly adopted the e-Commerce concept, online shopping is gaining momentum. The products sold through this channel are usually standardised commoditised items that are easier to install and safe delivery through express delivery. Regarding bathroom solutions, consumers however prefer to purchase directly from stores due to the physical size of the purchase, after sales support, ability to install and fear of buying fake products.

**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 behaviour.

**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

### Growth in Market Share

According to BSRIA's "China Bathroom Study" 2011, Joyou was the leading single-brand manufacturer of bathroom faucets and mixers 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. Although reliable figures for 2011 were not available at the time of preparation of this report, Joyou believes that its growth in most of its product segments has outpaced market growth, and has hence lead to increased market share in 2011.

The year 2011 was characterised by a number of key initiatives that will be instrumental and critical for the years to come. These include:







*All the ceramic products produced are designed by the Joyou design team and built using state-of-the-art equipment.*



*Joyou's first 600,000-piece ceramics production facility should prove to be a major strategic competence.*

### Expansion of Distribution Channels

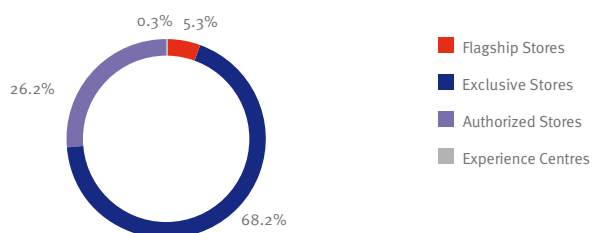
In line with Joyou’s 2011 development strategy, Joyou opened 302 stores in 2011, which was an 8.4% increase on the 2010 base figure. The figure slightly exceeded the 2011 strategic target of 300 stores by 2 stores or 0.7%. On 9 March 2011, Joyou opened its first Joyou Brand Experience Centre in Hangzhou, Zhejiang province of China with a total floor space of 8,611 sqft (800 sqm). The centre was opened in cooperation with a regional distributor.

### Breakdown of Stores Opened in 2011

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total	%
Experience Centres	–	1	–	–	–	1	0.3
Flagship Stores	–	2	7	6	1	16	5.3
Exclusive Stores	11	22	61	99	13	206	68.2
Authorised Stores	2	8	42	21	6	79	26.2
<b>Total</b>	<b>13</b>	<b>33</b>	<b>110</b>	<b>126</b>	<b>20</b>	<b>302</b>	
%	4	12	27	52	6		

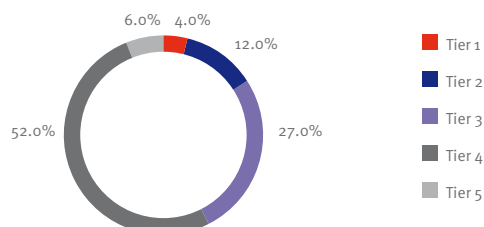
Note: Definition of tiered cities:  
 There is no officially recognised tier city classification to date in China. Joyou follows widely recognised methodology in classifying sales territory subject to its own adjustment, based on the strength of the local economy, GDP per capita as well as property prices.  
 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 2011



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 the year 2011, 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 remains unaffected.

### Joyou Branded Stores Opened by Tier of City in 2011



Throughout the financial year 2011, some Joyou stores were refurbished, due to their age, and also to remodel them to carry a wider selection of the newer Joyou product offering. Such refittings were done in the improved Joyou store design, and some more successful stores were also expanded in size where possible. These refittings and expansions will not show in the new stores opened figures above, but will however increase selling and distribution expenses.

As at 31 December 2011, Joyou’s retail distribution network included 55 regional distributors, covering most of the main business regions of China and consisted of 1 Experience Centre, 103 flagship stores, 1,883 exclusive stores and 1,911 authorised stores. Joyou intends to expand the total number of stores to 4,500 by the end of 2013.

### Research and Design

In 2011, stepping up to its position as a market leader, Joyou Group invested further in research and design as a way to distance itself from its competitors. Research and Development spend increased from EUR 3.3 million in 2010 to EUR 5.2 million in 2011, the fruits of which have shown themselves in both patented technology and processes used to produce products, but also the award-winning designs from international award houses. On the reporting date, the Joyou Group held 231 (2009: 69, 2010: 96) patents for design, invention and utility model, and 65 patents are in the application process.

To support its new ceramic plant, Joyou developed new design and production teams in-house that mastered the complexities of ceramics production, and produced excellent production designs. Once the new plant was operational in September 2011, Joyou started with the production of 9 toilet product styles, with a further 50 products, including basins, in the developmental stage. Further, the toilet styles rolling out of the plant were all designed to be classed as “water-saving” according to Chinese standards, thereby further underscoring Joyou’s commitment to environmental conscientiousness – another achievement for the new design team.

In cooperation with Fujian University of Technology, Joyou successfully developed a low-cost, lead-free brass production process to be used in the manufacturing of its brass-based sanitary ware products. The technology developed uses bismuth (Bi) as a replacement for lead in brass production, making the products not only environmentally friendly, but also giving Joyou a significant marketing edge. Currently, there is a shift away from using lead in the production process in the international market due to environmental and health concerns of lead contamination in drinking water.

In May 2011, at the Shanghai International Kitchen & Sanitary Ware Expo, Joyou Group launched the “X-Time Joyou” brand and product series. Developed in partnership with Joyou’s design team from Milan, it is a product range that integrates cutting-edge design with the latest technology. It is marketed at a young, affluent market who’s use of technology in everyday life marks their buying patterns. The range includes electronics with touch control, and implementation of technology across a variety of platforms. For example, in one product range, the mirror integrates a touch screen MP3 player, and it has a cosmetics fridge for the bathroom.

For the first time in its history, Joyou won design awards in 2011. In January 2011, the Lady Artistic Faucet and the Miniature Garden Artistic Faucet designed by Joyou won the China Kapok Prize of 2010, a China Innovation Design Award granted by the China Industrial Design Association and Guangzhou Design Week. Further in December 2011 Joyou won for the first time the German Red Dot design concept award for a shower faucet, and another Kapok prize for an electronic faucet. These awards acknowledge Joyou’s design capabilities judged by our peers and design experts in China and around the world.

#### Grohe Partnership

Following the tender offer by Grohe and the signing of the shareholder agreement, Joyou AG became a consolidated subsidiary of Grohe Holding GmbH as of 1 July 2011. Joyou expects that Grohe, being a strategic anchor investor, will bring sustained benefits to the company. Apart from the progress made with the Grohe Asian Product Line distribution in China, Joyou also deepened cooperation with Grohe regarding production management. On several occasions, Joyou’s production team has been to Grohe’s factories for training and Grohe’s engineers and senior production managers have been working in Joyou’s Luncang facility to improve process scalability and sustainability on a regular basis. Furthermore, the consolidated new subsidiary Grohe Xiamen Management was established.

In the financial year 2011, after further integrated cooperation between Grohe and Joyou, Grohe has equipped their existing stores to sell Grohe’s Asian Product Line, for which Joyou is the master distributor, and opened many more stores across China that sell this product range.

#### In-House Production

In-line with Joyou’s strategy to produce the value added items that it sells, there were several developments in this area in 2011.

On 13 September 2011, the new ceramics facility began initial production less than twelve months after it was initiated in Q4 2010. The ceramics plant covers a floor space of 70,000 sqm, and contains both a flow kiln and a static kiln. The larger of the two kilns, the flow kiln, was operational in mid-September, and went through a one month run-in period before being ramped-up to mass production. The ceramic plant has 80 bench casting lines with a maximum annual production capacity of up to 600,000 pieces. Joyou started with the production of 9 toilet product styles. A further 50 products, including basins, are in the development stage and are expected to enter the manufacturing phase over the coming months. All new toilet styles are environmentally friendly – their consumption of water is lower than the China standard (4.8 litres or less vs. 6 litres).

After starting in-house production of both Shower Enclosures and Bathroom Cabinets in Q3 2010, Joyou began in Q2 2011 the own production of acrylic bathtubs. A total of 15 models are in production and several more models are in the R&D stage. The in-house production of Shower Enclosures and Bathroom Cabinets has been very successful. The own production of Shower Enclosures which was started in Q3 2010 accounts for nearly 100% of sales in Q4 2011: 11 models are already in production and 7 more are currently in the R&D stage. Our in-house production of Bathroom Cabinets, which was started in Q3 2010, currently manufactures 12 different models and 11 more are in the R&D stage, which allows Joyou to produce the majority of Bathroom Cabinets sold in-house.

In December 2011, Joyou announced that it would set up a new production plant for showerheads.

Once completed, Joyou will have in-sourced most products key to its market strategy and brand reputation. Accordingly, Joyou intends to leverage on these additional capabilities and further expand its product range, especially with respect to offering entire bathroom solutions. Joyou believes that this strategy will further enhance product quality, design and profitability.





### Marketing and Brand-Building Activities

A long-lasting, strong brand is essential in the market in which Joyou has chosen to compete. In China, Joyou has positioned itself as a mass-premium sanitary ware product producer that offers quality, service and, increasingly, lifestyle. Internationally Joyou is currently also engaged as a manufacturer of OEM/ODM products for international sanitary ware companies, wholesalers and trading companies.

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, product promotion and sponsored events to associate the Joyou brand with a modern lifestyle, thereby portraying a more modern, active brand image. Throughout 2011, various marketing events were hosted around store opening events across China, the focus of which was around the “Red Patriotic Song” tour, which was built around patriotic remembrance considering the 90<sup>th</sup> birthday of the foundation of the Communist Party of China, on 1 July 2011. The tour was staged at many cities and towns across the country, and gained strong media and consumer attention.

As part of the B2B brand-building activities within the sanitary ware sector in China, Joyou Group participated in many national and international exhibitions; Frankfurt ISH, Shanghai ISH, 5<sup>th</sup> Straits Green Construction and Energy Savings Forum, Bo’Ao Real Estate Forum, Vietnam International Trade Fair and India Sanitary Ware Fair. During the shows, several well-attended brand-building activities were held, such as the guest appearance of Jingjing GUO, 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, recognised first-class quality and an expanding store network, together with being the master distributor of the Grohe Asian product range, Joyou started capitalising 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 2011, Joyou was awarded the “Primary Construction Material Purchase Brand 2011 of China’s Top 500 Real Estate Developers” and on top of the existing Project Development office opened in 2010 in Beijing and Xiamen, Joyou further opened such sales centres in Tianjin, Shenyang, Xian, Chengdu, Chongqing, Qingdao, Nanjing, Wuhan and Jinan in 2011. Joyou signed contracts to supply several high-profile projects with a combination of Joyou and Grohe products. These included the new 430-room 5-Star Kempinski Hotel in Xiamen, the new 300-room 5-Star Westin Hotel in Xiamen, the new 250-room Crowne Plaza in Huangshan and the 200-room Gloria Plaza hotel in Hohhot.

### Production Line Expansion

The first phase of the ceramic plant has 80 bench casting lines with an annual production capacity of up to 600,000 pieces. Joyou AG employs over 500 people in this new plant.

On 21 December 2011, Joyou announced that it planned to set up a new production plant for showerheads. The investment will help Joyou to develop its business in the mid- to high-end plastic resin products market. The total investment amounts to approximately EUR 44 million (RMB 400 million) and an additional EUR 8 million (RMB 70 million) for working capital. The project is expected to be financed partly through the IPO proceeds and debt. The plant will be built up to achieve a preliminary capacity of 7 million units per year. Major products of the new plant will be plastic showerheads, brackets, toilet seats and other accessories and will initially be sold in the domestic market under the Joyou brand name. The facility will be using the newest plastic resin technology, and will replace purchases of currently out-sourced products, which will lead to greater sales margins, design flexibility, quality control and enhance the company’s position as a supplier of complete bathroom solutions. In the context of the existing cooperation, Grohe intends to support Joyou’s plastic resin production.

Joyou intends to further expand its product offering and to shift the remaining outsourced production to own manufacturing. Joyou believes that this strategy will enhance product quality, design and profitability.

### Galvanisation Plant Acquisition

To date there has been no change in the progress of the acquisition of the 100% stake in Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. (“Yongsheng Galvanisation”), a galvanisation plant in the Shui Tou Galvanisation Industry Park in Nan’an, Fujian Province. The process is still ongoing as Yongsheng Galvanisation has not yet received all necessary documents and approvals which would enable Joyou to close the transaction in line with Joyou’s due diligence processes.

### 3 Results of Operations, Financial Position and Net Assets

#### 3.1 General Statement on Business Development

In the financial year 2011, Joyou achieved financial results in line with adjusted expectations. The Group increased its sales in 2011 by 16.4% year on year to a total of EUR 287.1 million (2010: EUR 246.6 million). During the period under review there was a 0.39% appreciation of the RMB to EUR. Adjusted for this currency effect sales growth would have been 16.88%.

Operating income (EBIT) for full year 2011 increased by 4.9% from EUR 43.2 million to EUR 45.3 million, representing an EBIT margin of 15.8%. Net income increased by 17.5% from EUR 32.8 million to EUR 38.5 million in 2011, mainly due to sales growth.

With these results, Joyou achieved both the revised guidance on the full year 2011 sales of EUR 280 million to EUR 290 million, and the revised guidance on EBIT of EUR 44 million to EUR 46 million. Guidance issued used a stated exchange rate for 9 RMB to EUR 1.

The strong sales growth reflects the substantial expansion of the distribution network and the Company's increased spending on marketing. In 2011, Joyou opened 302 stores. As of 31 December 2011, the retail network comprised 3,898 Joyou 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 2011, together with the consolidated income statement for the year ended 31 December 2010.

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

	1 Jan. to 31 Dec. 2011		1 Jan. to 31 Dec. 2010		Variance	
	kEUR	%	kEUR	%	kEUR	%
<b>Sales revenues</b>	<b>287,086</b>	<b>100.0</b>	<b>246,625</b>	<b>100.0</b>	<b>40,461</b>	<b>16.4</b>
Cost of sales	-209,148	-72.9	-178,094	-72.2	-31,054	17.4
<b>Gross profit</b>	<b>77,938</b>	<b>27.1</b>	<b>68,531</b>	<b>27.8</b>	<b>9,407</b>	<b>13.7</b>
Other operating income	687	0.2	1,581	0.6	-894	-56.5
Selling and distribution expenses	-15,459	-5.4	-16,304	-6.6	845	-5.2
Administrative expenses	-16,990	-5.9	-9,163	-3.7	-7,827	85.4
Other operating expenses	-891	-0.3	-1,481	-0.6	590	-39.8
<b>EBIT</b>	<b>45,285</b>	<b>15.8</b>	<b>43,164</b>	<b>17.5</b>	<b>2,122</b>	<b>4.9</b>
Financial results	-853	-0.3	-887	-0.4	34	-3.9
<b>EBT</b>	<b>44,432</b>	<b>15.5</b>	<b>42,277</b>	<b>17.1</b>	<b>2,156</b>	<b>5.1</b>
Taxes on profit	-5,906	-2.1	-9,498	-3.9	3,592	-37.8
<b>Profit</b>	<b>38,526</b>	<b>13.4</b>	<b>32,779</b>	<b>13.3</b>	<b>5,748</b>	<b>17.5</b>

#### 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 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 246,625 in the year ended 31 December 2010 by kEUR 40,461, or 16.4%, to kEUR 287,086 in the year ended 31 December 2011. This increase resulted from an increase in all sales, mainly in respect of Grohe Products, Bathroom Cabinets, Ceramics and Bathtubs, Shower Products as well as Bathroom Faucets.

Increases refer mainly to the following movements in sales: Compared to that of the year ended 31 December 2010, the sales of Grohe Products increased by kEUR 4,104 or 199.4% (The sales of Grohe Products increased quite rapidly coming from low figures), Bathroom Cabinets increased by kEUR 8,528 or 173.1%, Ceramics and Bathtubs increased by kEUR 8,895 or 54.9%, Shower Products increased by kEUR 14,383 or 37.9% and Bathroom Faucets increased by kEUR 9,066 or 8.5%.

The success of the Company's strategic direction shift can be seen in the increased diversification of the product mix, with product segments such as Bathroom Cabinets, Ceramics and Bathtubs, and Shower Products gaining increased representation.

### 3.2.2 Cost of Sales

Cost of sales comprise the costs of purchasing copper, other parts, outsourced products, overheads/other, other metals, labour costs for personnel employed in production, zinc, depreciation of fixed assets used for production purposes and others.

The following table shows a breakdown of cost 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. 2011		1 Jan. to 31 Dec. 2010		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper <sup>1</sup>	80,681	38.6	92,297	51.8	-11,616	-12.6
Outsourced products <sup>4</sup>	29,898	14.3	29,233	16.4	665	2.3
Other parts <sup>2</sup>	45,420	21.7	16,568	9.3	28,852	174.1
Other metals	16,594	7.9	11,651	6.5	4,943	42.4
Overheads/other <sup>3</sup>	20,588	9.9	10,542	5.9	10,046	95.3
Zinc	4,350	2.1	9,092	5.1	-4,742	-52.2
Labor costs <sup>5</sup>	8,403	4.0	5,755	3.2	2,648	46.0
Depreciation	3,214	1.5	2,956	1.7	258	8.7
<b>Cost of sales</b>	<b>209,148</b>	<b>100.0</b>	<b>178,094</b>	<b>100.0</b>	<b>31,054</b>	<b>17.4</b>

<sup>1</sup> Copper including certain semi-finished copper-based products sourced from external manufacturers. In 2010 and 2011, a certain amount of brass purchase was also included.

<sup>2</sup> Other parts comprise product components made of plastic, rubber and shower heads.

<sup>3</sup> Overheads/other includes mainly costs for public utilities, maintenance costs and expensing of lease prepayments on land-use rights for land being used for production.

<sup>4</sup> Outsourced products include trading or merchandise goods, including Grohe products.

<sup>5</sup> Labour costs include salaries, wages and benefits.

Cost of sales increased from kEUR 178,094 in the year ended 31 December 2010 by kEUR 31,054, to kEUR 209,148 in the year ended 31 December 2011. The increase in cost of sales in the year ended 31 December 2011 resulted mainly from increase in sales. Copper as a percentage cost of sales decreased from 51.8% in the year ended 31 December 2010 to 38.6% in the year ended 31 December 2011, mainly due to a strategic shift away from copper-based products. Outsourced products have increased from kEUR 29,233 by kEUR 665 to kEUR 29,898 due to the increase in business with Grohe products and finished goods. Other parts increased from kEUR 16,568 by kEUR 28,852 to kEUR 45,420, mainly due to the increase in sales of shower heads and the adjustment of the product mix. Labour costs have increased from kEUR 5,755 by kEUR 2,648 to kEUR 8,403 due to an increase in the number of production employees, mainly in the ceramics plant opened in September 2011, and increases in wages.

### 3.2.3 Gross Margin

For the year ended 31 December 2011, the gross margin amounts to 27.1% and has slightly decreased compared to 27.8% for the year ended 31 December 2010. This was mainly due to an obsolescence provision charged to purchases on Grohe inventory (see Sec. "3.1.2 Changes in Accounting Policies and Estimates" for further details). Across the reporting segments there were increases and decreases in production costs which overall had a negligible net effect on the gross margin. Cost of sales increased by 17.4% compared with the sales increased only by 16.4%.

### 3.2.4 Selling and Distribution Expenses

Selling and distribution expenses comprises marketing expenses such as advertising, event sponsorship, promotional activities and store refurbishments, as well as other costs for the exhibition expenses (expenses incurred in connection with the participation at trade fairs), rental expenses, provisions for future obligations, rental expenses, travel expenses and labour costs for employees engaged in the sales and marketing department.

Selling and distribution expenses decreased significantly from kEUR 16,304 in the year ended 31 December 2010 by kEUR 845, or 5.2%, to kEUR 15,459 in the year ended 31 December 2011. This decrease primarily resulted from a fall in the decoration subsidy for new stores opened in the distribution network (new stores opened; 2011: 302, 2010: 1,069) and the increased efficiency of the 2011 advertising campaigns which focussed on localisation in partnership with the master distributors, with a percentage of sales from distributors being accrued for advertising costs. Also in 2011 there were no large one-off expenses such as the CCTV programme sponsored in 2010. Compared to 2010, selling and distribution expenses decreased from 6.6% to 5.4% of sales revenues in 2011.

### 3.2.5 Administrative Expenses

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

Administrative expenses increased from kEUR 9,163 in the year ended 31 December 2010 by kEUR 7,827, or 85.4%, to kEUR 16,990 in the year ended 31 December 2011. The changes in administrative expenses are principally attributable to an increase in R&D expenses, project start-up costs, allowances

for bad debt, depreciation, third-party service providers, administrative salaries and the Grohe takeover offer. R&D expenses increased significantly due to the expanding business segments, and being a pace-setting player in the Chinese sanitary ware industry (for more details see Sec. “4.1 Research and Development”).

With the three month delay of the Meiyu ceramics production facility coming on line, Joyou incurred start-up costs expensed to Administrative Expenses, not least related to the hundreds of employees and their training expenses.

Compared to 2010, administrative expenses increased from 3.7% to 5.9% of in in 2011.

### 3.2.6 Other Operating Income and Expenses

Other operating income mainly comprises, among other things, rental income, government grants, reimbursements and other refunds and decreased from kEUR 1,581 in the year ended 31 December 2010 by kEUR 894, or 56.5%, to kEUR 687 in the year ended 31 December 2011. A reimbursement of advisor fees in accordance with the IPO by Greenshoe shareholders was granted in 2010 while a Grohe tender offer reimbursement was incurred in 2011, which resulted in a net decrease of reimbursements from kEUR 829 in 2010 by kEUR 707 to kEUR 122 in 2011.

Other operating expenses mainly comprises, among other things, donations, tax late fee, depreciation and related costs of investment property, and decreased from kEUR 1,481 in the year ended 31 December 2010 by kEUR 590 to kEUR 891, mainly due to decreased IPO expenses for Greenshoe shareholders.

### 3.2.7 Finance Result

Finance result comprises finance income less finance expenses. Finance income comprises interest income from third-party and foreign exchange gains. Finance costs comprise interest expenses, bank loans, exchange losses and bank charges. In 2010, they also comprise interest expenses on preferred shares (until conversion in March 2010).

Finance income decreased from kEUR 7,347 in the year ended 31 December 2010 by kEUR 2,656 to kEUR 4,691 in the year ended 31 December 2011. The decrease in income related to the decrease in bank deposits corresponding to the decrease in cash and cash equivalents; furthermore the exchange gain decreased due to exchange rate changes over the period, and also the amounts held in foreign currencies. 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 8,234 in the year ended 31 December 2010 by kEUR 2,690 to kEUR 5,544 in the year ended 31 December 2011. The decrease was mainly attributable to an increase in foreign currency exchange losses, a decrease in interest expense on bank loans, and also the decrease on the interest expense on the preferred shares from 2010. For further details refer to Sec. “23 Finance Income and Finance Costs” in the Notes to the Consolidated Financial Statements.

### 3.2.8 Taxes on Profit

Taxes on profit decreased from kEUR 9,498 in the year ended 31 December 2010 by kEUR 3,592, or 37.8%, to kEUR 5,906 in the year ended 31 December 2011. This decrease is mainly due to the increase in deferred tax assets caused by change of tax rates and temporary differences such as allowance for trade and other receivables. 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 2009, which reduces the income tax rate for them in China from a statutory rate of 25% to a preferential rate of 15% during the granted period. When the granted period is expired, a statutory rate of 25% will be applied.

### 3.2.9 Earnings

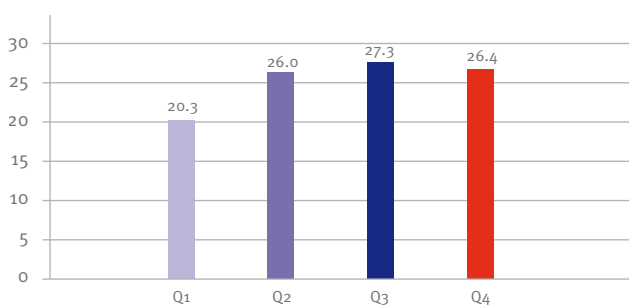
	1 Jan. to 31 Dec. 2011		1 Jan. to 31 Dec. 2010		Variance	
	kEUR	%	kEUR	%	kEUR	%
<b>EBIT</b>	<b>45,285</b>		<b>43,164</b>		<b>2,121</b>	<b>4.9</b>
Depreciation and amortisation	4,606		3,476		1,130	32.5
<b>EBITDA</b>	<b>49,891</b>		<b>46,640</b>		<b>3,251</b>	<b>7.0</b>
Expenses on land use rights	661		547		114	20.8
Adjusted EBITDA	50,552		47,187		3,365	7.1
Adjusted EBITDA margin	17.6%		19.1%		-1.5%	-8.0
EBIT margin	15.8%		17.5%		-1.7%	-9.9
<b>EBT</b>	<b>44,432</b>	<b>100.0</b>	<b>42,277</b>	<b>91.3</b>	<b>2,155</b>	<b>5.1</b>
Interests on preferred shares (now converted into equity)	–	–	4,047	8.7	-4,047	-100.0
<b>Adjusted EBT</b>	<b>44,432</b>	<b>100.0</b>	<b>46,324</b>	<b>100.0</b>	<b>-1,892</b>	<b>-4.1</b>

\*The comparative figures for 2010 are amended by a restatement made in 2011. For further information we refer to the Notes to the Consolidated Financial Statements.

### 3.2.10 Seasonality in Business

Having completed the 4<sup>th</sup> 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.

#### Seasonal Average of three Years of Sales in %



### 3.3 Financial Position

	1 Jan. to 31 Dec. 2011 kEUR	1 Jan. to 31 Dec. 2010 kEUR	Variance kEUR
Cash flow from operating activities	17,554	17,955	-401
Cash flow used in investing activities	-49,203	-20,214	-28,989
Cash flow from (used in) financing activities	-15,818	74,758	-90,576
Changes in cash and cash equivalents	-47,467	72,499	-119,966
Cash and cash equivalents at the beginning of the reporting period	113,181	34,291	78,890
Currency translation differences	2,982	6,391	-3,409
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>68,696</b>	<b>113,181</b>	<b>-44,485</b>

Net cash generated from operating activities decreased from kEUR 17,955 in the year ended 31 December 2010 by kEUR 401, or 2.2%, to kEUR 17,554 in the year ended 31 December 2011.

Cash flow used in investing activities increased from kEUR -20,214 in the year ended 31 December 2010 by kEUR 28,989, or 143.4%, to kEUR -49,203 in the year ended 31 December 2011. This increase is mainly attributable to new investments in the Meiyu ceramics factory facilities and new production lines which is offset by the partial repayment of a deposit payment for a galvanisation plant.

Finally, cash flow from financing activities decreased from kEUR 74,758 in the year ended 31 December 2010 by kEUR 90,576, or 121.2%, to kEUR -15,818 in the year ended 31 December 2011. In 2010, Joyou received proceeds from the IPO of kEUR 91,000 (less transaction costs of kEUR 6,691). The cash outflow of 2011 is mainly due to the repayment of short-term bank loans.

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 2010 and 2011 was kEUR 7,428 and kEUR 13,022, respectively.

### 3.4 Net Assets

The asset and capital structure developed as follows: the balance sheet total increased from kEUR 339,504 by kEUR 66,956 to kEUR 406,460. This rise is principally attributable to an increase in property, plant and equipment, trade receivables, inventories, other receivables and prepayments, prepayments on land use right as well as deferred tax assets.



Assets	31 Dec. 2011		31 Dec. 2010		Variance	
	kEUR	%	kEUR	%	kEUR	%
Intangible assets	338	0.1	315	0.1	23	7.2
Property, plant and equipment	114,675	28.2	56,860	16.7	57,815	101.7
Investment property	2,117	0.5	2,066	0.6	51	2.5
Prepayments on land-use rights	27,269	6.7	24,003	7.1	3,266	13.6
Other non-current assets	245	0.1	–	0.0	245	–
Deferred tax assets	2,251	0.6	426	0.1	1,825	428.4
<b>Non-current assets</b>	<b>146,895</b>	<b>36.1</b>	<b>83,670</b>	<b>24.6</b>	<b>63,225</b>	<b>75.6</b>
Inventories	83,465	20.5	65,303	19.2	18,162	27.8
Trade receivables	78,304	19.3	55,349	16.3	22,955	41.5
Receivables due from Grohe group	601	0.1	–	0.0	601	–
Other receivables and prepayments	28,407	7.0	20,866	7.1	7,541	36.1
Amounts due from related parties other than Grohe group	92	0.0	1,135	0.3	-1,043	-91.9
Cash and cash equivalents	68,696	17.9	113,181	33.3	-44,485	-39.3
<b>Current assets</b>	<b>259,565</b>	<b>63.9</b>	<b>255,834</b>	<b>75.4</b>	<b>3,731</b>	<b>1.5</b>
<b>Balance sheet total</b>	<b>406,460</b>	<b>100.0</b>	<b>339,504</b>	<b>100.0</b>	<b>66,956</b>	<b>19.7</b>

Equity and liabilities	31 Dec. 2011		31 Dec. 2010		Variance	
	kEUR	%	kEUR	%	kEUR	%
<b>Equity</b>	<b>304,351</b>	<b>74.9</b>	<b>243,069</b>	<b>71.6</b>	<b>61,282</b>	<b>25.2</b>
Long-term bank loan	3,677	0.9	3,400	1.0	277	8.1
Other provisions	529	0.1	885	0.3	-356	-40.2
<b>Non-current liabilities</b>	<b>4,206</b>	<b>1.0</b>	<b>4,285</b>	<b>1.3</b>	<b>-79</b>	<b>-1.8</b>
Short-term loans	32,790	8.1	43,752	12.9	-10,962	-25.1
Trade payables	4,388	1.1	8,679	2.6	-4,291	-49.4
Notes payable	40,147	9.9	32,720	9.6	7,427	22.7
Other payables and accruals	12,456	3.1	4,677	1.4	7,779	166.3
Amounts due to related parties other than Grohe group	444	0.1	24	–	420	1,749.0
Amounts due to Grohe group	5,491	1.4	–	–	5,491	–
Income tax payable	2,187	0.5	2,298	0.7	-111	-4.8
<b>Current liabilities</b>	<b>97,903</b>	<b>24.1</b>	<b>92,150</b>	<b>27.1</b>	<b>5,753</b>	<b>6.2</b>
<b>Balance sheet total</b>	<b>406,460</b>	<b>100.0</b>	<b>339,504</b>	<b>100.0</b>	<b>66,956</b>	<b>19.7</b>

### 3.4.1 Non-Current Assets

Intangible assets comprise software and patents and amounted to kEUR 315 as at 31 December 2010, and kEUR 338 as at 31 December 2011.

Property, plant and equipment mainly comprise buildings, machinery and construction in progress. Property, plant and equipment increased from kEUR 56,860 by kEUR 57,815, or 101.7%, to kEUR 114,675 as at 31 December 2011. This increase is many attributable to the completion of the first phase of the Meiyu ceramics facility that was begun in Q4 2010 and completed Q3 2011, and also the construction in progress (CIP) of the second phase of the same facility. It also includes initial CIP at the Luncang facility.

Investment property refers to a building which is used to earn rental income. The carrying amount of investment property increased from kEUR 2,066 by kEUR 51 to kEUR 2,117 as at 31 December 2011 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' leasehold, because freehold rights do not exist under Chinese law. The non-current carrying amount of land-use rights amounted to kEUR 24,003 as at 31 December 2010, and kEUR 27,269 as at 31 December 2011, the movement includes the expense for the year.

Deferred tax assets are temporary differences between the carrying amount of an assets and its tax base. Deferred tax assets increased from kEUR 426 by kEUR 1,825, or 428.4%, to kEUR 2,251 as at 31 December 2011. This increase resulted primarily from provision for trade and other receivables, impairment of inventory on Grohe products, and research and development expenses as well as a change in the tax rates.

### 3.4.2 Current Assets

Inventories comprise raw materials and consumables, work-in progress, finished goods, outsourced products and Grohe merchandise products. It increased from kEUR 65,303 as at 31 December 2010 by kEUR 18,162, or 27.8%, to kEUR 83,465 as at 31 December 2011. The increase was mainly caused by an increase in inventory of finished goods and Grohe merchandise products.

Trade receivables increased from kEUR 55,349 as at 31 December 2010 by kEUR 22,955, or 41.5%, to kEUR 78,304 as at 31 December 2011. Trade receivable turnover days [365 days/(revenues/average trade receivables)] increased from 72 to 85 days. This

increase was mainly associated with further increased sales as a result of Joyou selling more products through its distribution network in China, and a tightening credit environment for Joyou's distribution partners.

Other receivables and prepayments comprise mainly receivables from non-related companies, advances to suppliers and prepaid expenses. The increase from kEUR 20,866 as at 31 December 2010 by kEUR 7,541, or 36.1%, to kEUR 28,407 as at 31 December 2011 was mainly due to an increase in advances to suppliers, which is offset from the partial repayment of a deposit payment of kEUR 3,970 on an intended acquisition of a galvanisation plant, and also an increase in tax refund.

Amounts due from related parties other than Grohe group decreased from kEUR 1,135 by kEUR 1,043, or 91.9%, to kEUR 92 as at 31 December 2011. Nan'an Longsheng Science and Technology Industry Co., Ltd. was no longer a related party and had no outstanding receivables owed to Joyou.

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 Sec. 3.3 of this Combined Management Report.

#### 3.4.3 Equity

Equity increased from kEUR 243,069 as at 31 December 2010 to kEUR 304,351 as at 31 December 2011, this was mainly attributable to an increase in retained earnings, currency translation reserve and reserves. The equity ratio increased from 71.6% in 2010 to 74.9% in the financial year 2011.

#### 3.4.4 Non-Current Liabilities

Long-term bank loan amounting to kEUR 3,400 as at 31 December 2010 increased by kEUR 277, or 8.1%, to kEUR 3,677 as at 31 December 2011 refers to a secured bank loan, which is due for repayment in 2013. The change is due to the currency translation.

Other provisions mainly include provisions for the future cost of decommissioning plants on a discounted basis on the construction of those plants and warranty provisions and it decreased from kEUR 885 by kEUR 356 or 40.2% to kEUR 529. 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.

#### 3.4.5 Current Liabilities

Short-term loans comprise primarily secured bank loans and, to a lesser extent, unsecured bank loans. They decreased from kEUR 43,752 as at 31 December 2010 by kEUR 10,962 or 25.1% to kEUR 32,790 as at 31 December 2011. The short-term loans are spread across a number of local financial institutions, with differences in interest rates and maturity terms.

Trade payables and notes payable as a composite figure slightly increased from kEUR 41,399 as at 31 December 2010 by kEUR 3,136 or 7.6% to kEUR 44,535 as at 31 December 2011. Trade payables decreased from kEUR 8,679 by kEUR 4,291 or 49.4% to kEUR 4,388 as at 31 December 2011 and comprises amounts payable to suppliers for the purchase of raw materials and products. Notes payable arise from the issuance of notes payable to suppliers. It increased from kEUR 32,720 as at 31 December 2010 by kEUR 7,427 or 22.7% to kEUR 40,147 as at 31 December 2011. Joyou has increasingly used notes payable as a supplemental financing to finance operations, mainly due to the current credit-squeezed environment. The supplier bears the interest expense if he discounts the notes payable to the banks.

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 use tax). The increase from kEUR 4,677 as at 31 December 2010 by kEUR 7,779, or 166.3%, to kEUR 12,456 as at 31 December 2011 results primarily from the increase of payables associated with the construction of the Meiyu ceramic facility, advance from customers, accrued expenses, accrued payroll and security deposits.

#### 3.5 Segment Reporting

The following table presents Joyou's revenues broken down by product categories for each of the years ended 31 December 2010 and 2011. The table also presents each item as a percentage of total revenues. Segment reporting is classified into 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.

##### 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 107,094 in 2010 by kEUR 9,066, or 8.5%, to kEUR 116,160 in 2011. Measured in RMB, revenues from the sale of Bathroom Faucets increased by 8.9% during this period. The increase came from ASP increases in all the subcategories, however this was offset by virtually flat volume changes across the category.

The percentage of revenues from Bathroom Faucets to total revenues decreased from 43.4% in 2010 to 40.5% in 2011. This is in line with Joyou's overall strategy of reliance on this single category item, and a move towards providing for a total bathroom solution.

#### 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 decreased from kEUR 34,666 in 2010 by kEUR 1,302, or 3.8%, to kEUR 33,364 in 2011. Measured in RMB, revenues from the sale of Kitchen Products decreased by 3.4% during this period.

There was an increase in ASP across both major subsectors, however this was offset by corresponding declining volumes.

The percentage of revenues from Kitchen Products to total revenues decreased from 14.1% in 2010 to 11.6% in 2011.

#### Shower Products

Shower Products mainly comprise shower faucets, showerheads 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 37,944 in 2010 by kEUR 14,383, or 37.9%, to kEUR 52,327 in 2011. Measured in RMB, revenues from the sale of Shower Products increased by 38.4% during this period.

There was a substantial increase in volumes in this product category, which was offset by a slight ASP decline. The volume gains came mainly from the increased sales of showerheads, a category which also saw strong ASP growth. Shower enclosures also saw strong volume growth, which was offset by mild ASP decline.

The percentage of revenues from Shower Products to total revenues increased from 15.4% in 2010 to 18.2% in 2011.

	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary	Copper and Semi- finished Products	Grohe Products	Total
<b>2011</b>										
Revenue	116,160	33,364	52,327	25,087	13,455	9,903	20,807	9,821	6,162	287,086
COGS	-82,213	-23,745	-38,076	-16,230	-9,513	-6,297	-18,812	-7,665	-6,597	-209,148
GP	33,947	9,619	14,251	8,857	3,942	3,606	1,995	2,156	-435	77,938
GP margin (in %)	29.2	28.8	27.2	35.3	29.3	36.4	9.6	22.0	-7.0	27.1
<b>Segment assets</b>	<b>144,379</b>	<b>41,470</b>	<b>65,040</b>	<b>69,884</b>	<b>16,724</b>	<b>12,309</b>	<b>25,862</b>	<b>12,207</b>	<b>18,585</b>	<b>406,460</b>
<b>2010</b>										
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
<b>Segment assets</b>	<b>143,167</b>	<b>46,343</b>	<b>50,726</b>	<b>21,646</b>	<b>6,587</b>	<b>14,821</b>	<b>30,656</b>	<b>13,001</b>	<b>12,557</b>	<b>339,504</b>

### Ceramics and Bathtubs

Ceramics and Bathtubs mainly comprise ceramic sanitary ware such as wash basins and toilets, as well as bathtubs. This product category was supplied through a mixture of outsourced and self-produced products, with self-produced products representing an increasing proportion of sales.

Revenues from the sale of Ceramics and Bathtubs increased from kEUR 16,192 in 2010 by kEUR 8,895, or 54.9%, to kEUR 25,087 in 2011.

Measured in RMB, revenues from the sale of Ceramics and Bathtubs increased by 55.5% during this period.

The increase in sales mainly came from significant increases in volume across all subcategories, all of which also showed ASP growth. Ceramic products saw both the largest volume and ASP increase.

The percentage of revenues from Ceramics and Bathtubs to total revenues increased from 6.6% in 2010 to 8.7% in 2011.

### Bathroom Cabinets

Bathroom Cabinets mainly comprise free-standing and wall-hung cabinets. This product category was supplied through a mixture of outsourced and self-produced products, with self-produced products representing the vast majority, and an increasing proportion of sales.

Revenues from the sale of Bathroom Cabinets increased from kEUR 4,927 in 2010 by kEUR 8,528, or 173.1%, to kEUR 13,455 in 2011. Measured in RMB, revenues from the sale of Bathroom Cabinets increased by 174.2% during this period.

There was a significant increase in volumes within the category, and a slight ASP increase which was mainly attributable to an increased marketing promotion acceptance in the channel, and more stores carrying this bulkier item.

The percentage of revenues from Bathroom Cabinets to total revenues increased from 2.0% in 2010 to 4.7% in 2011.

### Bathroom Accessories

Bathroom Accessories mainly comprise baskets, soap trays, rack 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 decreased from kEUR 11,087 in 2010 by kEUR 1,184, or 10.7%, to kEUR 9,903 in 2011. Measured in RMB, revenues from the sale of Bathroom Accessories decreased by 10.3% during this period.

There was a decrease in volumes, which was slightly offset by growth of ASP. The decrease in volume is due to a mixture of overall corporate focus on higher-priced items, and lack of quality supply to a lessening extent.

The percentage of revenues from Bathroom Accessories to total revenues decreased from 4.5% in 2010 to 3.4% in 2011.

### Other Faucets and Sanitary Hardware

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

Revenues from the sale of Other Faucets and Sanitary Hardware decreased from kEUR 22,932 in 2010 by kEUR 2,125, or 9.3%, to kEUR 20,807 in 2011. Measured in RMB, revenues from the sale of Other Faucets and Sanitary Hardware decreased by 8.9% during this period.

The percentage of revenues from Other Faucets and Sanitary Hardware to total revenues decreased from 9.3% in 2010 to 7.2% in 2011.

### Copper and Semi-finished Components

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

Revenues from the sale of Copper and Semi-finished Components increased from kEUR 9,725 in 2010 by kEUR 96, or 1.0%, to kEUR 9,821 in 2011. Measured in RMB, revenues from the sale of Copper and Semi-finished Components increases by 1.4% during this period due to the exchange rate fluctuation.

The percentage of revenues from Copper and Semi-finished Components to total revenues decreased from 3.9% in 2010 to 3.4% in 2011.

### 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.

Revenues from the sale of Grohe Products increased from kEUR 2,058 in 2010 by kEUR 4,104, or 199.4%, to kEUR 6,162 in 2011. Measured in RMB, revenues from the sale of Grohe Products increased by 200.6% during this period.

There was an increase in sales volumes was attributable to increased marketing promotion and acceptance in the channel.

The percentage of revenues from Grohe Products to total revenues increased from 0.8% in 2010 to 2.1% in 2011.

The cost of sales of the Grohe Business were affected by Changes in Joyou's accounting policies on inventory leading to a negative gross profit; see Note "3.1.2 Changes in Accounting Policies and Estimates" to the Consolidated Financial Statements for further details.

### 3.6 Results of Operations, Financial Position and Net Assets of Joyou AG

The following discussion compares the development in the business year 2011 with the figures from the comparative period 2010.

#### 3.6.1 Financial Position

	2011 kEUR	2010 kEUR	Variance kEUR
<b>Assets</b>			
Tangible Assets	1	1	-
Investments in affiliated company	137,585	100,585	37,000
Loans due from affiliated companies	41,441	78,441	-37,000
<b>Non-current assets</b>	<b>179,027</b>	<b>179,027</b>	<b>-</b>
Receivables due from affiliated companies	2,702	2,166	536
Other receivables	51	13	38
Prepayments	53	46	7
Cash and cash equivalents	132	284	-152
<b>Current assets</b>	<b>2,938</b>	<b>2,509</b>	<b>429</b>
<b>Balance sheet total</b>	<b>181,965</b>	<b>181,536</b>	<b>429</b>
<b>Equity and liabilities</b>			
Capital subscribed	23,967	23,967	-
Additional paid-in capital	157,146	157,146	-
Retained earnings	347	-	347
<b>Equity</b>	<b>181,460</b>	<b>181,113</b>	<b>347</b>
Trade payables	47	28	19
Other provision	454	394	60
Other payables and accruals	4	1	3
<b>Current liabilities</b>	<b>505</b>	<b>423</b>	<b>82</b>
<b>Balance sheet total</b>	<b>181,965</b>	<b>181,536</b>	<b>429</b>

The statement of financial position of Joyou AG shows a net equity of kEUR 181,460, which covers non-current assets of kEUR 179,027. The current liabilities amount to kEUR 505 and are compensated by current assets of kEUR 2,938. In the financial year 2011, the Company realized a gain of kEUR 347 mainly caused by interest income from inter-company loan agreement less consulting fees.

The investment in affiliated companies amounts to kEUR 137,585 (previous year: kEUR 100,585) and refers to the investment in the holding company of Joyou Hong Kong. The increase of kEUR 37,000 is based on loan a conversation agreement dated 30 June 2011 to convert kEUR 37,000 of the loan amount into equity capital of Joyou Hong Kong and therefore in investments in an affiliated company of Joyou AG. Vice versa the loan due from an affiliated company decrease from kEUR 78,441 previous year to kEUR 41,441 as at 31 December 2011 by the same amount.

Receivables due from affiliated companies of kEUR 2,702 mainly relate to interest accrued on the aforementioned loan. Other receivables amount to kEUR 51 (previous year: kEUR 13) and relate to VAT receivable, rental deposits and other short-term receivables. Prepayments relate to premiums on directors' and officers' insurance, which are expensed in a future period. Cash and cash equivalents relate to liquid funds on current bank accounts.

Other provisions increased from kEUR 394 at 31 December 2010 by kEUR 60 to kEUR 454 at 31 December 2011. The provisions are accrued for costs relating to the preparation and audit of the annual financial statements and the consolidated financial statements as well as costs in respect of the annual shareholder meeting regarding the financial year 2011.

#### 3.6.2 Income Statement

The following analysis relates mainly to 2011 figures:

	1 Jan. to 31 Dec. 2011 kEUR	1 Jan. to 31 Dec. 2010 kEUR	Variance kEUR
<b>Other operating income</b>	<b>201</b>	<b>-</b>	<b>201</b>
Interest income	1,994	1,961	33
Personnel expenses	-39	-6	-33
Depreciation of fixed assets	-1	-1	-
Other operating expenses	-1,808	-1,322	-486
<b>EBIT before IPO expenses</b>	<b>347</b>	<b>632</b>	<b>-285</b>
Expenses on IPO	-	-7,919	7,919
Less income from reimbursement	-	829	-829
<b>EBIT/EBT/profit/loss</b>	<b>347</b>	<b>-6,458</b>	<b>6,805</b>

Other operating income of kEUR 201 relates mainly to revenues from Group management fees and reimbursement of expenses by the majority shareholder Grohe. As a holding company, Joyou AG received interest of kEUR 1,994 on a inter-company loan granted in April 2010 to Joyou Hong Kong. Other operating expenses relate to current business expenses, mainly on the annual shareholder meeting 2011 (kEUR 85), expenses for the preparation and review of quarterly reports and annual financial statements (kEUR 561), fees for lawyers and other advisers (kEUR 616) and exchange losses (kEUR 268). The net gain for the financial year 2011 amounts to kEUR 347 (2010: loss kEUR 6,458). Due to tax losses carried forward until 30 June 2011 no income tax arises on the result.

### 3.6.3 Cash Flow Statement

The cash available at year-end amounts to kEUR 132. Movements in liquid funds can be analyzed as follows:

	2011 kEUR	2010 kEUR	Variance kEUR
Profit (loss) for the period	347	-6,458	6,805
Increase in provisions and accruals	59	137	-78
<b>Cash flow</b>	<b>406</b>	<b>-6,321</b>	<b>6,727</b>
Increase/decrease in receivables from/ and payables to affiliated companies	-535	430	-965
Decrease/increase in other assets and prepaid expenses	-45	-59	14
Decrease/increase in trade payables and other liabilities	22	-91	113
<b>Cash flow from operating activities</b>	<b>-152</b>	<b>-6,041</b>	<b>5,889</b>
Purchase of property, plant and equipment		-1	1
Acquisition of non-current financial assets	-	-84,674	84,674
<b>Cash flow from investing activities</b>	<b>-</b>	<b>-84,675</b>	<b>84,675</b>
Cash receipts from the issue of capital		91,000	91,000
<b>Cash flow from financing activities</b>	<b>-</b>	<b>91,000</b>	<b>91,000</b>
Changes in cash and cash equivalents	-152	284	-436
Cash and cash equivalents at the beginning of the reporting period	284	-	284
Cash and cash equivalents at the end of the reporting period	132	284	-152

## 4 Other Factors that Impacted on Results

### 4.1 Research and Development

Joyou's Research and Development is built on a system of inter-departmental coordination and participation. Joyou considers research and development as well as product design to be of key importance for its success. Joyou is currently performing research in the areas of external design aesthetics, technological components aspects and also production techniques.

These include the areas of sensory techniques for faucets and other flushing valves that may be used in toilets, water purification, the improvement of constant temperature functions, such as thermostat techniques, the inclusion of electronics such as flow and temperature control into products, and the improvement of water-saving functions of flushing valves. Furthermore, Joyou is also focusing its research on the production of lead-free faucets and the utilisation of the technology across production. Joyou's R&D activities also include enhancing the standardisation 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 most faucets and showerheads that it sells under its own brand. Joyou also designs mid-/high-end ceramic sanitary ware and started own production in 2011. 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. In 2011, Joyou also launched the X-Time Joyou series, which is an innovative product range encompassing modern technology in the bathroom. This range was designed in partnership with Joyou's Italian design team in Milan.



Joyou's market research centre 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 centre familiarise themselves with international design trends and new 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 31 December 2011, the Joyou Group held 231 (2009: 69, 2010: 96) patents for design, invention and utility model, and 65 patents are in the process of application. The significant increase of patents in the last two years is attributed to the strong capability of its design team. Furthermore, Joyou's products have won prestigious design awards.

For the reporting period under review, research and development costs came to EUR 5.2 million in total and were significantly higher than the previous year (2009: EUR 1.7 million, 2010: EUR 3.3 million). The majority of the research and development costs can be attributed to increased efforts to develop new products.

#### 4.2 Procurement and Supply

Joyou purchases raw materials, components as well as selected finished products, including Grohe merchandise. 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, aluminium, lead, bismuth and other raw materials and chemicals in order to produce its faucets and other brass-based products, and clay along with a few simple elements to produce ceramics. Joyou currently procures these raw materials based on framework supply agreements with various suppliers. They mostly 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 still sources some finished products and components for products which it sells under its own brand. Finished products that Joyou procures include ceramic sanitary ware products, showerheads and shower assemblies, as well as stainless steel basins used for kitchen sinks, and a limited number of bathtubs. Joyou sources these finished products from various suppliers and does not depend on any single supplier.

Third parties manufacture these products according to Joyou's quality and design specifications. Due to the investments in a ceramics factory, which began production in Q3 2011, the supply chain has been shortened and dependency on suppliers will reduce.

Joyou also sources simple components for its products such as plastic valves, rubber sealing rings, shower hoses 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

Joyou offers high-end Grohe 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 a master distribution agreement on specified products in China. Beside the Grohe products, Joyou does not offer any merchandise products.

#### 4.3 Production

##### 4.3.1 Production

Joyou currently manufactures faucets, valves and other bathroom accessories made of brass, ceramic ware, bathroom cabinets and shower enclosures, among other things. Other finished products sold by Joyou such as shower sets and showerheads, 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 centre. The marketing centre forecasts market demand on a monthly basis, primarily using information derived from recent sales numbers, forecasts derived from distributors and statistical growth models.

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, by exchanging



technologies with these manufacturers and its cooperation with Grohe group, 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 galvanisation lines.

#### 4.3.2 Production Facilities and Equipment

Joyou operates three facilities in Nan'an. The Dayu facility is currently mainly used as the plant for 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 galvanisation lines. The Meiyu facility is currently used for the production of ceramic products.

Based on its own estimates, Joyou believes that the Company is one of the faucet manufacturers in China with the highest production capacity, and will soon become a major player in the ceramics production in China. 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 whose general preference is to buy from original manufacturers.

### 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 standardised 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:

**Experience Centres:** With a sales area of typically more than 500 sqm (5,382 sqft), Experience Centres concentrate on the customers' experience and their interaction with the brand. Apart from having different areas for different product segments, promoting the bathroom concept, they also have dedicated areas to showcase the history of the Joyou brand and the company behind it. They also include extensive areas displaying the products and brand concept in the hotel and luxury apartment sector, aimed at introducing usage for professional project buyers.

**Flagship Stores:** With a sales area of typically more than 200 sqm (2,153 sqft), 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 sqm and 200 sqm in size (646 to 2,153 sqft). 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.

**Authorised Stores:** Authorised stores are usually dedicated sales areas only for Joyou products within shopping centres focusing on sanitary ware. Their sales area is typically less than 90 sqm in size (969 sqft). The shopping centres in which authorised 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 colours and materials to be used.

To improve communication and interaction with these distributors, Joyou organises 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 2011 annual distributor meeting, which was held in January 2011 in Quanzhou, for the training of the regional distributors and retailers.



NADIA MONGILARDI



LAURA DONNA



ARIANNA LANZONE



VALTER CAGNA



ROBERTA MOTTO



LIN-JIN



ZETIAN LI

*The international design team truly brings award-winning designs to the Joyou portfolio.*

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.

#### 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 a few German-based manufacturers successfully sell faucet products on the high-value price segment in China on any reasonable scale. 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 is 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.

#### 4.4.4 Distribution through Projects Channel

Project developers build commercial, residential, civil and social developments around the country. Depending on the size and focus, the developer will be local, national, regional or market segment-focussed. Joyou has set up many offices around the country to support this segment of the market, with its long sales cycle. These offices serve as sales and after-sales service coordination and support. With larger, national property developers, after gaining entry into the approved suppliers' manual, Joyou will be invited to bid on projects. After successfully winning a contract, the project will either be supplied directly or from the local regional distributor. Joyou uses its vast national support network to support such developers, across the entirety of the country. Local projects are usually delivered directly from the acting distributor.

#### 4.5 Employees

During the year under review, Joyou had an average of 3,195 employees (prior year: 2,244 employees). In comparison to the previous year, the number of employees increased by 951 employees, mainly in production.

The increase of employees in Joyou's production by 692 employees was caused by the initial start-up of new production lines in the factory in the Meiyu facility in 2011, and is in line with the increase in expected sales of ceramic products.

The increase of employees in Joyou's management and administration departments was caused by the increased business volume and additional administrative functions, and the significant increase in Research and Development.

The increase in Joyou's sales and marketing department by 76 employees 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. Previously only the former Chief Financial Officer received a variable bonus depending on a successful listing at the stock exchange which was settled in 2010 as well as a stock option plan granted by a major shareholder. With the resignation of the former Chief Financial Officer on 1 September 2011, the stock option plan is terminated. As at 31 December 2011, all 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	266,251	239,626	95,407	42,648	643,932
Variable remuneration					
Stock options					
Contribution in kind	27,818	25,846		372	54,036
<b>Total</b>	<b>294,069</b>	<b>265,472</b>	<b>95,407</b>	<b>43,020</b>	<b>697,968</b>

On 1 September 2011, Mr. Gang ZHENG resigned as Chief Financial Officer of Joyou AG and Mr. Zufang LI was appointed. In 2009, the Company granted share-based payment for Mr. Gang ZHENG as part of his remuneration package. As of 1 January 2011, Mr. Gang ZHENG held 50,000 options granted to him by Mr. Jianshe CAI. For options granted to vest, the Financial Officer would have to remain employed by the group for the agreed vesting period of five years. For further details we refer to the 2010 annual report. In the first three quarters 2011 an amount of kEUR 67 of employee remuneration expense (all of which equity-settled share-based payment transactions) has been included in profit or loss (year 2010: kEUR 89) and credited to capital reserve. In accordance with the termination of Mr. Gang ZHENG's engagement, the share-based payment agreement with Joyou AG was terminated as well. As a result the prior period entries into capital reserve were reversed as at 1 September 2011, at an amount of kEUR 172, into administrative expenses.

### 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 for 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. According to the resolution of the 2011 AGM, in addition to their base salary, members of the Supervisory Board whose place of residence is Europe shall be granted a remuneration of EUR 1,500.00 for attending meetings of the Supervisory Board in Europe, and a remuneration of EUR 4,000.00 for attending Supervisory Board meetings outside Europe. In addition to the base salary, members of the Supervisory Board whose place of residence is Asia shall be granted a remuneration of EUR 1,500.00 for attending meetings of the Supervisory Board in Asia, and a remuneration of EUR 4,000.00 for attending Supervisory Board meetings outside Asia. For Supervisory Board members whose place of residence is on continents other than Europe or Asia, the above provisions shall apply respectively. 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 2011 are provided on an individual basis in the table below.

Name Position	Dr. Rainer SIMON Chairman	Johnny CHEN	Wei WANG	David HAINES	Total
Remuneration	60,000	45,000	7,500	2,500	115,000
Meeting fees	9,500	-	-	-	9,500
Remuneration of VAT	13,205	-	-	-	13,205
Expenses reimbursed	34,029	-	-	-	34,029
<b>Total</b>	<b>116,734</b>	<b>45,000</b>	<b>7,500</b>	<b>2,500</b>	<b>171,734</b>

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.

### 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 2011. 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%

Under the German securities Trading Act (Wertpapierhandelsgesetz, WpHG), any investor whose shareholding reaches, exceeds or falls below specified voting rights thresholds as a result of purchase, sale or any other transactions is required to notify the Company and German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin).

The Company received the following notifications by shareholders of the Company with direct or indirect interest exceeding 10% in the reporting period:

**Joyou Grohe Holding AG** (formerly **Grohe Asia AG**), Düsseldorf, informed us in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company exceeded the 25%, 30% and 50% thresholds on 18 May 2011, and held 52.58% (12,601,958 voting rights) as of this date. Grohe Asia AG held 31.08% directly (7,449,502 voting rights) as of this date. The remaining voting rights of 21.50% (5,152,456 voting rights) were attributed to Grohe Asia AG in accordance with Sec. 22 (1) sentence 1 no. 6 WpHG.

**Grohe Holding GmbH**, Düsseldorf, informed us in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company exceeded the 25%, 30% and 50% thresholds on 18 May 2011, and held 52.64% (12,616,877 voting rights) as of

this date. Grohe Holding GmbH held 0.06% directly (14,919 voting rights) as of this date. The remaining voting rights of 52.58% (12,601,958 voting rights) were attributed to Grohe Asia AG in accordance with Sec. 22 (1) sentence 1 no. 1 and no. 6 WpHG.

The persons subject to the disclosure requirement (the “**Disclosure**”) listed in the table below notified the Company in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company exceeded the 25%, 30% and 50% thresholds on 18 May 2011 and held 52.64% (12,616,877 voting rights) as of this date. All these voting rights were attributed to the Disclosure respectively in accordance with Sec. 22 (1) sentence 1 no. 1 and no. 6 WpHG.

Disclosure	Disclosure's domicile and country
Glacier Luxembourg Two S.à.r.l.	Luxembourg, Luxembourg
Glacier Luxembourg One S.à.r.l.	Luxembourg, Luxembourg
Glacier Partners, L.P.	George Town, Grand Cayman
Glacier G.P., inc.	George Town, Grand Cayman
TPG Partners IV, L.P.	Fort Worth, Texas, USA
TPG CenPar IV, L.P.	Fort Worth, Texas, USA
TPG CenPar IV Advisors, LLC	Fort Worth, Texas, USA
TPG Holding I, L.P.	Fort Worth, Texas, USA
TPG Holding I-A, LLC	Fort Worth, Texas, USA
TPG Group Holdings (SBS), L.P.	Fort Worth, Texas, USA
TPG Group Holdings (SBS) Advisors, Inc.	Fort Worth, Texas, USA
MBP III Plan Investors, L.P.	Wilmington, Delaware, USA
DLJ Offshore Partners III-2, C.V.	Willemstad, Curacao, Netherlands Antilles
DLJ Offshore Partners III-1, C.V.	Willemstad, Curacao, Netherlands Antilles
DLJ Offshore Partners III, C.V.	Willemstad, Curacao, Netherlands Antilles
Millennium Partners II L.P.	Wilmington, Delaware, USA
DLJ MB Partners III GmbH & Co. KG	Munich, Germany
DLJMB Overseas Partners III C.V.	Willemstad, Curacao, Netherlands Antilles
DLJ LBO Plans Management Corporation II	Wilmington, Delaware, USA
DLJMB III (Bermuda), L.P.	Hamilton, Bermuda
DLJ Merchant Banking III, L.P.	Wilmington, Delaware, USA
DLJ MB III, LLC.	Wilmington, Delaware, USA
Credit Suisse Private Equity, LLC	Wilmington, Delaware, USA
CSAM Americas Holding Corp.	Wilmington, Delaware, USA
Credit Suisse (USA), Inc.	Wilmington, Delaware, USA
Credit Suisse Holdings (USA), Inc.	Wilmington, Delaware, USA
Credit Suisse AG	Zurich, Switzerland
Credit Suisse Group AG	Zurich, Switzerland



Mr. Jianshe CAI, China, informed us in accordance with Sec. 21 (1) WpHG that his shares of voting rights in the Company exceeded the 50% thresholds on 6 July 2011, and held 72.05% (17,267,381 voting rights) as of this date. Mr. Jianshe CAI held 7.7% (1,844,737 voting rights) directly as of this date. The remaining voting rights of 64.35% (15,422,644 voting rights) were attributed to Mr. Jianshe CAI in accordance with Sec. 22 (2) WpHG.

Mr. Jilin CAI, China, informed us in accordance with Sec. 21 (1) WpHG that his shares of voting rights in the Company exceeded the 50% thresholds on 6 July 2011, and held 72.05% (17,267,381 voting rights) as of this date. All these voting rights were attributed to Mr. Jilin CAI in accordance with Sec. 22 (2) WpHG.

#### **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 Authorisations concerning the Possibility of Issuing or Buying Back Share**

The Company has an authorised capital (genehmigtes Kapital) of EUR 11,983,764.00. According to Sec. 4, Para. 4 of the Company's Articles of Association, the Management Board is authorised 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 2011, Joyou Group finalised developing and started implementing a risk management system which shall also operate as Joyou AG's risk early detection system as promulgated by Sec. 91 of the German Stock Corporation Law. Taking opportunities and being able to recognise risks, analyse 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 materialisation 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 counter-measures taking account of alternative risk scenarios. Joyou will thus endeavour to systematically counter risks and consistently exploit opportunities.

By the end of 2011, the Management Board had defined Group-wide principles and rules of behaviour 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 has been 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 will be regularly reviewed by the internal audit department.

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

Apart from defined control mechanisms such as system-based and manual reconciliation processes, the fundamental principles of the internal control system include the 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 standardised throughout the Group. The Group companies are responsible for their compliance with the directives and procedures applicable throughout the Group and for the proper and timely operation of their accounting-related processes and systems. The employees involved in the accounting and financial reporting process receive regular training, and the Group companies are supported by an external service provider. As part of the process, measures are implemented that are designed to ensure the regulatory compliance of the consolidated financial statements. These measures serve to identify and evaluate risks, and to limit and monitor any risks that may be identified. For example, material new contractual relationships are systematically tracked and analysed.

The consolidated financial statements are prepared by a German external service provider centrally on the basis of the data supplied by the included subsidiaries. The consolidation, certain reconciliation operations to Group policies and monitoring of the related time schedules and procedures are performed by the accounting department of 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 favourable 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 urbanising areas will trigger strong demand for sanitary ware. Joyou's target market is therefore 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. In addition, among many places, including first-tier cities such as Beijing, Shanghai and Guangzhou the Chinese government started to make an effort to build more affordable houses. Further, according to the National Bureau of Statistics, for the first time more than half of China's population were living in cities at the end of 2011. Currently, around 650 million Chinese live in cities while the comparable figure for the United States of America was about 80% of its total population. Research published by the McKinsey Global Institute projects that by 2025 China's urban population will grow by 325 million people. Following the current trend, the country's urban population will reach 1 billion by 2030. The Chinese housing and construction industry will likely remain one of the main beneficiaries of the ongoing urbanisation 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. 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.

The current general climate for the property developers in China is one of fierce competition, with many developers dropping prices in the second half of 2011 in order to clear inventory. Although this creates a clear disadvantage to the sanitary ware industry as a whole, Joyou believes that its differentiated product and service offering may allow it to gain absolute market share in this challenged market segment.

In the context of continuing global financial uncertainty and its effects on the Chinese economy, a series of policies have been introduced, which may have further impact on the overall market development. In its ongoing attempt to cool down the Chinese economy and to manage external macroeconomic affects, the Chinese government has lowered its GDP growth expectation for 2012. Furthermore, more new policies might be launched to eliminate the presumed housing bubble. This could slow down demand on houses, which might have an impact on the bathroom market. The inflation rate is expected to remain at a level higher than targeted 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.

#### *7.5.2 Brand Development and Domestic Distribution Network*

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 recognised 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, the 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 for success which will enable Joyou to accomplish its goals with respect to business, the financial condition and results of operations.

The distribution network in China 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, the financial condition and results of operations.

Based on the existing distribution agreement between Joyou and Grohe AG, and considering the establishment of Joyou International by Grohe Holding GmbH in the middle of 2011, Joyou expects to start selling both Joyou branded products as well as OEM/ODM products through Joyou International to international customers. This approach will allow Joyou to keep focussed on the fast-growing, dynamic Chinese sanitary ware market while exploring global market opportunities, and also to utilise economies of scale without significant additional investments being made. As the pricing mechanism to be established between Joyou and Joyou International will be based on the arm’s length principle, Joyou will be compensated fairly based on the allocation of opportunities and risks among both parties.

### *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 authorisations 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.

It is possible that third-party intellectual property rights exist in China, Europe or elsewhere in respect of some of the technologies, processes and designs Joyou uses which are unknown to it. Joyou cannot guarantee that it does not and will not infringe third-party intellectual property rights. The exact determination of the scope of a patent, design patent, copyright or other intellectual property right can be very complex. Any infringement of third-party patents or other intellectual property rights or any lawsuits relating hereto could have a material adverse effect on Joyou’s reputation and on Joyou’s net assets, financial position and results of operations.

### *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 USD-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 minimise the risks associated with these price changes, Joyou fixes raw material prices in supply contracts to avoid the impact of raw material price fluctuations to some degree. 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 adjust-

ment 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 minimise 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 galvanisation 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 authorisations, 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 galvanisation 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 sub-

soil 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 Joyou's flexibility in planning for, or reacting to, changes in its 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 utilising financial instruments issued by Joyou AG, the Company, or Joyou Hong Kong, can make loans or additional capital contributions to Joyou Sanitation Technology or Joyou Ceramics, the PRC subsidiaries of the Company which qualify 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 counter-



*Investments in R&D have led to process improvements, such as lead-free copper production which gives Joyou a leading differential advantage in the market.*



part. 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 or Joyou Ceramics, 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 financial instruments issued by Joyou AG 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, Interest Rate Fluctuations and Credit Tightening*

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's Consolidated Financial Statements. As the value of the RMB is controlled by PRC authorities, it is also possible that foreign exchange policies of the PRC government could have a significant impact on currency exchange rates. Therefore, fluctuations in currency exchange rates could have material adverse effects on the business, financial condition and results of operations.

Joyou relies on short-term loans taken from banks located in the PRC. The ongoing growths of Joyou Group will not allow Joyou to repay the bank loans within the near future. Joyou will therefore be exposed to changes in market interest rates through the bank borrowings being renewed at interest rates different to those currently in place. In addition, those banks located in the PRC are subject to the PRC rules and regulations applicable to such financial institutions. The introduction of changes or new rules and regulations might reduce the total volume of loans offered by those banks to its customers in China leading to a tightened loan market. Therefore, a tightened Chinese loan market and/or 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 as being immaterial.

Beside these direct effects on Joyou, the general credit tightening in China that were seen with increasing grip in the start of 2011 may affect Joyou's suppliers and also customers in China. With respect to Joyou's suppliers, this could lead to an increased need for working capital within the Joyou Group and also possible supply disruption caused by suppliers with insufficient capital to support their own activities. For its Chinese customers, this could lead to extended debtor days, increasing bad debt provisions and therefore additional refinancing needs for Joyou Group. The same issue, however, would also affect Joyou's competitors on

the Chinese market, which may lead to less liquid competitors being forced into bankruptcy or becoming target of acquisition or consolidation. Joyou believes that this may have beneficial consequences, and allow it, due to its superior financial structure, to take additional market share in the market as a whole.

#### *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, such as disruption in the flow kiln at the Joyou's Meiyu ceramics facility, 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. Furthermore Joyou's international expansion may incur additional liability for which Joyou is not sufficiently protected.

#### *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 non-current 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 labour market for specialist and managerial personnel.

Key positions are regularly analysed 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.

#### 7.6 Risks Specific to Joyou AG

Joyou AG is a holding company without any operating business of its own. Joyou AG's assets are largely located in China. Accordingly, Joyou AG is facing risks related to the political, social and legal environment of the PRC. Those risks include inherent uncertainties and inconsistencies in the country's legal system including national taxation laws, a potential destabilization of the political and/or economic system and PRC regulations pertaining to loans and capital investments by offshore parent companies delaying or preventing Joyou Group from using IPO proceeds for investments in the PRC.

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 cur-

rencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange ("SAFE") or its local counterparts, and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions.

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

On the other side, Joyou believes that the Chinese sanitary ware industry in general and Joyou in particular are in a favourable position to provide 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 urbanising areas will trigger strong demand for sanitary ware. Increasing living standards supported by further growth in China's GDP will lead to changing consumer patterns resulting in expanded bathroom space and an increase in the demand for products with higher design standards and more advanced features. 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.

However, although the economic environment appears fine, the economic development of China might lead to new challenges and risks for the operating PRC entities which could have a material adverse effect on business, financial condition and results of operations limiting the operating PRC entities' ability to paying dividends to Joyou AG.

#### 7.7 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 organisation, all the conditions for being able to recognise possible opportunities and risks in good time have been fulfilled.

## 8 Dependency Report

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

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

## 9 Corporate Governance Statement

The declaration on corporate governance required by section 289a German Commercial Code (HGB) is openly available for inspection on the company’s website at [www.joyou.de/ipo](http://www.joyou.de/ipo).

## 10 Report on Events after the Reporting Period

In March 2012, Grohe started to market Joyou branded products on the European market. A sales agreement was signed with Robert Lee Distribution Ltd., one of the largest independent UK wholesalers of baths, showers, sanitary ware and plumbing products.

Furthermore, in March 2012 Joyou has been awarded the iF Product Design Award 2012 for its new shower kit. Established in 1953, the iF Product Design Award is today among the most important awards for innovative product design. Joyou’s flat-panel shower and water-heater unit from the X-Time Joyou series had already been honoured with the German “red dot” award.

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

## 11 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.

### 11.1 Future Economic Environment

#### Global Economy

The world economy is set to continue growing in 2012 and anticipated to grow by 2.5% in 2012 according to the World Bank. High-income country growth is expected to come in at 1.4%, with a decline in the euro area. Developing country growth has been predicted to be 5.4% in 2012.

#### Economic Development in China

According to Deloitte’s Asia Pacific Economic Outlook, published in January 2012, the Chinese economy is likely to experience slower growth in 2012 than in 2011. However, China will continue to face risks from the high level of debt-financed investment that took place over the past years. Some longer-term risks are growing nearer, for example, the property market in China is changing in ways that create increased stress on the financial system.

According to the OECD, CPI will level out in 2012 and 2013 at 3.8%, which is within government targets, whilst the current account balance as a percentage of GDP will continue to decline to 2.6% and 2.1% in 2012 and 2013, with GDP growth showing an upturn in 2013.

### 11.2 Future Business Environment

Based on these general economic parameters, the Chinese sanitary ware industry is expected to continue to grow in 2012 and beyond.

BSRIA in the China Bathroom Study 2011 predicted the taps and mixers market size in 2011 to grow by 5.5% in volume. Also, in the mid-term until 2015, this market segment is expected to reach annual volume growth rates of 5% to 6%. The growth rates for the other segments of the sanitary ware market are predicted at around 5% for ceramics and non-ceramics and 10% for bathtubs. At the time of approval by the Management Board, no reliable source of data was available for a more recent outlook. Joyou, however, believes that the analysis shown above are reasonable, in line with Joyou’s expectations and therefore still applicable. With regard to Chinese consumer patterns, in the mid-range segment, market trends are shifting toward purchasing the whole bathroom suite from one brand, whereas the premium segment retains a single-item preference.

Although the global economic outlook indicates declining European markets, slow growing markets in North America and uncertain economic perspectives for the Middle East, Joyou believes that its cooperation with Joyou International, the 100% owned Grohe subsidiary established to promote Joyou-branded international sales outside China as well as the OEM/ODM

business will contribute to the growth perspectives in 2012 and beyond. In addition, Joyou's partnership with Grohe group shall offer additional business potentials as well.

### 11.3 Future Development of Joyou Group

#### 11.3.1 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
- Expand its production base
- Benefit from the strategic cooperation with Grohe Holding GmbH (Grohe)
- Investment into research and design
- Further increase brand awareness and market share
- 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. Joyou expects its distribution network to reach 4,500 Joyou branded stores by the end of 2013.

#### Expand Production Base

In Q4 2011, Joyou began construction of the second phase of the Meiyu ceramics facility, the first phase begun production in Q4 2011. This second phase is planned to have two times the capacity of the previous phase, and will consist of 2 flow kilns, and have an operational floor space of over 100,000 sqm. It is expected to begin production in the first half of 2013. It will benefit to a large extent from the gained economies of scale and production synergies with phase one, and hence the respective investment yield will be higher than phase one.

By the end of December 2011, Joyou initiated the set up its own production plant for showerheads to develop its business in the mid- to high-end plastic resin products market. The total investment is expected to be approx. EUR 44 million (RMB 400 million). The plant will be built up to achieve a preliminary capacity of 7 million units per year. Major products of the new plant will be plastic showerheads, brackets, toilet seats and other accessories, and will mainly be sold in the domestic market under the Joyou brand name. In the context of the existing cooperation, Grohe intends to transfer some of its know-how

in plastic resin production to Joyou and support the company in setting up the new facility.

To enhance Joyou's own galvanisation capacities, Joyou continues its negotiations with the shareholders of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. ("Yongsheng Galvanisation"), a galvanisation plant in the Shui Tou Galvanisation Industry Park in Nan'an, Fujian Province. Joyou intends to acquire a 100% stake in Yongsheng Galvanisation. Although the process has been ongoing since middle of 2010, Joyou hopes that Yongsheng Galvanisation will have received all necessary documents and approvals by the end of 2012 at the latest which would enable Joyou to close the transaction.

Joyou sees many growth opportunities in the domestic and international sanitary ware market. Its investment program comprises mainly investments in production facilities. Over the next three years Joyou intends to invest the majority of the available funds into the expansion of existing facilities and the construction of new facilities.

These growth investments will have an impact on Joyou's free cash flows. In this context, we currently do not plan to distribute dividends for the years 2012 and 2013. In the mid-term we strive to pay out dividends of at least 15% of net profit provided that this is not detrimental to our business activity and growth strategy.

#### Strategic Cooperation with Grohe group

Joyou believes that the partnership with Grohe will not only lead to increasing sales volumes as seen throughout 2011, but also continue to create value moving forward in other areas such as component sourcing and technology and skill transfer. Joyou expects to start selling both Joyou-branded products as well as OEM/ODM products through Joyou International to international customers in 2012, adding both to Joyou's revenues and enabling additional economies of scale without significant additional investments being made.

#### Investment into Research and Design

Joyou believes that the product life cycle in the current Chinese market is shorter than other major international markets. As a market leader in the domestic Chinese market, Joyou will focus on researching and developing new products, features and technologies to continue it to keep and extend its marketing edge. Joyou believes that companies without such an engineered advantage will lose competitiveness in such a highly dynamic market. Joyou expects its slightly increasing R&D expenses to continue to result in international recognition and design awards and thus will further strengthen Joyou's front-running for innovative products designed, developed and products in China.

### Brand and Market Share Development

Joyou's brand strategy for China is to continue to focus on the growing middle income affluent consumer (MAC) market segment, which Joyou believes to be the most profitable market segment in China. This will be carried out mainly through both localised marketing campaigns in partnership with Joyou's regional distributors. For 2012, the major focus will be to reinforce the brand pillars of quality and design in the consumer's minds.

### Expansion of Project Business

According to Joyou's estimates, this segment which is made up of fully fitted residential property, commercial, civil and social projects, comprises roughly 30% of the overall sanitary ware market. In 2011, Joyou continued its Project Expansion Strategy to build the foundations in this segment of the market, opening firstly the central projects office in Beijing, and subsequent project sales team around China, and then using this platform to build relationships with the top property developers. Joyou will build on this investment and leverage its in-house manufactured bathroom solution advantage to further expand this segment in 2012 and beyond.

### Improvement of financial structure

Given the growth opportunities for Joyou in 2012 and beyond, considering the current structure of Joyou's debt financing and the risks associated herewith – refer to Sec. 7.5.6 of this combined management report – Joyou intends to explore the opportunities of financial instruments currently not being used by the group to improve both funding for additional investments and the maturity structure of its interest-bearing debt financing. Joyou has engaged an international bank to advise it on potential financial instruments and to explore market opportunities accordingly.

#### 11.3.2 Outlook

Building on the foundation of the strong pillars of growth, namely urbanisation and the growing consumer class and its place as a market leader, Joyou believes that it is well positioned for future profitable growth. As such Joyou gives a positive outlook forecast stretching into the 2012, and expects its growth to continue to outpace that of the market, and the economy as a whole. Despite significant investments budgeted for 2012 bearing some start-up costs, economies of scale as well as Joyou's efforts on cost controlling shall provide for a improved operating profit on 2011. The preferential tax rate for two of Joyou's operating entities in the PRC has expired at the end of 2011. Joyou intends to apply for a renewal of these tax benefits but cannot determine whether this application would be approved. Therefore, the tax rate for said two entities is to be expected being 25% of taxable income in 2012 rather than 15%. This could affect Joyou's profit after taxes.

We see many growth opportunities for Joyou in the domestic and international sanitary ware market. Our investment program comprises mainly investments in production facilities. Over the next three years, we intend to invest the majority of the available funds into the expansion of existing facilities and the construction of new facilities.

To finance these intended investments, Joyou will explore the opportunities of financial instruments currently not being used by the group as discussed. However, these growth investments will also have an impact on Joyou's free cash flow. The company's future dividend policy will take the financial situation and the general economic environment into account. In the mid-term we strive to pay out dividends of at least 15% of net profit provided that we have sufficient additional available funds for investments to continue our growth strategy.

#### 11.4 Future Development of Joyou AG

As Joyou AG is a holding company for Joyou Group with major business in the PRC the future perspective of Joyou AG highly depends on the world economy and expectations and perspectives of the operational entities in PRC as discussed above. Without considering potential dividend payments from its subsidiaries, Joyou AG expects to sustain a small net profit including a positive operating cash flow in 2012 and beyond.

#### 11.5 General Statement of the Future Business Development

The economic development in China as well as mega-trends such as urbanisation will strongly support the need to develop adequate urban infrastructures leading to an increase in demand for sanitary ware products. This process will also be supported by increasing disposable income of the average Chinese household, enabling it to spend more money on design and decoration of bathrooms. Consequently, we believe that the Chinese sanitary ware industry is in a favourable position to provide for reasonable growth rates in 2012 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, 22 March 2012

Jianshe CAI      Jilin CAI      Zufang LI      Gerald MULVIN

# *Consolidated Financial Statements*

for the reporting period ended 31 December 2011  
pages 62–101

## *Table of Contents*

<i>Consolidated Statement of Comprehensive Income</i>	62
<i>Consolidated Statement of Financial Position</i>	63
<i>Consolidated Statement of Changes in Equity</i>	64
<i>Consolidated Statement of Cash Flows</i>	65
<i>Notes to the Consolidated Financial Statements</i>	66

# Consolidated Financial Statements

for the reporting period ended 31 December 2011

## Consolidated Statement of Comprehensive Income

kEUR	Notes	2011	2010
Revenue	5.	287,086	246,625
Cost of sales	6.	-209,148	-178,094
<b>Gross profit</b>		<b>77,938</b>	<b>68,531</b>
Other operating income	5.	687	1,581
Selling and distribution expenses	7.	-15,459	-16,304
Administrative expenses	8.	-16,990	-9,163
Other operating expenses	9.	-891	-1,481
<b>Operating profit</b>		<b>45,285</b>	<b>43,164</b>
Finance income	24.	4,691	7,347
Finance costs	24.	-5,544	-8,234
Profit before income tax		44,432	42,277
Income tax	25.	-5,906	-9,497
<b>Profit for the period</b>		<b>38,526</b>	<b>32,780</b>
Exchange differences on translating foreign operations		22,598	10,231
Other comprehensive income for the period		22,598	10,231
<b>Total comprehensive income for the period</b>		<b>61,124</b>	<b>43,011</b>
<b>Profit attributable to:</b>			
owners of the parent		38,526	32,780
non-controlling interests		-	-
<b>Total comprehensive income attributable to:</b>			
owners of the parent		61,124	43,011
non-controlling interests		-	-
<b>Earnings per share*</b>		<b>EUR</b>	<b>EUR</b>
basic		1.61	1.60
diluted		1.61	1.60

\* 2011 figure based on 23,967,492 shares, where 2010 figure based on 20,475,619 shares.

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 consolidated financial statements.



**Consolidated Statement of Financial Position**

kEUR	Notes	31 Dec. 2011	31 Dec. 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	18.	83,465	65,303
Trade receivables	19.	78,304	55,349
Other receivables and prepayments	19.	28,407	20,866
Amounts due from Grohe group	19.	601	–
Amounts due from related parties other than Grohe group	28.	92	1,135
Cash and cash equivalents	20.	68,696	113,181
		<b>259,565</b>	<b>255,834</b>
<b>Non-current assets</b>			
Property, plant and equipment	11.	114,675	56,860
Investment property	12.	2,117	2,066
Intangible assets	13.	338	315
Lease prepayments on land-use rights	14.	27,269	24,003
Other non-current assets	15.	245	–
Deferred tax assets	17.	2,251	426
		<b>146,895</b>	<b>83,670</b>
<b>Total assets</b>		<b>406,460</b>	<b>339,504</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term loans	16.	32,790	43,752
Trade payables	22.	4,388	8,679
Notes payable	22.	40,147	32,720
Other payables and accruals	22.	12,456	4,677
Amounts due to related parties other than Grohe group	28.	444	24
Amounts due to Grohe group	28.	5,491	–
Income tax payable	25.	2,188	2,298
		<b>97,904</b>	<b>92,150</b>
<b>Non-current liabilities</b>			
Long-term loans	16.	3,677	3,400
Provisions	22.	529	885
		4,206	4,285
<b>Total liabilities</b>		<b>102,110</b>	<b>96,435</b>
<b>CAPITAL AND RESERVES</b>			
Equity attributable to owners of the parent:			
Share capital	21.	23,967	23,967
Capital reserves	21.	115,738	115,843
Statutory reserves	21.	9,841	7,893
Currency translation reserve	21.	33,723	11,125
Retained earnings	21.	120,819	84,241
Equity attributable to shareholders		304,088	243,069
Non-controlling interests	21.	262	–
<b>Total equity</b>		<b>304,350</b>	<b>243,069</b>
<b>Total liabilities and equity</b>		<b>406,460</b>	<b>339,504</b>

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 consolidated financial statements.

**Consolidated Statement of Changes in Equity**

kEUR	Share capital	Capital reserves	Other reserves	Currency translation reserve	Retained earnings	Equity attributable to shareholders	Non-controlling interests	Total equity
<b>Balance as at 1 Jan. 2010</b>	<b>10,000</b>	<b>6,070</b>	<b>5,500</b>	<b>894</b>	<b>43,390</b>	<b>65,854</b>	-	<b>65,854</b>
Capital increase (IPO)	7,000	84,000	-	-	-	91,000	-	91,000
Capital increase (contribution in kind)	6,967	42,025	-	-	-	48,992	-	48,992
Transaction costs net of tax	-	-6,275	-	-	-	-6,275	-	-6,275
Stock options	-	89	-	-	-	89	-	89
Transfer to reserves	-	-	2,393	-	-2,393	-	-	-
Withdrawal from reserves	-	-10,464	-	-	10,464	-	-	-
Total comprehensive income	-	-	-	10,231	33,178	43,409	-	43,409
<b>Balance as at 31 Dec. 2010</b>	<b>23,967</b>	<b>115,445</b>	<b>7,893</b>	<b>11,125</b>	<b>84,639</b>	<b>243,069</b>	-	<b>243,069</b>
Adjustment in accordance with IAS 8	-	398	-	-	-398	-	-	-
<b>Balance as at 1 Jan. 2011</b>	<b>23,967</b>	<b>115,843</b>	<b>7,893</b>	<b>11,125</b>	<b>84,241</b>	<b>243,069</b>	-	<b>243,069</b>
Transfer to stock options	-	67	-	-	-	67	-	67
Reversal of stock options	-	-172	-	-	-	-172	-	-172
Proceeds from minority shareholders	-	-	-	-	-	-	262	262
Transfer to reserves	-	-	1,948	-	-1,948	-	-	-
Total comprehensive income	-	-	-	22,598	38,526	61,124	-	61,124
<b>Balance as at 31 Dec. 2011</b>	<b>23,967</b>	<b>115,738</b>	<b>9,841</b>	<b>33,723</b>	<b>120,819</b>	<b>304,088</b>	<b>262</b>	<b>304,350</b>

A detailed analysis and explanation on equity positions are stated in Note 21.

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 consolidated financial statements.

**Consolidated Statement of Cash Flows**

kEUR	Notes	2011	2010
<b>Operating activities</b>			
Profit before tax		44,432	42,277
Adjustments for non-cash items	27.	8,546	5,242
Net changes in working capital	27.	-27,628	-24,682
Income tax paid		-7,796	-4,882
<b>Cash flow from operating activities</b>		<b>17,554</b>	<b>17,955</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	13.	-11	-273
Lease prepayments on land-use rights	14.	-2,133	-116
Purchase of property, plant and equipment	11.	-52,542	-18,012
Repayment of deposit (deposit payment) for galvanization plant		4,033	-4,271
Interest received		1,450	2,458
<b>Cash flow used in investing activities</b>		<b>-49,203</b>	<b>-20,214</b>
<b>Cash flow from financing activities</b>			
Increase from capital injection	21.	-	91,000
Transaction costs from capital injection	21.	-	-6,691
Proceeds from minority shareholders		271	-
Increase/(decrease) in bank borrowings		-13,146	-5,364
Interest paid		-2,943	-4,187
<b>Cash flow from financing activities</b>		<b>-15,818</b>	<b>74,758</b>
<b>Net increase in cash and cash equivalents</b>		<b>-47,467</b>	<b>72,499</b>
Cash and cash equivalents at beginning of period	20.	113,181	34,291
Foreign exchange movements		2,982	6,391
<b>Cash and cash equivalents at end of period</b>	<b>20.</b>	<b>68,696</b>	<b>113,181</b>

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 consolidated financial statements.

# Notes to the Consolidated Financial Statements

for the reporting period ended 31 December 2011

## General Notes

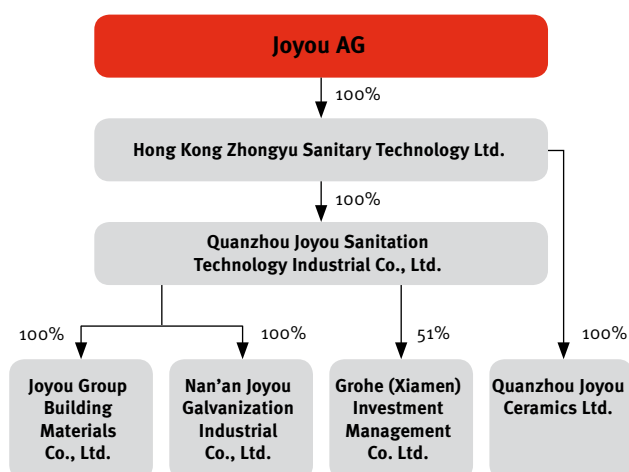
### 1 Nature of Operations

Joyou AG and its subsidiaries (the “Group”) design, produce and sell faucets and other sanitary ware products in the People’s Republic of China (thereafter: “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.

Joyou’s operating facilities are based in Nan’an near Quanzhou, in the Fujian Province in China. The Group has established an extensive distribution network in China. Its 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 also sells its own brand products to large-scale construction projects in China, such as new hotels or other public buildings. In addition, Joyou 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.

After extensive negotiations with the strategic distribution partner Grohe group, the Grohe group announced in June 2011 that they own a majority of the shares in Joyou AG.

### Joyou AG Structure



After the transaction by Grohe the parent company to Joyou AG is Joyou Grohe Holding AG, Düsseldorf/Germany. The ultimate parent company of Grohe group is Grohe Holding GmbH.

### 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 has been changed from Chilehaus A, Fischertwiete 2, 20095 Hamburg, to Westhafentower, Westhafenplatz 1, 60327 Frankfurt am Main. The office in Hamburg was closed. 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 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 reporting period 31 December 2011 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 Sec. 315a Para. 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 reporting period ended 31 December 2011 (including comparative information relating to the accounting year 2010) were approved and authorised for issue by the Management Board on 22 March 2012. They were approved by the Supervisory Board in its meeting of 29 March 2012.

## 3 Accounting Policies

### 3.1 General

#### 3.1.1 Overall Consideration

The significant accounting policies and measurement bases that have been applied in the preparation of these Consolidated Financial Statements are summarised 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 2010, 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 3.1.4.

#### 3.1.2 Changes in Accounting Policies and Estimates

##### Reversal of a provision on potential payments

Since 2009, Joyou recorded a provision of kEUR 500 for potential payments to a financial advisor claiming advisory fees for certain funds being raised by Joyou Hong Kong in 2009. The Chairman of the Management Board of Joyou AG, Mr. Jianshe CAI, had guaranteed to Joyou that he would reimburse Joyou in respect of any payments to be made to the financial advisor. Therefore, Joyou had recognized an asset in an amount corresponding to said provision. As the claims have not been raised, the Management Board of Joyou AG has re-estimated the probability of payments. As a result both the provision as well as the corresponding asset disclosed under amounts due from related parties were released as of 30 September 2011. However, as the possibility of payments is not considered as being remote, Joyou discloses a contingent liability as well as a corresponding contingent asset.

##### Impairments on inventories

At the end of the 2<sup>nd</sup> quarter of 2011 management was able to finalise an aging analysis of its inventories. Based on this analysis, management estimated the implications of inventory obsolescence on the net realisable value of inventories for the first time as of 30 June 2011. The estimation is based on Joyou's inventory turnover considering the sales cycle of these products in the Chinese sanitary market. Management implemented therefore a new accounting policy. As comparable prior period information was not available an adjustment of

prior periods was impracticable. Management believes that its estimation based on the new measurement basis represents its best estimate of inventory valuation with respect to inventory obsolescence. It is not possible to estimate future effects on this change in accounting policy. The write-downs on these inventories to fair value amounts to kEUR 1,885 in the reporting period.

##### Estimates on useful lives on fixed assets

In the 3<sup>rd</sup> quarter of 2011, Joyou AG has reviewed and changed the estimates of useful lives of property, plant and equipment. The change in estimates was made in accordance with the respective results of the purchase price allocation by Grohe Asia AG and their advisory company PriceWaterhouseCoopers following Joyou AG becoming a subsidiary of Grohe Asia AG. On the basis of information currently available, the useful economic lives of some of the assets categories have been extended. Due to this change in estimate the profit for the reporting period is increased by kEUR 136 due to lower depreciation on fixed assets in comparison to the previously estimated useful lifetime. It is not possible to estimate future effects on this change in accounting estimates.

##### Retrospective Restatements

Retrospective restatements due to accounting errors relate to the disclosure of transaction costs relating to the IPO in March 2010. As stated in Note 20.1. of the notes to the 2010 consolidated financial statements transaction costs relating to the IPO were deducted from capital reserve. During an inspection by the German enforcement panel, Joyou found out that indirect transaction costs occurred on the IPO were allocated wrongly to transaction costs and current administrative expenses. These indirect transactions costs must be allocated to the total number of ordinary shares. The portion on transaction costs relating to new issued shares is deducted from capital reserve while the portion on transaction costs relating to existing shares is expensed. As a result the following adjustments have been made to the statements of financial position:

kEUR	Notes	31 Dec. 2010
<b>Statements of financial position</b>		
Retained earnings (before adjustment)	21.	84,639
Adjustment		-398
Retained earnings		84,241
<hr/>		
Capital reserve (before adjustment)		115,445
Adjustment		398
Capital reserve		115,843

Due to increased expenses the following adjustments have been made to the statements of comprehensive income:

kEUR	Notes	31 Dec. 2010
<b>Statement of comprehensive income</b>		
Administrative expenses (before adjustment)		-8,575
Adjustment		-588
Administrative expenses		-9,163

The adjustment did not have any impact on deferred taxes finally as the tax benefit resulting from the before mentioned adjustment is offset with the impairment on tax losses brought forward.

The before mentioned adjustment has impact on the earnings per share as follows:

kEUR	Notes	31 Dec. 2010
<b>Calculation of earnings per share</b>		
Profit attributable to owners of the parent before adjustment:		33,178
Adjustment		-398
Profit attributable to owners of the parent		32,780
average number of shares		20,475,619
<b>Basic and diluted earnings per share (before adjustment)</b>		<b>1.62</b>
<b>Basic and diluted earnings per share (restated)</b>		<b>1.60</b>

In the final quarter of 2011, in the context of a review of the cash flow statement for the 2010 accounting period, it became apparent that an error had occurred in relation to the foreign currency conversion of other receivables. This error has been corrected in the comparative figures of the 2011 consolidated financial statements, with the following effects on the 2010 cash flow statement:

kEUR	Notes	31 Dec. 2010
<b>Statement of cash flow</b>		
Net changes in working capital (before adjustment)		-23,885
Changes in other receivables as disclosed on the changes in comprehensive income		588
Changes in foreign exchange movement		-1,385
Net changes in working capital (after adjustment)		-24,682
Foreign exchange movements (before adjustment)		5,006
Changes in foreign exchange movement		1,385
Foreign exchange movements (after adjustment)		6,391

### 3.1.3. Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the 2011 financial year

The Joyou Group has applied the following standards and interpretations of the IASB as well as their changes or revisions for the first time in the 2011 reporting period:

- Amendments to IFRS 7 Financial Instruments – Transfer of Financial Assets
- Improvements to IFRS (issued by IASB in May 2010)
- IFRS 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Improvements to IFRS (issued by IASB in April 2009)

No material effect arose on the consolidated statement of financial position, consolidated statement of cash flows or consolidated 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 consolidated financial statements, the following standards and interpretations 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 2011 financial year, and were therefore not applied by the Joyou Group:

- IFRS 9 Financial Instruments and subsequent amendments (amendments to IFRS 9 and IFRS 7)
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosures of Interests in other entities
- IFRS 13 – Fair Value Measurement
- IAS 27 – Separate Financial Statements
- IAS 18 – Investments in Associates and Joint Ventures
- IAS 12 (Amendments) –  
Deferred tax: Recovery of Underlying Assets
- IFRS 1 (Amendments) – Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters
- IAS 1 (Amendments) –  
Presentation of Items of Other Comprehensive Income
- IAS 19 (amendments) – Employee benefits
- IFRS 7 (Amendments) – Disclosures –  
Offsetting Financial Assets and Financial Liabilities
- IAS 32 (Amendments) – Disclosures –  
Offsetting Financial Assets and Financial Liabilities



The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the Joyou Group from the 2012 financial year or later. Joyou can yet not quantify the impact on the consolidated statement of financial position, consolidated statement of cash flows or consolidated statement of comprehensive income as a result of the first-time application of these standards, interpretations or changes to them.

### 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 summarised 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 2011. 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. Unrealised gains and losses on transactions between Joyou 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 Foreign Currency Translation

##### 3.2.3.1 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 recognised 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 recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated statement of financial position and recognised in the consolidated statement of comprehensive income on disposal of the subsidiary.

##### 3.2.3.2 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
<b>31 Dec. 2011</b>	<b>RMB</b>	<b>8.1588</b>	<b>9.01404</b>
31 Dec. 2010	RMB	8.8231	8.9789
1 Jan. 2010	RMB	9.7772	

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 recognised in the currency translation reserve in equity.

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

##### 3.2.4 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 the 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, the 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. 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 business and Ceramics and Bathtubs 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 organisational 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.

### **3.2.5 Revenue and Other Operating Income**

Revenue is recognised 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 recognised. Revenue from major products is shown in Note 5.

#### **3.2.5.1 Sales of Goods**

Sales of goods comprise the sale of hardware items for a bathroom. 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 recognised 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 recognised 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 recognised in the period in which the underlying sales are recognised, 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 recognised.

#### **3.2.5.2 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.

#### **3.2.5.3 Government Grants**

Government grants are recognised 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 recognised 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 recognised as a deferred capital grant on the statement of financial position and is amortised to the statement of comprehensive income over the expected useful life of the relevant asset.

#### **3.2.6 Other Operating Expenses**

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

#### **3.2.7 Borrowing Costs**

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation 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 capitalised 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.

### 3.2.8 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. Amortisation has been included within administrative expenses and cost of sales.

#### 3.2.8.1 Software

Software is capitalised 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 recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the software are recognised as expense as incurred.

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

#### 3.2.8.2 Patents

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

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

#### 3.2.8.3 Development Activities

Expenditure on research (or the research phase of an internal project) is recognised 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 recognised 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 2011, development costs have not met all these criteria for capitalisation and as a result, they are expensed as incurred.

#### 3.2.9 Lease Prepayments for Land-use Rights

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.

#### 3.2.10 Property, Plant and Equipment

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

Property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognised 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	28 years
→ Machinery	13 years
→ Office equipment	7 years
→ Motor vehicles	7 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 recognised in the statement of comprehensive income. In this regard, we refer to the revision of the useful lives of certain categories of property, plant and equipment as set out in Note 3.1.2.

#### **3.2.11 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 recognised 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 3.2.10.

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 income” and “other operating expenses”, respectively, and are recognised as described in Note 3.2.5 and Note 3.2.6.

#### **3.2.12 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 recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised for the asset in prior years. The reversal of an impairment loss is recognised 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.

#### **3.2.13 Financial Instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised 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 derecognised 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 amortised cost basis until extinguished on conversion into ordinary shares or redemption. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders’ equity, net of income tax effects.

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

### 3.2.13.1 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 amortised 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 the counterparty and other available features of shared credit risk characteristics.

### 3.2.13.2 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 recognised 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".

### 3.2.14 Inventories

Inventories are valued at the lower of cost and net realisable value with reference to both aging and amounts realisable. Costs, including those for bringing the inventories to their present location and condition, are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Administrative expenses (before adjustment)	Costs of direct materials and labour 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 realisable 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 18.

### 3.2.15 Income Tax

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

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, which 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 realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. For management's assessment of the probability of future taxable income to utilise against deferred tax assets, see Note 3.2.21.2.

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

### **3.2.16 Cash and Cash Equivalents**

Cash and cash equivalents comprise 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.

### **3.2.17 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. 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.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership in interests.

### **3.2.18 Retirement Benefit Plans**

The eligible employees of the Group, who are citizens of the PRC and of Germany, are both 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 recognised as an expense in the period in which the related service is performed.

### **3.2.19 Share-based Employee Remuneration**

The Group operated an equity-settled share-based remuneration plan for its former Chief Financial Officer who left the Company effective on 1 September 2011.

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 recognised 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 recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

In accordance with the termination of the former Chief Financial Officer's engagement his share-based payment agreement with Joyou AG was terminated as well. As at 31 December 2011, there is no share-based remuneration plan for any officers of the Joyou Group.



### 3.2.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised 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 recognised for future operating losses. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised 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 recognised 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 crystallise 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 recognised. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 3.2.21 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:

#### 3.2.21.1 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.

#### 3.2.21.2 Deferred Tax Assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised 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 utilised without a time limit, that deferred tax asset is usually recognised 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.

### 3.2.21.3 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.

### 3.2.21.4 Impairments on inventories

Joyou makes impairment testing on inventories based on an aging analysis of its inventories. The estimation is based on Joyou's inventory turnover considering the sales cycle of these products in the Chinese sanitary market.

## 3.2.22 Estimation Uncertainty

### 3.2.22.1 Useful Lives of Depreciable and Amortisable Assets

Management reviews the useful lives of depreciable and amortisable 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 has been revised to be within 7 to 28 years as described in Note 3.1.2. In the 3<sup>rd</sup> quarter of 2011, Joyou AG has reviewed and changed the estimates of useful lives of property plant and equipment. The change in estimates was made in accordance with the respective results of the purchase price allocation by Grohe Asia AG and their advisory company PriceWaterhouseCoopers following Joyou AG becoming a subsidiary of Grohe Asia AG. The change to the original estimation relates to the useful life of such items, which were previously expensed as low-value consumptions and forthcoming are depreciated over its useful lifetime. These are common life expectancies applied in the sanitary ware industry in the PRC. At 31 December 2011, management assesses that the new useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in Notes 11, 12 and 13. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

### 3.2.22.2 Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable 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 behaviour which may cause selling prices to change rapidly.

### 3.2.22.3 Provisions

The respective legislation in the PRC requires Joyou to commit itself to remediate any environmental damage 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 recognised 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 recognises provisions for warranties which cover the cost of repairs. Provisions are estimated on management's past experience and the future expectations of defects.

## 4 Segment Reporting

Management currently identifies the Group's nine product categories as operating segments as further described in Note 3.2.4. 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.

	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary	Copper and Semi- Finished Products	Grohe Business	Total
<b>Twelve months ended 31 Dec. 2011</b>										
Revenue	116,160	33,364	52,327	25,087	13,455	9,903	20,807	9,821	6,162	287,086
Cost of sales	82,213	23,745	38,076	16,230	9,513	6,297	18,812	7,665	6,597	209,148
Gross profit	33,947	9,619	14,251	8,857	3,942	3,606	1,995	2,156	-435	77,938
<b>Segment assets</b>	<b>144,379</b>	<b>41,470</b>	<b>65,040</b>	<b>69,884</b>	<b>16,724</b>	<b>12,309</b>	<b>25,862</b>	<b>12,207</b>	<b>18,585</b>	<b>406,460</b>
<b>Twelve months ended 31 Dec. 2010</b>										
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
<b>Segment assets</b>	<b>143,167</b>	<b>46,343</b>	<b>50,726</b>	<b>21,646</b>	<b>6,587</b>	<b>14,821</b>	<b>30,656</b>	<b>13,001</b>	<b>12,557</b>	<b>339,504</b>

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	2011	2010
Domestic: own brand	237,871	203,123
Export (indirectly)	40,962	39,102
Export (directly)	2,091	2,342
Domestic: Grohe business	6,162	2,058
<b>Total</b>	<b>287,086</b>	<b>246,625</b>

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

During 2011, kEUR 7,793 (2010: kEUR 9,857) or 3% (2010: 4%) 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. the 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	2011	2010
<b>Gross profit</b>	<b>77,938</b>	<b>68,531</b>
Other operating income	687	1,581
Selling and distribution expenses	-15,459	-16,304
Administrative expenses	-16,990	-9,163
Other operating expenses	-891	-1,481
<b>Operating profit</b>	<b>45,285</b>	<b>43,164</b>
Finance income	4,691	7,347
Finance costs	-5,544	-8,234
<b>Profit before income tax</b>	<b>44,432</b>	<b>42,277</b>
Income tax	-5,906	-9,497
<b>Profit for the period</b>	<b>38,526</b>	<b>32,780</b>

## Notes to the Statement of Comprehensive Income

### 5 Revenue and Income

kEUR	2011	2010
<b>Revenue</b>	<b>287,086</b>	<b>246,625</b>
<b>Other operating income</b>		
Government grant	85	411
Rental income	312	313
Reimbursements	122	829
Samples	89	–
Others	79	28
	687	1,581
<b>Finance income</b>		
Interest income	4,691	7,347
<b>Total income</b>	<b>292,464</b>	<b>255,553</b>

Revenue derived from the 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.

Governments grants relate mainly to compensation for expenses (kEUR 41; previous year kEUR 262) research and development expenses (kEUR 0; previous year kEUR 93) and marketing, sales and training expenses (kEUR 32; previous year kEUR 36), which had already been incurred. There are no unfulfilled conditions or contingencies relating to recognised government grants.

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

### 6 Costs of Sales

Cost of sales comprise purchasing copper, zinc, other metals and other parts, labour costs for personnel employed in production, depreciation and amortisation of non-current assets used for production purposes, outsourced products, 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	2011	2010
Copper	80,681	92,297
Zinc	4,350	9,092
Other metals	16,594	11,651
Other parts	45,420	16,568
<b>Subtotal materials</b>	<b>147,045</b>	<b>129,608</b>
Labor costs	8,403	5,755
Depreciation	3,214	2,956
Outsourced products	29,898	29,233
Overheads/other	20,588	10,542
<b>Total</b>	<b>209,148</b>	<b>178,094</b>

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.

Outsourced products contain an amount of write-downs of inventories mainly on Grohe products to the fair value of kEUR 1,885 (previous year: kEUR 4).

### 7 Selling and Distribution Expenses

Selling and distribution expenses comprise marketing expenses such as advertising, event sponsorship, promotional activities and store refurbishments, as well as other costs for the exhibition expenses (expenses incurred in connection with the participation at trade fairs), rental expenses, provisions for future obligations, travel expenses and labour costs for employees engaged in the sales and marketing department.

## 8 Administrative Expenses

Administrative Expenses mainly comprise, among other things, salaries of management and other employees with administrative functions (including social insurance payments), travel expenses and allowances for bad debts, costs associated with running a publicly traded company such as audit, legal, investor relations and associated consultants, R&D expenses and staffs education charges:

kEUR	2011	2010
Administrative labor costs	3,782	3,429
Research and development and product testing	5,230	1,067
Travel and entertainment costs	1,386	1,830
Office cost	1,389	991
Listing costs and consulting fees	2,231	1,496
Depreciation of fixed assets	926	380
Other taxes	550	386
Bad debt provision (reversal)	604	-753
Other	892	337
<b>Total</b>	<b>16,990</b>	<b>9,163</b>

## 9 Other Operating Expenses

kEUR	2011	2010
Consulting fees reimbursed	122	829
Expenses on land-use rights awaiting construction	374	290
Expenses on investment property	136	166
Donation	232	89
Other	27	107
<b>Total</b>	<b>891</b>	<b>1,481</b>

Reimbursed fees relate to expenses on the purchase price allocation by Grohe IPO, which are reimbursed by Grohe group to Joyou. In the previous year, the costs relating to Greenshoe shareholders have been refunded to Joyou. On both expense the corresponding income is reported under other operating income.

## 10 Operating Profit

kEUR	2011	2010
<b>After charging/(crediting)</b>		
Cost of inventories recognised as expense	209,148	178,094
Depreciation of property, plant and equipment	4,484	3,360
Depreciation on investment property	106	108
Staff costs	12,867	9,229
Amortization of intangible assets	13	8
Expensing on land-use rights	661	547
Allowance for doubtful trade debts/ (no longer required)	555	-423
Allowance for doubtful non-trade debts/ (no longer required)	49	-330
Research and development charge	5,230	3,265

The amortisation 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:

	Buildings	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>						
Balance as at 1 Jan. 2010	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	–	–	-10,106	–
Disposals	–	-752	–	–	–	-752
Balance as at 31 Dec. 2010	29,719	27,437	2,091	1,462	7,731	68,440
Currency translation adjustment	4,497	3,488	212	133	2,599	10,929
Additions	160	7,984	257	1,169	43,055	52,625
Reclassifications	19,624	4,639	–	–	-24,263	–
Disposals	–	-858	–	–	–	-858
<b>Balance as at 31 Dec. 2011</b>	<b>54,000</b>	<b>42,690</b>	<b>2,560</b>	<b>2,764</b>	<b>29,122</b>	<b>131,136</b>
<b>Accumulated depreciation</b>						
Balance as at 1 Jan. 2010	2,212	5,708	100	10	–	8,030
Currency translation adjustment	244	612	11	1	–	868
Additions	1,200	1,910	192	58	–	3,360
Disposals	–	-678	–	–	–	-678
Balance as at 31 Dec. 2010	3,656	7,552	303	69	–	11,580
Currency translation adjustment	305	855	59	36	–	1,255
Additions	890	2,974	328	292	–	4,484
Disposal	–	-858	–	–	–	-858
<b>Balance as at 31 Dec. 2011</b>	<b>4,851</b>	<b>10,523</b>	<b>690</b>	<b>397</b>	<b>–</b>	<b>16,461</b>
<b>Net carrying amount</b>						
as at 1 Jan. 2010	16,514	16,084	404	232	4,921	38,155
as at 31 Dec. 2010	26,063	19,885	1,788	1,393	7,731	56,860
as at 31 Dec. 2011	49,149	32,167	1,870	2,367	29,122	114,675

The Group has a contractual commitment at the reporting date for the construction of new plants of kEUR 18,860 (31 December 2010: kEUR 6,568).

As at 31 December 2011, buildings with total carrying values of kEUR 16,116 (31 December 2010: kEUR 15,431) 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 18,692 (31 December 2010: kEUR 17,238), accumulated depreciation is kEUR 2,576 (31 December 2010: kEUR 1,807).

Construction in progress includes an amount of kEUR 319 (2010: kEUR 279) in respect of interest capitalised on qualifying assets. For further information regarding capitalised interest please refer to Note 24.



## 12 Investment Property

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

kEUR	Total
<b>Cost</b>	
Balance as at 1 Jan. 2010	2,175
Currency translation adjustment	235
Balance as at 31 Dec. 2010	2,410
Currency translation adjustment	196
<b>Balance as at 31 Dec. 2011</b>	<b>2,606</b>
<b>Accumulated depreciation</b>	
Balance as at 1 Jan. 2010	213
Currency translation adjustment	23
Charge for the year	108
Balance as at 31 Dec. 2010	344
Currency translation adjustment	39
Charge for the year	106
<b>Balance as at 31 Dec. 2011</b>	<b>489</b>
<b>Net carrying amount</b>	
as at 1 Jan. 2010	1,962
as at 31 Dec. 2010	2,066
as at 31 Dec. 2011	<b>2,117</b>

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 2011 amounts to kEUR 312 (2010: kEUR 313) and is included in "other operating income". Direct operating expenses of kEUR 17 (2010: 58 kEUR), mainly for property-related taxes, were reported in other operating expenses.

The property was leased out under an operating lease agreement until the end of the 2011 financial year. The operating lease agreement was extended until 30 June 2012. Future minimum lease payments, which become due within one year, amount to kEUR 156.

## 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
<b>Cost</b>			
Balance as at 1 Jan. 2010	57	–	57
Currency translation adjustment	7	–	7
Additions	46	227	273
Balance as at 31 Dec. 2010	110	227	337
Currency translation adjustment	10	18	28
Additions	11	–	11
<b>Balance as at 31 Dec. 2011</b>	<b>131</b>	<b>245</b>	<b>376</b>
<b>Accumulated amortisation</b>			
Balance as at 1 Jan. 2010	13	–	13
Currency translation adjustment	1	–	1
Charge for the year	8	–	8
Balance as at 31 Dec. 2010	22	–	22
Currency translation adjustment	3	–	3
Charge for the year	13	–	13
<b>Balance as at 31 Dec. 2011</b>	<b>38</b>	<b>–</b>	<b>38</b>
<b>Net carrying amount</b>			
as at 1 Jan. 2010	44	–	44
as at 31 Dec. 2010	88	227	315
as at 31 Dec. 2011	93	245	338

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 2011, the land-use rights have remaining lease periods of 40 to 50 years.

	kEUR
<b>Balance as at 1 Jan. 2010</b>	<b>22,561</b>
Currency translation adjustment	2,410
Additions	116
Expensed for the year	-547
<b>Balance as at 31 Dec. 2010</b>	<b>24,540</b>
Currency translation adjustment	1,855
Additions	2,133
Expensed for the year	-661
<b>Balance as at 31 Dec. 2011</b>	<b>27,867</b>
<b>Balance as at 31 Dec. 2011</b>	
Thereof current	598
Thereof non-current	27,269
<b>Balance as at 31 Dec. 2010</b>	
Thereof current	537
Thereof non-current	24,003

As at 31 December 2011, lease prepayments for land-use rights (current and non-current portions) with a total carrying value of kEUR 12,800 (31 December 2010: kEUR 9,997) 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 13,718 (31 December 2010: kEUR 10,696) and the related amount expensed is kEUR 918 (31 December 2010: kEUR 700).

## 15 Other non-current assets

The Group made a deposit payment on the proposed acquisition of a new galvanization plant. As the management expects not to finish the transaction in the coming twelve months, the deposit payment is disclosed as non-current asset.

## 16 Financial Assets and Liabilities

### 16.1 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	Notes	2011	2010
<b>Trade receivables</b>	19.	<b>78,304</b>	<b>55,349</b>
Other receivables and prepayments	19.	2,867	4,345
Amounts due from Grohe group	19.	601	-
Cash and cash equivalents	20.	68,696	113,181
<b>Total</b>		<b>150,468</b>	<b>172,875</b>

#### Financial liabilities measured at amortised costs

kEUR	Notes	2011	2010
<b>Non-current</b>			
Long-term loan	16.	3,677	3,400
<b>Current</b>			
Short-term loan (bank loans)	16.	32,790	43,752
Trade payables	22.	4,388	8,679
Amount due to Grohe group		5,491	-
Notes payable	22.	40,147	32,720
Other payable and accruals	22.	10,266	3,265
Amounts due to related parties other than Grohe group	28.	444	24
<b>Total</b>		<b>97,203</b>	<b>91,840</b>

See Note 3.2.13 for a description of the accounting policies for each category of financial instruments. The carrying amounts 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 31.

### 16.2 Short-term Loans

Short-term loans include the following financial liabilities:

kEUR	2011	2010
Secured bank loans	29,260	15,788
Unsecured bank loans	3,530	27,964
<b>Total</b>	<b>32,790</b>	<b>43,752</b>

Management considers the carrying amounts recognised 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 28.3.4). Current interest rates are fixed and average 7.22% (previous year: 5.33%).

### 16.3 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 recognised 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 28.3.4). The loan bears interest at 6.56% (previous year: 5.40%).

## 17 Deferred Tax Assets and Liabilities

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

kEUR	1 Jan. 2011	Foreign exchange adjustments	Recognised in equity	Recognised in profit and loss	31 Dec. 2011
Trade and other receivables	521	74	–	680	1,275
Provisions	200	9	–	-30	179
Inventories	55	14	–	502	571
Amounts due to related parties	–	-28	–	-267	-295
Trade liabilities	-34	-14	–	-46	-94
Land-use right	44	14	–	96	154
Future benefit from tax losses	–	30	–	286	316
Research and development	–	112	–	543	655
Property, plant and equipment	-360	-41	–	-109	-510
<b>Total</b>	<b>426</b>	<b>170</b>	<b>–</b>	<b>1,655</b>	<b>2,251</b>
Recognized as					
Deferred tax asset	426				2,251
Deferred tax liability	–				–
<b>Total</b>	<b>426</b>				<b>2,251</b>

kEUR	1 Jan. 2010	Foreign exchange adjustments	Recognised in equity	Recognised in profit and loss	31 Dec. 2010
Allowance of trade and other receivables	974	74	–	-527	521
Preferred shares	707	63	–	-770	–
Provisions	35	–	–	165	200
Inventories	10	2	–	43	55
Amounts due from related parties (fair value an interests)	-19	-1	–	20	–
Trade liabilities	–	–	–	-34	-34
Land-use right	–	–	–	44	44
Taxable losses	–	–	2,060	-2,060	–
Property, plant and equipment	-302	102	–	-160	-360
Deferred IPO costs	-892	–	892	–	–
<b>Total</b>	<b>512</b>	<b>240</b>	<b>2,952</b>	<b>-3,279</b>	<b>426</b>
Recognized as					
Deferred tax asset	1,404				426
Deferred tax liability	892				–
<b>Total</b>	<b>512</b>				<b>426</b>

Beside tax losses carried forward of two of the Group's companies, which were not capitalized due to improbable usage in the future, in 2011 all deferred tax assets and liabilities, if any, have been recognised in the statement of financial position.

## 18 Inventories

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

kEUR	2011	2010
Raw materials and consumables	12,331	16,758
Finished goods	34,903	16,493
Merchandise products	18,585	12,557
Work in process	17,646	19,495
<b>Total</b>	<b>83,465</b>	<b>65,303</b>

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

In the twelve months ended 31 December 2011, a total of kEUR 209,148 (31 December 2010: kEUR 178,094) of inventories was included in profit and loss within cost of sales as an

expense. This includes an amount of kEUR nil (31 December 2010: kEUR 3) resulting from reversals on write downs of inventories made in previous years.

### 19 Trade Receivables, Receivables due from Grohe group, other Receivables and Amount due from Related Parties other than Grohe group

#### Trade Receivables

kEUR	2011	2010
Trade receivables	80,206	56,594
Allowance for trade receivables	-1,902	-1,245
<b>Total</b>	<b>78,304</b>	<b>55,349</b>

#### Receivables due from Grohe group

Receivables due from Grohe group relate to trade receivables due from companies of Grohe group.

#### Other Receivables and Prepayments

kEUR	2011	2010
Other receivables	2,867	4,345
Advances to suppliers	24,661	12,053
Lease prepayments on land-use rights	598	537
Tax refunds	1,646	-
Prepaid expenses	445	1,212
Prepayments made on acquisitions	-	4,347
Allowance for other receivables and prepayments	-1,810	-1,628
<b>Total</b>	<b>28,407</b>	<b>20,866</b>
<b>Related parties</b>		
Amounts due from related parties other than Grohe group (non-trade)	92	1,135

#### Trade Receivables

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

kEUR	2011	2010
<b>Thereof not past due</b>		
Within 30 days	31,903	22,210
31-90 days	36,670	28,823
	<b>68,573</b>	<b>51,033</b>
<b>Thereof past due</b>		
91-180 days	10,162	4,727
181-360 days	886	226
1-2 years	100	452
2-3 years	329	138
over 3 years	156	18
<b>Total</b>	<b>80,206</b>	<b>56,594</b>

#### Amounts due from Related Parties other than Grohe group

Amounts due from related parties other than Grohe group are set out in more detail in Note 28.2.

#### Allowance for doubtful Receivables

For each reporting period, Joyou makes provisions on trade and other receivables, which amount as follows:

kEUR	2011	2010
Provision for trade receivables	1,902	1,245
Provision for other receivables	1,810	1,628
<b>Total</b>	<b>3,712</b>	<b>2,873</b>

Trade receivables are adjusted for impairment on the basis of their age. Balances aged between one and three months are written down by 1%, 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	2011	2010
<b>Provision for trade receivables</b>		
Balance as at 1 Jan.	1,245	1,512
Currency translation adjustment	102	156
Impairment loss (- = reversed)	555	-423
<b>Balance as at 31 Dec.</b>	<b>1,902</b>	<b>1,245</b>

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	2011	2010
<b>Provision for other receivables</b>		
Balance as at 1 Jan.	1,628	1,773
Currency translation adjustment	133	185
Impairment loss (- = reversed)	49	-330
<b>Balance as at 31 Dec.</b>	<b>1,810</b>	<b>1,628</b>

Provision for doubtful receivables amounted to a net loss of kEUR 604 (period ended 31 December 2010: a net gain of kEUR 753).

The Group does not hold any collateral as security.

Management considers the carrying amounts recognised in the statement of financial position to be a reasonable approximation of their fair value as they are expected to be recovered within twelve months.

## 20 Cash and Cash Equivalents

Cash and cash equivalents include the following components:

kEUR	2011	2010
Cash on hand	21	19
Cash in banks	55,653	105,734
Security deposits for letters of credit	1,860	373
Security deposits for notes payable	11,162	7,055
<b>Total</b>	<b>68,696</b>	<b>113,181</b>

For the purpose of providing security on the issue of letters of credit and 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 2011 amounts to kEUR 13,022 (31 December 2010: kEUR 7,428). The restrictions on bank deposits are normally removed on settlement of the underlying notes.

## 21 Capital and Reserves

### 21.1 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	2011	2010
<b>Shares issued and fully paid:</b>		
Beginning of the year	23,967	10,000
Issued against contribution in kind	–	6,967
Issued against cash contribution on IPO	–	7,000
Shares issued and fully paid:	23,967	23,967
Shares authorised	11,983	11,983
<b>Total shares authorised at 31 Dec.</b>	<b>35,950</b>	<b>35,950</b>

At the Shareholder Meeting on 15 March 2010, the previously authorised capital was abolished and a new authorised capital 2010 was created. The Management Board is authorised, 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 authorised, 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 authorised for trading.

In the twelve month period ended 31 December 2011, no capital increases were resolved from this authorised capital. The authorised capital as at 31 December 2011 amounts to EUR 11,983,746.

### 21.2 Capital Reserves

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

kEUR	
<b>Balance as at 1 Jan. 2010</b>	<b>6,070</b>
From capital increase	126,025
less transaction costs net of tax	-5,877
Stock options	89
Transfer to retained earnings/statutory reserves	-10,464
<b>Balance as at 31 Dec. 2010</b>	<b>115,843</b>
Stock options (built)	67
Stock options (reversal)	-172
<b>Balance as at 31 Dec. 2011</b>	<b>115,738</b>

At 1 September 2011, Mr. Gang ZHENG resigned as Chief Financial Officer of Joyou AG and Mr. Zufang LI was appointed. In 2009 the Company granted share-based payment for Mr. Gang ZHENG as part of his remuneration package. As of 1 January 2011, Mr. Gang ZHENG held 50,000 options granted to him by Mr. Jianshe CAI. For options granted to vest, the financial officer would have to remain employed by the Group for the agreed vesting period of five years. For further details we refer to the 2010 annual report. From beginning of 2011 financial year until the date of resignation an amount of kEUR 67 of employee remuneration expense (all of which equity-settled share-based payment transactions) has been included in profit or loss (comparative period: kEUR 89) and credited to capital reserve. In accordance with the termination of Mr. Gang ZHENG's engagement the share-based payment agreement with Joyou AG was terminated as well. As a result, the prior-period entries into capital reserve were reversed as at 1 September 2011 at an amount of kEUR 172 into administrative expenses.

### 21.3 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 (Sec. 150 Para. 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 2011, the statutory reserve of Joyou AG amounts to Nil (31 December 2009 and 2010: 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 9,841 at 31 December 2011 (31 December 2010: kEUR 7,893).

### 21.4 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.

### 21.5 Retained Earnings

The retained earnings reserve comprises the cumulative net gains and losses recognised in the Group's Consolidated Statement of Comprehensive Income.

### 21.6 Non-controlling interests

Non-controlling interests relate to remaining shares of 49.00% in Grohe (Xiamen) Investment Management Co., Ltd. held by related parties to Joyou Group. On 27 June 2011, Quanzhou Joyou Sanitation Technology Industry Co., Ltd. founded a new subsidiary named Grohe (Xiamen) Investment Management Co., Ltd. The company has a subscribed capital of EUR 0.5 million of which Joyou Group holds 51.00%. Therefore, the company has been consolidated as of 27 June 2011. Grohe (Xiamen) Investment Management Co., Ltd., whose business operations have not started in the reporting period. In 2011, Grohe (Xiamen) Investment Management Co., Ltd. showed a net loss of kEUR 1.

## 22 Trade and other Payables, Notes payables, Provisions, Amount due to Grohe group, and Amount due to related parties other than Grohe group

### 22.1 Trade and other Payables

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

kEUR	2011	2010
Trade payables	4,388	8,679

kEUR	2011	2010
Accruals expenses	5,717	1,172
Accrued payroll	1,340	784
Other payable	1,928	436
Advance from customers	1,940	1,202
Security deposits	1,281	873
Other tax payables	250	210
<b>Total</b>	<b>12,456</b>	<b>4,677</b>

kEUR	2011	2010
Amount due to Grohe group (trade)	5,491	-
Amount due to related parties other than Grohe group (non-trade)	444	24
<b>Total</b>	<b>5,935</b>	<b>24</b>



**Amount due to Grohe group**

All items relate to trade payables due to Grohe group companies and 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 other than Grohe group**

The amounts due to related parties other than Grohe group 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 recognised in the consolidated statement of financial position to be a reasonable approximation of their fair values.

**22.2 Notes Payable**

Notes payable refer to acceptances of suppliers.

**22.3 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. The carrying amounts are analysed as follows:

kEUR	2011	2010
Carrying amount as at 1 Jan.	885	642
Currency translation adjustment	71	70
Usage of provision	-50	-
Reversal of provision	-599	-
Accumulation of interest	19	12
Additional provisions	203	161
<b>Carrying amount as at 31 Dec.</b>	<b>529</b>	<b>885</b>

Joyou recognises a warranty provision in accordance with its warranty policy. 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 life 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.

Since 2009, Joyou has recorded a provision of kEUR 500 for potential payments to a financial advisor claiming advisory fees for certain funds being raised by Joyou Hong Kong in 2009. The Chairman of the Management Board of Joyou AG, Mr. Jianshe CAI, had guaranteed to Joyou that he would reimburse Joyou in respect of any payments to be made to the financial advisor. Therefore, Joyou had recognized an asset in an amount corresponding to said provision. As the claims have not been raised since, the Management Board of Joyou AG has re-estimated the probability of payments to be made by Joyou. As a result, both the provision as well as the corresponding asset disclosed under amounts due from related parties was released as of 30 September 2011. However, as the possibility of payments is not considered as being remote, Joyou discloses a contingent liability as well as a corresponding contingent asset.

The carrying amounts may be analysed as follows:

kEUR	Warranty	Decommissioning	Potential payments	Total
Carrying amount as at 1 Jan.	126	204	555	885
Currency translation adjustment	10	17	44	71
Usage of provision	-50	-	-	-50
Reversal of provision	-	-	-599	-599
Accumulation of interest	-	19	-	19
Additional provisions	109	94	-	203
<b>Carrying amount as at 31 Dec.</b>	<b>195</b>	<b>334</b>	<b>-</b>	<b>529</b>

**23 Employee Remuneration****23.1 Employee Benefits Expense**

Expenses recognised for employee benefits are analysed below:

kEUR	2011	2010
Wages and salaries	12,568	9,028
Social security costs	299	201
<b>Total</b>	<b>12,867</b>	<b>9,229</b>

The employee payroll costs can be allocated as follows:

kEUR	2011	2010
Cost of sales	8,403	6,694
Selling and distribution expenses	682	479
Administrative expenses	3,483	1,855
<b>Total</b>	<b>12,568</b>	<b>9,028</b>

The employee social insurance costs are all recorded in administrative expenses which is kEUR 299 for the reporting period (comparative period: kEUR 201).

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

kEUR	2011	2010
Management and administration	453	270
Sales	214	138
Production	2,528	1,836
<b>Total</b>	<b>3,195</b>	<b>2,244</b>

### 23.2 Retirement Benefit Plans

The eligible employees of the Group are members of state-managed retirement benefit schemes. 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.

## 24 Finance Income and Finance Costs

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

kEUR	2011	2010
Interest income	1,450	2,458
Exchange gain	3,241	4,889
<b>Total</b>	<b>4,691</b>	<b>7,347</b>

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

kEUR	2011	2010
Interest on bank and other loans	2,948	3,799
Interest on preferred shares and shareholder loan	–	4,047
	2,948	7,846
Bank charges	378	237
Exchange losses	2,518	418
Interest portion on provision	19	12
<b>Total finance expenses</b>	<b>5,863</b>	<b>8,513</b>
Less: Interest expenses capitalised	-319	-279
<b>Total finance costs</b>	<b>5,544</b>	<b>8,234</b>

The borrowing costs have been capitalised at a rate of 6.63% per annum (2010: 5.81%).

## 25 Taxation

### 25.1 Major Components of Income Tax Expense

The amount of taxation charged to the Consolidated Statement of Comprehensive Income represents:

kEUR	2011	2010
Current income tax	7,561	6,218
Deferred income tax induced by change of tax rates	-940	440
Deferred income tax induced by write down of future benefits from taxable losses	–	3,190
Deferred income tax induced by temporary differences	-715	-351
<b>Total</b>	<b>5,906</b>	<b>9,497</b>

### 25.2 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	2011	2010
<b>Accounting profit before income tax</b>	<b>44,432</b>	<b>42,277</b>
Tax at respective companies' domestic income tax rate	6,820	6,485
Effect of change in tax rates	-940	440
Tax-exempt income/expenses	-	-778
Tax benefits from tax losses of the prior year	-114	-1,293
Taxable losses written down or not capitalized	135	3,190
Deferred taxes expenses on preferred shares	-	1,438
Non-deductible expenses	5	15
<b>Total income tax</b>	<b>5,906</b>	<b>9,497</b>

As at 31 December 2011, Joyou has not recognised deferred tax assets on tax losses in Hong Kong amounting to kEUR 7,360 as their usage seems to be improbable. Beside this, due to the acquisition of a majority of Joyou's shares in June 2011 tax losses of kEUR 10,977 are deemed to have expired at Joyou AG under Sec. 8c of the German Corporate Tax Act.

#### 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 (Solidarit tsszuschlag) 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 2011, the effective trade tax rate for Frankfurt is 17.15% 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 (Sec. 9 No. 7 of the German Trade Tax Act, Sec. 8 Para. 1 No 1-6 German Foreign Tax Act).

As the Company did not have taxable profits during the reporting period ended 31 December 2011 (2010: 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 the main, the applicable rate of corporate income tax is 25%, in accordance with Chinese income tax law.

The Fujian national tax bureau of China has granted a preferential tax treatment with a reduced income tax rate of 15% to the two PRC entities of the Joyou Group as a high-tech enterprise, which was terminated by 31 December 2011. Joyou intends to apply for an extension of the high-tech enterprise to enjoy preferential tax treatment in 2012. As a consequence the general income tax rate of 25% is applicable for all Chinese entities after 31 December 2011.

#### 25.3 Income Tax Payable

Taxation payable in the statement of financial position represents:

kEUR	2011	2010
Balance of provision as at 1 Jan.	2,298	688
Currency translation adjustment	125	274
Foreign enterprise income tax provision for the year	7,561	6,218
Income tax paid	-7,796	-4,882
<b>Balance of provision as at 31 Dec.</b>	<b>2,188</b>	<b>2,298</b>

## 26 Earnings per Share and Dividends

### 26.1 Earnings per Share

The basic earnings per share have been calculated using the profit attributable to the owners of Joyou AG (the legal parent) as the numerator. The number of outstanding shares used for basic earnings per share for the twelve month period ended 31 December 2011 amounted to 23,967,492 shares.

### 26.2 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 the 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.

## 27 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 the operating cash flow:

KEUR	2011	2010
<b>Adjustments for non-cash items</b>		
Amortization of intangible assets	13	8
Expenses on land-use rights	661	547
Changes in other provision	-454	243
Allowance for doubtful trade, other receivables and inventories	2,347	-753
Other non-cash related items	-104	-
Depreciation of property, plant and equipment	4,484	3,360
Depreciation of investment property	106	108
Interest income	-1,450	-2,458
Interest cost	2,943	4,187
<b>Total adjustments</b>	<b>8,546</b>	<b>5,242</b>

KEUR	2011	2010
<b>Net changes in working capital</b>		
(Increase)/decrease in:		
Inventories	-13,440	-42,202
Trade receivables	-17,201	-14,807
Other receivables and prepayments	-9,301	10,066
Amounts due from related parties and Group companies	484	-559
Increase/(decrease) in:		
Trade payables and notes payable	-211	21,263
Other payables and accruals	6,692	1,547
Amounts due to related parties and Group companies	5,349	10
<b>Total changes in working capital</b>	<b>-27,628</b>	<b>-24,682</b>

## 28 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.

### 28.1 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 in March 2010, transactions with related parties are reduced to bank guarantees, other guarantees and purchase of components and finished goods/merchandise.

Due to equity transactions with Joyou Grohe Holding AG, Düsseldorf/Germany, the number of parties being considered as related to Joyou AG, especially those of Grohe group, has increased significantly. On 9 May 2011, Joyou AG became an associate of Joyou Grohe Holding AG which itself is a subsidiary of Grohe Holding GmbH, Düsseldorf/Germany. Grohe Holding GmbH is the ultimate controlling party of Grohe group. Consequently, all companies forming part of Grohe group are to be considered as related parties since this day. With the closing of the shareholder's agreement through the contribution of 28.61% of Joyou AG's shares from Messrs. CAI on 1 July 2011, Joyou Grohe Holding AG became the parent company of Joyou AG. Consequently, Grohe Holding GmbH is considered by Joyou's Management Board as being Joyou AG's ultimate controlling party.

Related parties to the Company include all entities and related parties forming Grohe group as well as related parties to Joyou Group. Joyou Group contains 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 reporting period between 1 January 2011 and 31 December 2011. The following persons and entities are considered to be related parties of Joyou Group:

Related party	Type of business	Business scope of the licence	Relation to Joyou
Nan'an Zhongyu Hardware Industrial Co., Ltd.	No material actual business activity	Manufacturing water faucets, valves, sanitary hardware and galvanization	46.42% of the shares are held by Mr. Zhiqiang WANG
Nanan Zhongyu Copper Co. Ltd.	No material actual business activity	Manufacturing copper of water faucets, copper sticks and zins metal parts	48% of the shares are held by Mr. Zhiqiang WANG
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 (48%) and Mr. Jinsheng WANG (52%)
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	Before April 2011, 65% of the shares are held by Ms. Jiaping ZHOU, which were sold to a third party in April 2011. Therefore, this company is no longer a related party of Joyou Group since April 2011.

Related party	Relation to Joyou
Mr. Jianshe CAI	Chairman of the Management Board (Vorstandsvorsitzender), shareholder directly holding 7.7% of the Company's shares
Mr. Jiansheng CAI	Member of the Supervisory Board (Aufsichtsratsmitglied) until 15 March 2010, shareholder directly holding 1.04% of the Company's shares
Mr. Jilin CAI	Member of the Management Board (Vorstandsvorsitzender), shareholder directly holding 0.19% of the Company's shares
Ms. Jiaping ZHOU	The wife of Mr. Jilin CAI
Ms. Caifen CHEN	The daughter-in-law of Mr. Jianshe CAI
Mr. Jinsheng WANG	A cousin of Mr. Jilin CAI
Mr. Zhiqiang WANG	A cousin of Mr. Jilin CAI
Ms. Tingfeng CAI	The daughter of Mr. Jianshe CAI

## 28.2 Transactions and Amounts due from/to Related Parties

### 28.2.1. Transactions and Amounts due from/to Related Parties of Joyou Group

Between the beginning of the financial year and the date of share transfer to third parties, Joyou Group purchased shower-heads of kEUR 930 (2010: kEUR 884) from Nan'an Longsheng Science and Technology Industry Co., Ltd., which are recorded under costs of sales.

The shareholders of the 49% non-controlling interest of Grohe (Xiamen) Investment Management Company Ltd. incorporated on 27 June 2011 are Mr. Jianshe CAI and Mr. Jilin CAI with a share interest of 24.5% each. Until 31 December 2011, none of the Joyou Group companies entered into any transaction with Grohe (Xiamen) Investment Management Company Ltd.

As at 31 December 2011, Ms. Tingfeng CAI, a daughter of Mr. Jianshe CAI, the Chairman of Joyou AG's Management Board, granted a short-term loan totalling kEUR 161 (31 December 2010: kEUR nil). The loan is non-interest bearing and unsecured.

### 28.2.2. Transactions and Amounts due from/to Related Parties of Grohe group

During the period from 9 May to 31 December 2011, Joyou purchased inventory from Grohe group companies in a total amount of kEUR 7,527 and realized sales on deliveries to Grohe companies in a total amount of kEUR 70 in the period from 9 May to 31 December 2011. As of 31 December 2011, trade payables in a total amount of kEUR 5,491 are outstanding. As Grohe companies are related parties and suppliers of Joyou Group, these trade payables are stated under the liabilities due to Grohe group. These trade payables become due within 50 days after delivery and will be settled in cash. For these trade payables no securities are granted.

Beside the transaction mentioned above there were no sales or purchases transacted with related parties during the period under review.

### 28.2.3. Amounts due from/to Related Parties

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

KEUR	2011	2010
<b>Grohe group</b>	<b>601</b>	<b>-</b>
Mr. Jianshe CAI	92	639
Nan'an Longsheng Science and Technology Industry Co., Ltd. (related party until April 2011)	-	496
<b>Total</b>	<b>693</b>	<b>1,135</b>

The amount due from Mr Jianshe CAI relate to interests accrued and carried forward. All amounts due from Grohe companies relate to trading receivables on sales of inventories.

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

KEUR	2011	2010
Grohe Pacific Pte Ltd.	3,338	-
Grohe Shanghai Sanitary Products Company Ltd.	2,153	-
<b>Subtotal Grohe group</b>	<b>5,491</b>	<b>-</b>
Mr. Jianshe CAI	26	24
Ms. Tingfang CAI	161	-
Fujian Nan'an Pengxin Copper Co., Ltd.	257	-
<b>Total</b>	<b>5,935</b>	<b>24</b>
<b>Reconciliation</b>		
Amounts due to Grohe group	5,491	-
Amounts due to related parties other than Grohe group	444	24
<b>Total</b>	<b>5,935</b>	<b>24</b>

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.

## 28.3 Transactions with Key Management Personnel

The following individuals served as key management personnel of Joyou AG during the 2011 financial year:

### 28.3.1 Management Board Members

- Mr. Jianshe CAI, businessman, Fujian Province, PRC, Chairman
- Mr. Jilin CAI, businessman, Fujian Province, PRC
- Mr. Gang ZHENG, businessman, Shanghai, PRC (until 1 September 2011)
- Mr. Zufang LI, businessman, Fujian Province, PRC
- Mr. Gerald MULVIN, businessman, Düsseldorf, Germany (appointed 22 November 2011, effective 1 January 2012)



### 28.3.2 Supervisory Board Members

- Dr. Rainer SIMON, businessman, Isernhagen, Germany, Chairman
- Mr. Johnny CHEN, financial consultant, Shanghai PRC
- Mr. David HAINES, businessman, Düsseldorf, Germany (appointed 15 June 2011, effective 30 September 2011)
- Mr. Wei WANG, businessman, Beijing PRC (until 30 September 2011)

### 28.3.3 Key Management Remuneration

#### 28.3.3.1 Management Board compensation

The remuneration for the members of the Management Board comprises of fixed remuneration and benefits in kind. Previously only the former Chief Financial Officer received a variable bonus depending on a successful listing at the stock exchange which has been settled in 2010 as well as a stock option plan granted by a major shareholder. With the resignation of the former Chief Financial Officer on 1 September 2011, the stock option plan is terminated. As at 31 December 2011, all 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 kEUR 698 in the 2011 financial year.

As at December 2009, the Group introduced one equity-settled share-based payment for employee remuneration, which was terminated in September 2011. This program was part of the remuneration package of the Chief Financial Officer. For options granted to vest, the financial officer would have to remain employed by the Group for the agreed vesting period of 5 years. Upon vesting, each option allows the holder to purchase up to 0.5% of the total number of shares in Joyou AG in three tranches before the offering from Mr. 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 the 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 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. Due to the termination of his employment contract the stock options were expired.

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 modelling. 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 67 of employee remuneration expense (all of which equity-settled shared-based payment transactions) has been included in profit or loss for 2011 (previous year: 89 kEUR) and credited to capital reserve. As a result, the prior-period entries into capital reserve were reversed as at 1 September 2011 at an amount of kEUR 172 into administrative expenses.

As at 31 December 2011, due to the departure of the former CFO on 1 September 2011, the Group no longer had any equity-settled share-based payment for employee remuneration. Until 1 September 2011, the Group had expensed compensation based on the fair value of the equity-based compensation, however this was reversed when the contract was terminated with his departure because his served tenure did not meet the minimum vesting period. More detailed information on the compensation paid to members of the Management Board is presented in Sec. 5 of the Group Management Report.

#### 28.3.3.2 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). According to the resolution of 2011 AGM, in addition to their base salary, members of the Supervisory Board whose place of residence is Europe shall be granted a remuneration of EUR 1,500.00 for attending meetings of the Supervisory Board in Europe, and a remuneration of EUR 4,000.00 for attending Supervisory Board meetings outside Europe. In addition to the base salary, members of the Supervisory Board whose place of residence is Asia shall be granted a remuneration of EUR 1,500.00 for attending meetings of the Supervisory Board in Asia, and a remuneration of EUR 4,000.00 for attending Supervisory Board meetings outside Asia. For Supervisory Board members whose place of residence is on other continents than Europe or Asia, the above provisions shall apply, respectively. In addition to the basic compensation and board meeting fee, the members of the Supervisory Board are reimbursed for their expenses and outlay that they incur in the 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 171,734 in the 2011 financial year. More detailed information on the compensation paid to members of the Supervisory Board is presented in Sec. 5 of the Group Management Report.

#### 28.3.4. 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 a credit facility, respectively in April, May, June and July 2010, Joyou Building Materials took out five loans with a term of one year 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. The said loans have been repaid.
- 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 a credit facility, in 2010 Joyou Building Materials took out one loan with a term from 14 October 2010 to 14 July 2011 in the amount of RMB 29,500,000. The said loan has been repaid.
- 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 a credit facility, in 2010 Joyou building Materials took out one loan in the amount of RMB 30,000,000 with a term from 29 July 2010 to 29 July 2013. 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 a credit facility, in 2010 Joyou Building Materials took out two loans, respectively, with term from 12 October 2010 to 12 July 2011 and from 26 January 2010 to 25 January 2011 in the total amount of RMB 30,000,000. The said loans have been repaid.
- 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 a credit facility, Joyou Building Materials took out two loans in the amount of RMB 30,000,000 each and with a term from 21 July 2010 to 21 January 2011 and from 24 January 2011 to 22 July 2011. The said loans have been repaid.
- On 23 March 2011, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 230,000,000 and Joyou Sanitation Technology 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 23 March 2011 to 23 March 2012 under a credit facility agreement concluded between Joyou Building Materials and China CITIC Bank Quanzhou Branch with a credit facility of up to RMB 180,000,000. Under such a credit facility, respectively, in 2011 Joyou

Building Materials took out nine loans with a term of one year in the total amount of RMB 110,000,000, among which one loan in the amount of RMB 10,000,000 is additionally secured by a mortgage from Joyou Building Materials with a ceiling amount of RMB 10,000,000, one loan in the total amount of RMB 15,000,000 is additionally secured by a mortgage from an unaffiliated party with a ceiling amount of RMB 15,800,000 and one loan in the total amount of RMB 15,000,000 is additionally secured by a mortgage from an unaffiliated party with a ceiling amount of RMB 11,000,000. Among these loans, two loans in the amount of RMB 30,000,000 have been repaid.

- On 24 January 2011, Mr. Jianshe CAI, Mr. Jilin CAI and Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 70,000,000 to secure loans taken out 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 70,000,000 during the period from 24 January 2011 to 23 January 2012. Under such a credit facility, in 2011 Joyou Building Materials took out two loans with a term of one year and in the total amount of RMB 30,000,000.
- On 15 June 2011, Mr. Jianshe CAI, Mr. Jilin CAI, Mrs. Liqin WANG and Mrs. Jiaping ZHOU provided a joint and several guarantee with a ceiling amount of RMB 135,000,000 and Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 67,500,000 for loans to be taken out by Joyou Building Materials from Shanghai Pudong Development Bank Fuzhou Branch during the period from 15 June 2011 to 15 June 2012. In 2011, Joyou Building Materials took out one loan in the amount of RMB 30,000,000 with a term from 23 June 2011 to 23 June 2012.

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 a credit facility, in 2010, Joyou Sanitation Technology took out two loans with a term of one year in the total amount of RMB 20,000,000. The said loans have been repaid.
- 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. The said loan has been repaid.
- 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 a credit facility, respectively, in March and November 2010 Joyou Sanitation Technology has taken out two loans with a term of one year in the total amount of RMB 60,000,000. The said loans have been repaid.
- 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 with a term of 29 December 2010 to 26 December 2011 and in the total amount of RMB 13,250,000 from Industrial and Commercial Bank of China Nan'an Luncang Sub-branch ("ICBC"), 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. The said loans have been repaid.
- On 28 November 2011, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 143,000,000 and Joyou Hong Kong provided a joint and several guarantee with a ceiling amount of USD 22,000,000 and pledged its bank account to secure loans taken out by Joyou Sanitation Technology under a credit facility agreement concluded between Joyou Sanitation Technology and HSBC Xiamen Branch with a credit facility of up of RMB 130,000,000 and during the period from 28 November 2011 to 27 November 2012. Under such a credit facility, in 2011 Joyou Sanitation Technology took out two loans in the total amount of RMB 30,000,000.
- On 18 March 2011, 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 42,000,000 and Joyou Building Materials provided

a mortgage with a ceiling amount of RMB 13,000,000 to secure loans taken out by Joyou Sanitation Technology under a credit facility agreement concluded between Joyou Sanitation Technology and China Everbright Bank Quanzhou Branch with a credit facility of up of RMB 100,000,000 and during the period from 18 March 2011 to 17 March 2012. Under such a credit facility, in 2011 Joyou Sanitation Technology took out one loan with a term of one year in the amount of RMB 20,000,000.

→ On 27 December 2010, Mr. Jianshe CAI provided a joint and several guarantee with a ceiling amount of RMB 46,000,000 to secure a loan taken out by Joyou Sanitation Technology from ICBC in the amount of RMB 8,000,000 and with a term from 4 January 2011 to 27 December 2011. This loan is also secured by the joint and several guarantee provided by Joyou Building Materials with a ceiling amount of RMB 100,000,000 and a pledge provided by Joyou Building Materials with a ceiling amount of RMB 290,000,000. The said loan has been repaid.

→ On 23 March 2011, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 230,000,000 to secure loans by Joyou Sanitation Technology from China CITIC Bank Quanzhou Branch during the period from 23 March 2011 to 23 March 2012.

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. Fujian Nan'an Pengxin Copper Co., Ltd. took out 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 16 December 2010 to 14 December 2011 and the other loan is in an amount of RMB 7,250,000 with a term from 20 December 2010 to 19 December 2011. The said loans have been repaid. In 2010, Nan'an Zhongyu Hardware Industrial Co., Ltd. took out a loan in the amount of RMB 1,800,000 with a term from 28 April 2010 to 25 April 2011, which has been repaid. In 2011, Nan'an Zhongyu Hardware Industrial Co., Ltd. took out a loan in the amount of RMB 1,800,000 with a term from 25 April 2011 to 25 April 2012. In 2010, Nan'an Longsheng Science and Technology Industry Co., Ltd. took out a loan in the amount of RMB 9,400,000 with a term from 10 November 2010 to 10 November 2011, which has been repaid. In 2011, Nan'an Longsheng Science and Technology Industry Co., Ltd. took out a loan in the amount of RMB 9,400,000 with a term from 18 November 2011 to 9 November 2012.

None of the guarantees were provided against consideration.

### 28.3.5 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 30.2.

## 29 Operating lease

Since 2011, the Group has leased an office under operating lease agreements. The future minimum lease payments due within one year amounts to kEUR 952, due within 1 to 5 years amounts to kEUR 2,164 and due after 5 years amounts to kEUR 2,145.

## 30 Commitments and Contingencies

### 30.1 Commitments

As at 31 December 2011, Joyou Group has contractual commitments from the construction of new plants of kEUR 18,860 (2010: kEUR 6,568).

### 30.2 Contingent Liabilities

Up to 31 December 2011, as a warrantor, the Group has guaranteed the bank loans of third parties to an aggregate amount of kEUR 0 (previous year: kEUR 7,361).

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, the Group is, among other things, 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 the reporting date, Joyou believes that such a claim would not exceed kEUR 2,000. As at 30 October 2009, Mr. Jianshe CAI has undertaken an agreement with the respective Joyou Group companies according to which he would reimburse the Joyou Group companies for any losses incurred for such additional social insurance and housing funds payments.

As at 31 December 2011, 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 recognise 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 Joyou Group companies according to which he would reimburse the Joyou Group companies for any losses incurred for such income tax payment obligations.

In 2011, Joyou reversed a provision, which was originally recorded at an amount of kEUR 500 for potential payments to a financial advisor claiming advisory fees for certain funds being raised by Joyou Hong Kong in 2009. As the claims have not been raised, the Management Board of Joyou AG has re-estimated the probability of payments. However, as the possibility of payments is not considered as being remote, Joyou discloses a contingent liability. As the Chairman of the Management Board of Joyou AG, Mr. Jianshe CAI had guaranteed to Joyou that he would reimburse Joyou in respect of any payments to be made to the financial advisor, the contingent liability is covered by a corresponding contingent asset.

### 31 Risks Management Objectives and Policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 16. The main types of risks are market risk, credit risk and liquidity risk.

In 2010, the Group first established a preliminary risk management system. Due to the rapid growth the Group has experienced in recent years, it has substantially advanced 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.

#### 31.1 Market Risk

##### 31.1.1 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 still holds cash balances denominated in U.S. dollars (USD) Australian dollars (AUD) and British pound (GBP). The cash balances must be kept by Joyou Hong Kong, until the Chinese government permits conversion into RMB, Joyou Hong Kong holds these funds mainly in Australian dollars 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 USD-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	2011	2010
<b>Short-term exposure USD</b>		
Financial assets	2,013	1,593
Financial liabilities	-4,080	-3,589
<b>Total exposure</b>	<b>-2,067</b>	<b>-1,996</b>
<b>Short-term exposure GBP</b>		
Financial assets	100	131
Financial liabilities	-4	-2
<b>Total exposure</b>	<b>96</b>	<b>129</b>
<b>Short-term exposure AUD</b>		
Financial assets	8,801	32,948
Financial liabilities	-	-
<b>Total exposure</b>	<b>8,801</b>	<b>32,948</b>

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 2011 (31 December 2010: +/-10%). 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			
	USD	AUD	GBP	Total	USD	AUD	GBP	Total
31 Dec. 2011	155	-660	-8	-513	155	-660	-8	-513
31 Dec. 2010	170	-2,801	-11	-2,642	170	-2,801	-11	-2,642

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			
	USD	AUD	GBP	Total	USD	AUD	GBP	Total
31 Dec. 2011	-155	660	8	513	-155	660	8	513
31 Dec. 2010	-170	2,801	11	2,642	-170	2,801	11	2,642

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

### 31.1.2 Interest Rate Sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on short financing. As at 31 December 2011, 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.

KEUR	Profit for the year		Equity	
	+2%	-2%	+2%	-2%
31 Dec. 2011	-547	547	-547	547
31 Dec. 2010	-943	943	-943	943

### 31.2 Credit Risk Analysis

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

#### Financial assets

KEUR	Note	2011	2010
Trade receivables	19.	78,304	55,349
Other receivables and prepayments	19.	2,867	4,345
Amounts due from Grohe group	19.	601	-
Cash and cash equivalents	20.	68,696	113,181
<b>Total</b>		<b>150,468</b>	172,875



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

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

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

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

kEUR	2011	2010
Thereof past due, but not impaired		
91–180 days	9,657	4,491
181–360 days	443	113
<b>Total</b>	<b>10,100</b>	<b>4,604</b>

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 19.

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.

### 31.3 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 2011, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

kEUR	Current within 6 months	6 to 12 months	Non-current 1 to 5 years	later than 5 years
Bank loans	20,456	13,356	4,026	–
Trade payables	4,388	–	–	–
Other payables	10,266	–	–	–
Notes payable	40,147	–	–	–
Amounts due to Group companies	5,491	–	–	–
Amounts due to related parties	444	–	–	–
<b>Total</b>	<b>81,192</b>	<b>13,356</b>	<b>4,026</b>	<b>–</b>

This compares to the maturity of the Group's financial liabilities as at 31 December 2010 as follows:

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

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.

### 31.4 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 consolidated 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 amortisation (“EBITDA”). Furthermore, due to the increased financing needs of working capital, Joyou AG revised its goal in capital management to achieve and maintain a capital-to-overall financing ratio of 1:2 to 1:3. Depending on the future development of the banking industry in the PRC, Joyou AG may increase the interest-bearing current and non-current liabilities compared to capital and therefore increase its gearing. However, given the significant growth opportunities, short-term deviations from the intended capital-to-overall financing ratio are acceptable.

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

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

kEUR	2011	2010
Total equity	304,350	243,069
Cash and cash equivalents	-68,696	-113,181
<b>Total</b>	<b>235,654</b>	<b>129,888</b>
Total equity	304,350	243,069
Bank loans	36,467	47,152
Notes payable	40,148	32,720
<b>Total</b>	<b>380,965</b>	<b>322,941</b>
<b>Capital-to-overall financing ratio (in %)</b>	<b>0.62</b>	<b>0.40</b>

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, funds of EUR 8.8 million are being held in Australian dollars with the aim of maintaining the Group’s capital.

### 32 Events after the Reporting Period

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

### 33 Auditor’s Fees

Expenses for services provided by the auditor of the Consolidated Financial Statements, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, were recorded of kEUR 147 on audit services of the financial statements as well as of kEUR 87 on other assurance services.

### 34 Declaration on Compliance with the German Corporate Governance Code

The Declaration on Compliance with the German Corporate Governance Code according to Sec. 161 of the German Stock Corporations Act is openly available for inspection on the Company’s website at [www.joyou.de/ipo](http://www.joyou.de/ipo).

### **35 Joyou Group 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 2011:

<b>Name</b>	<b>Headquarters</b>	<b>Currency</b>	<b>Group equity share in %</b>	<b>Equity in kEUR</b>	<b>Net income in kEUR</b>
Hong Kong Zhongyu Sanitary Technology Ltd.	Hong Kong, PRC	RMB	100	128,756	-2,757
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Nan'an, PRC	RMB	100	78,009	17,784
Joyou Group Building Materials Co., Ltd.	Nan'an, PRC	RMB	100	112,814	23,864
Nan'an Joyou Galvanization Industrial Co., Ltd.	Nan'an, PRC	RMB	100	2,515	291
Quanzhou Joyou Ceramics Ltd.*	Nan'an, PRC	RMB	100	60,610	-858
Grohe (Xiamen) Investment Management Company Ltd.*	Xiamen, PRC	RMB	51	611	-1

\* Founded in 2011

Frankfurt, 22 March 2012

Joyou AG

Management Board

Jianshe CAI      Jilin CAI      Zufang LI      Gerald MULVIN

# *Responsibility Statement*

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

Frankfurt, 22 March 2012  
Joyou AG

Management Board

Jianshe CAI      Jilin CAI      Zufang LI      Gerald MULVIN

# Auditor's Report

We have audited the consolidated financial statements prepared by Joyou AG – comprising a consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the group management report which is combined with the management report of Joyou AG for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 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 in such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined 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 of Joyou AG for the financial year from 1 January to 31 December 2011 comply with IFRS, as adopted by the EU, and the additional requirements of the 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 combined management report of Joyou AG and the group is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Düsseldorf, 23 March 2012

Warth & Klein Grant Thornton AG  
Wirtschaftsprüfungsgesellschaft

Joachim Riese  
Wirtschaftsprüfer  
(German certified auditor)

Ralf Clemens  
Wirtschaftsprüfer  
(German certified auditor)

## *Financial Calendar 2012*

March 30	Annual Report 2011
May 15	Interim Report January through March of 2012
June 28	Annual General Meeting, Frankfurt am Main
August 15	Interim Report January through June of 2012
November 15	Interim Report January through September of 2012, Analyst Meeting



## *Contact information*

### **Joyou AG**

Ian M. OADES  
Vice President of Finance and  
Head of Investor Relations  
Westhafentower, Westhafenplatz 1  
60327 Frankfurt am Main  
Germany

Tel.: +49 69-710 456 346  
Fax: +49 69-710 456 348  
E-mail: [ir@joyou.net](mailto:ir@joyou.net)  
Internet: [www.joyou.de](http://www.joyou.de)

### **Kirchhoff Consult AG**

Financial Communications  
Herrengaben 1  
20459 Hamburg  
Germany

Tel.: +49 40-609 186 0  
Fax: +49 40-609 186 60  
E-mail: [joyou@kirchhoff.de](mailto:joyou@kirchhoff.de)  
Internet: [www.kirchhoff.de](http://www.kirchhoff.de)

### **Download**

This annual report is available in English and German on our  
websites [www.joyou.com](http://www.joyou.com) or [www.joyou.de](http://www.joyou.de).

## *Imprint*

### **Owner and publisher**

Joyou AG

### **Design concept**

Kirchhoff Consult AG, Hamburg  
[www.kirchhoff.de](http://www.kirchhoff.de)

