

## *Providing for Growth.* Annual Report 2012



# Group Key Data

kEUR	2012	2011
<b>Selected income statement data</b>		
Sales revenues	329,614	287,086
Cost of sales	-235,876	-209,148
<b>Gross profit</b>	<b>93,738</b>	<b>77,938</b>
Other operating income	908	687
Selling and distribution expenses	-23,418	-15,459
Administrative expenses	-19,674	-16,990
Other operating expenses	-705	-891
<b>Operating profit</b>	<b>50,849</b>	<b>45,285</b>
Finance income	1,999	4,691
Finance costs	-3,272	-5,544
<b>Profit before income tax</b>	<b>49,576</b>	<b>44,432</b>
Income tax	-9,781	-5,906
Profit for the period	39,795	38,526
<b>Selected financial position data</b>		
Total assets	451,256	406,460
Total liabilities	109,709	102,110
Total equity	341,547	304,350
<b>Selected cash flow data</b>		
Cash flow from operating activities	28,383	17,554
Cash flow used in investing activities	-38,280	-49,203
Cash flow (used in) from financing activities	21,389	-15,818
Cash and cash equivalents at the end of period	79,620	68,696
<b>Other selected financial data</b>		
Gross profit margin <sup>1)</sup>	28.4%	27.1%
EBIT <sup>2)</sup>	50,849	45,285
EBIT margin <sup>3)</sup>	15.4%	15.8%
Adjusted EBITDA <sup>4)</sup>	57,741	50,552
Adjusted EBITDA margin <sup>5)</sup>	17.5%	17.6%
Number of employees <sup>6)</sup>	3,379	3,195
Number of stores	4,092	3,898

<sup>1)</sup> Gross profit margin is calculated as gross profit divided by revenues times 100.

<sup>2)</sup> EBIT is calculated as net income less interest income plus interest expense plus tax expenses less tax refundable.

<sup>3)</sup> EBIT margin is EBIT divided by revenues times 100.

<sup>4)</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>5)</sup> Adjusted EBITDA divided by revenues times 100.

<sup>6)</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.*

## **Providing for Growth.**

*Core to sustainable growth is brand building and brand promotion activities. The following pages give an impression of how Joyou promotes its brand in the domestic market.*

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# Highlights of the Year 2012

## January

- National Joyou Distributor Conference in Quanzhou
- National Joyou Supplier Conference in Nan'an
- Launch of new luxury product line made with SWAROVSKI ELEMENTS

## February

- International Launch of Joyou branded products

## March

- Shower kit awarded with iF Product Design Award
- Joyou exhibits products in Vietnam

## April

- Joyou was honoured as one of the TOP 10 Brands of Bathroom Suites

## May

- Joyou opens Experience Centre in Fuzhou
- Six new products series of X-TIME Joyou Brand were launched at the Shanghai Kitchen & Bath Expo

## June

- Introduced Olympics-Oriented Marketing in the Bath-ware Industry
- Announcement of 2011 Market Share Increase

## July

- Grand Opening of Joyou Zhaoyuan Experience Centre

## August

- A special committee of the Federation of Industry & Commerce for Sanitary Ware visits Joyou

## September

- Joyou exhibits at the 2nd China-Eurasia Expo in Western China
- The China Federation of Industry & Commerce for Sanitary Ware visits Joyou

## October

- Joyou exhibits at the Xiamen International Kitchen & Bathroom Fair
- China Building, Ceramics & Sanitary Ware Association tours Joyou's Meiyu Ceramics Factory

## November

- Joyou turns a Production Facility into Industrial Tourism

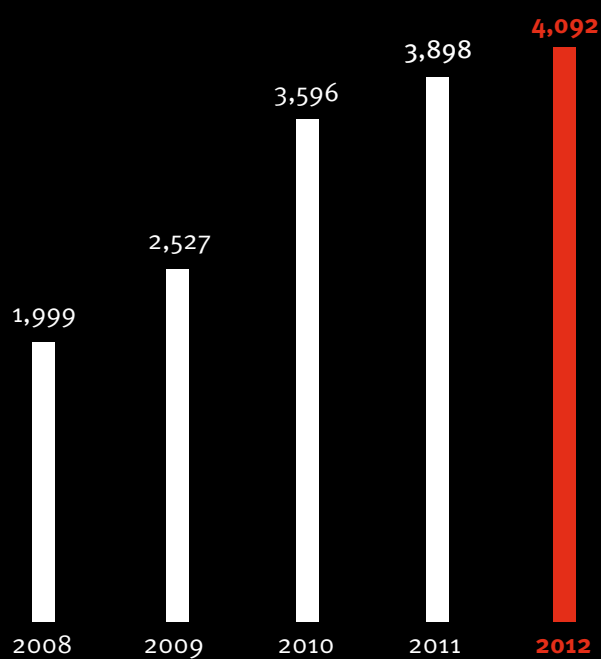
## December

- Joyou launches Interactive Online Promotional Campaign
- New Products awarded with Water-Saving Certificates
- Joyou secures loan of RMB 300 million
- Joyou Building Materials Group awarded preferential income tax rate as High-Tech-Enterprise
- Grand opening of the Joyou Wuhan Experience Centre

### Facts

- Sales growth of 14.8% to EUR 329.6 million
- EBIT increase by 12.3% to EUR 50.8 million
- Opened 194 new retail stores
- 3,379 employees

### Number of stores 2008–2012



## *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, showerheads 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 Products**

mainly include unfinished products such as copper tubing and accessories.



**Grohe Products**

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



Mr. Jianshe CAI, CEO and Chairman of the Company's Management Board



# Letter to our Shareholders

## Dear Fellow Shareholders,

In the challenging environment of financial year 2012 group sales increased by 14.8% year-on-year in Euro terms to EUR 329.6 million and operating profit increased by 12.3% to EUR 50.8 million representing an EBIT margin of 15.4%. In RMB terms group sales increased by 3.8%. Domestic China sales grew by 22.0% in EUR terms to EUR 297.6 million, and in RMB terms domestic sales also showed double-digit growth of 10.2%.

The overall sales increase resulted from a significant sales development in several of our core growth segments, with sales of Ceramics and Bathtubs up 48.9%, Bathroom Cabinets up 13.1%, and Kitchen Products up 14.8%. Group sales growth was offset by a decline in the commodity business, especially sales of Copper and Semi-Finished Products as Joyou strategically moves away from these lower margin, non-core items, and declines in International Sales. Gross profit margin further improved in 2012 by 1.3 percentage points to 28.4%, this despite an obsolescence provision on Grohe inventory held.

Core to sustainable growth is the management of our expansive sales network and overall brand equity. In 2012 we were able to net 194 new Joyou branded retail stores across China. In total this brought our network of retail stores to 4,092 as of 31 December 2012. Experience Centres are becoming more of an essential element of our strategy while showing and selling the complete range of Joyou branded products. On the one hand the Centres allow the consumers to interact on a deeper level with the Joyou brand, thereby strengthening the customer loyalty, and on the other, the Centres will further support our move into project business by acting as showrooms to project developers.

In 2012 Joyou – for the first time in its history – won the renowned iF design award for the design of one of its luxury shower products. This is another testimony to Joyou's successful investment in terms of Research and Design.

As part of our internationalisation strategy, we successfully supported Grohe by introducing Joyou-branded products to the European market at the KBB trade fair in Birmingham, UK, in March 2012. The international sales activities are gaining momentum: In cooperation with Grohe, we were able to win two new clients for Joyou branded products in Mexico, and a substantial white-label supplier in the USA. These positive developments strengthen us in our strategic approach and are an important step for us in taking the Joyou brand to the next level.

Our future growth strategy comprises international sales, project development sales and an increasing sales per store.

The aim of our investment programme is to produce more and more products entirely in-house and therefore ensure precise quality controls and perfectly coordinated workflows. Therefore we invested in the expansion of the Meiyu ceramics facility, the new plastics facility and in the upgrade of the faucet production lines throughout 2012. Additionally, we will be able to achieve more stable gross margins than through our current outsourcing strategy. To finance further growth investments Joyou secured a RMB 300 million (approx. EUR 37 million) loan in 2012.

A few days ago we announced that we intend to strengthen Joyou's global cooperation with Grohe via a new shareholder structure. Grohe Group will increase its total Joyou AG shareholdings to 72.3%. Jilin CAI and myself will become important shareholders of Grohe Group in exchange for our holdings in Joyou AG. Our aim is to intensify the joint activities and enhance the companies' international positioning. I am convinced that both Joyou and Grohe will mutually further benefit from each other in regards to sales as well as to cooperation in technology, sourcing and distribution.

Dear shareholders, I remain highly confident that we are well on our way, taking big steps that bring us closer to our objective: To become the worldwide leading Chinese sanitary-ware manufacturer and bathroom solution provider. Building on macro-economic growth drivers, namely urbanisation, the growing consumer class and our market leading position, I believe that Joyou is well positioned for future profitable growth.

Even though I expect the market situation to remain challenging, I am optimistic and expect that we can keep on growing faster than the market and further improve operating profit. Last but not least I would like to thank our employees for making 2012 a successful year. And in the name of the whole management board, I would like to thank you, dear shareholders, for your on-going support. With that in mind I am looking forward 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.



### **Mr. Jilin CAI**

*Deputy Chairman and Chief Operating Officer (COO)*

Mr. Jilin CAI is responsible for Joyou's marketing, sales and after sales service as the Company's Deputy Chairman and Chief Operating Officer (COO). 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.



### **Mr. Zufang LI**

*Chief Financial Officer (CFO)*

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.



### **Mr. Gerald MULVIN**

*Corporate Development Officer (CDO)*

Mr. Gerald MULVIN is the Corporate Development Officer (CDO) of Joyou, he 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. Gerry MULVIN is also a member of the Management Board of Grohe AG. Previous to Grohe, Gerry was a partner at Bain & Company in London, where he worked on numerous client engagements.

# 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 2012.

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.

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.

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

No changes occurred in the Supervisory Board or Management Board of the Company in 2012

## *Important Matters in 2012*

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 2012. 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 2012.

On 5 January 2012 in a telephone conference the Supervisory Board discussed and resolved upon the resolution to approve the new schedules of responsibilities of the Management Board in connection with the commencement of Mr. Gerald MULVIN's term of office, the revised Budget 2012, and inter-company financing issues.

In its meeting of 29 March 2012 in Nan'an, the Supervisory Board discussed Joyou's business and financial performance in the previous year 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 discussed and ratified the Supervisory Board's report to the Annual General Meeting and took other preparatory votes for the Annual General Meeting and it also discussed the progress with investment projects.

In its meeting on 15 May 2012 in Nan'an, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the first quarter, in particular development of revenues, margins, new product lines, and financing of the Group. The progress with investment projects, especially the ceramics business unit was discussed, and an action plan to reduce working capital was presented.

In its meeting in Frankfurt on 27 June 2012, 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. The Supervisory Board and Management Board also discussed operational issues regarding the Annual General Meeting.

In its meeting on 14 August 2012 in Hong Kong, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the second quarter, in particular development of revenues, margins, financing of the Group and investments, particularly the showerheads plant. The Management Board presented a revised budget for the financial year 2012, which was approved by the Supervisory Board. They also discussed and approved the 2013 financial calendar.

In a meeting on 14 November 2012 in Xiamen, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the third quarter. The 2013 budget was presented by the Management Board. Progress in investment projects was reviewed, and a financing proposal was discussed.

In a telephone conference on 14 December 2012, the Supervisory Board approved the revised 2013 budget, and long-term loan proposal with Standard Chartered Bank (Hong Kong) Limited.

#### *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. HAINES. The Supervisory Board discusses all potential conflicts of interest openly. In case a conflict arises, Mr. 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. Even though both Joyou AG and Joyou Grohe Holding AG belong to the same Group, Grohe Group, in which Joyou Grohe Holding AG serves in a pure holding function, Dr. SIMON's functions at and obligations towards both companies may on certain occasions to a certain extent create conflicts of interest. Dr. SIMON considers himself to be personally 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, Dr. SIMON will exercise his function as the Chairman of Joyou AG's Supervisory Board with utmost independence and always in the best interest of the company. In case a conflict of interest arises in future, Mr. SIMON will 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 Combined Management Report of Joyou AG and the Group was prepared according to the German Commercial Code. Additionally, a report on the relations to affiliated enterprises ("Abhängigkeitsbericht"; "Dependency Report") was prepared in accordance with § 312 of the German Stock Corporation Act. According to the Dependency Report, based on the circumstances known to the Management Board at the time when the transactions were entered into, Joyou has received adequate consideration in each transaction described in the report. There have not been any reportable measures during the reporting period.

Joyou's auditor, 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 the meeting of the Supervisory Board on 27 March 2013. 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 was 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, in accordance with the German Commercial Code (HGB), no retained earnings for the year are reported in the annual financial statements, the Management Board has not passed a resolution regarding the appropriation of the retained earnings for the year.

The Supervisory Board thanks the members of the Management Board and all employees for their personal contribution and cooperation in the financial year 2012.

**Dr. Rainer SIMON**

Chairman of the Supervisory Board  
Hamburg, 27 March 2013

# 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 State 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. and shareholder of Fortune China Capital Partners Limited. 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*

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 Grohe 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.

# The Share

## **The Trend in the German Stock Market**

After credit ratings of European countries were downgraded by rating agencies at the start of the year, the DAX sustained losses in the short term and fell below 6,000 points at the mid-year point, but recovered again very quickly. On account of the positive economic predictions in Germany and the decisions taken by the European Central Bank and the U.S. Federal Reserve Bank with regard to interest rate policy, Germany's leading index reached an annual high of 7,672 points on 20 December, 2012. In total the DAX rose by over 29% in 2012 from 5,898 to 7,612 points, and achieved the best annual performance since 2003. However, developments in 2012 depended to a greater extent on political decisions and announcements by central banks than on specific company values.

Second-tier stocks in the SDAX also had high growth rates in 2012 and saw substantial increases in value. The index rose by nearly 19% – starting at 4,421 points and closing at 5,249 points at the end of 2012.

## **Joyou Stock Performance**

The Joyou share had a positive performance overall in 2012 – the share enjoyed a continuous price rise in the second half of the year so that the annual performance was a plus of nearly 17%. This was approximately in line with the SDAX trend.

After announcing the start of international marketing of Joyou products through co-operation with Grohe at the end of February 2012 the share performed very well and reached EUR 9.80, the highest point in the year, on 19 March, 2012. Whereas the DAX rose by 21.3% and the SDAX by 17.9%, the value of the Joyou share rose by an above average figure of nearly 24%. In parallel with the stock market the Joyou share experienced losses during the further course of the year and in June it was trading below the closing price

in 2011 (EUR 7.39). The Joyou share was supported by the positive trend in the market and rose in the second half of 2012, reaching the closing price of EUR 9.25 on 28 December, 2012.

The Joyou share did well at the start of 2013. At the start of February the price briefly crossed the EUR 10 threshold and reached EUR 10.245 on Xetra.

## **Investor Relations**

During the financial year 2012, 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 2012 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).

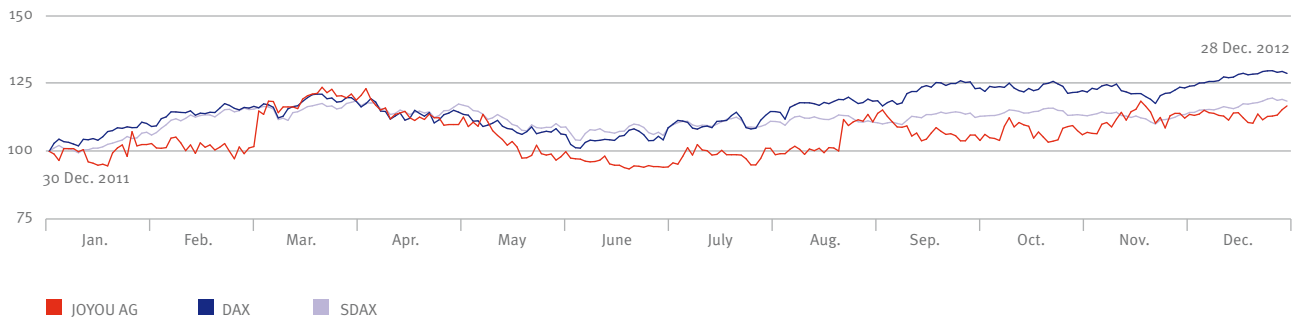
## **Analyst Coverage**

The Joyou stock was evaluated by two institutions in 2012: Macquarie and DZ Bank.

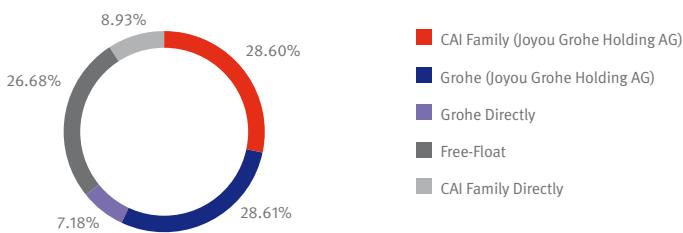
## **Shareholder Structure**

Joyou shares are held largely by Grohe and the CAI family – over 57% are held by Joyou Grohe Holdings AG, 8.9% directly by the CAI family and 7.2% directly by Grohe. The free-floating stock is currently around 27%.





**Joyou Shareholder Structure 2012**



Note: Shareholder structure as of 31 December 2012; The name 'Grohe' refers to Grohe Holding GmbH; CAI Family comprises of Jianshe CAI (CEO), Jilin CAI (COO), and Jiansheng CAI.

**Contact**

**Joyou AG**  
 Ian M. OADES  
 Vice President Finance &  
 Head of Investor Relations  
 Winterstraße 4-8  
 22765 Hamburg  
 Germany

Tel.: +86 595 8618 8887  
 Fax: +86 595 8618 7886  
 Email: [ian.oades@joyou.net](mailto:ian.oades@joyou.net)



Frankfurt Stoch 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 2012, members of the Management Board were Mr. Jianshe CAI (Chairman and Chief Executive Officer), Mr. Jilin CAI (Deputy Chairman and Chief Operating Officer), Mr. Zufang LI (Chief Financial Officer) and Mr. Gerald MULVIN (Corporate Development Officer).

The Company has entered into D&O insurance for its members of the Management Board in accordance 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 2012 can be found in the Remuneration Report in the Group Management Report.

The members of the Management Board are obliged to disclose potential conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any potential conflicts of interest to the shareholders. The following cases of potential conflicts of interest of Management Board members existed in the financial year 2012:

- ➔ Potential conflicts of interest arising from the shareholdings of Mr. Jianshe CAI, Joyou AG's CEO, and Mr. Jilin CAI, Joyou AG's COO, arising from their direct and indirect shareholdings in Joyou AG as set out further below in the section on Directors' Shareholdings and Directors' Dealings.
- ➔ Potential conflicts of interest arising from the position of Mr. Jianshe CAI as the Chief Executive Officer ("Vorstandsvorsitzender") of Joyou Grohe Holding AG, and Mr. Jilin CAI as the Chief Operative Officer of Joyou Grohe Holding AG. Joyou Grohe Holding AG holds approx. 57% of the shares in the Company.
- ➔ Potential conflicts of interest arising from the position of Mr. Gerald MULVIN a member of the Management Board of Grohe AG and Joyou Grohe Holding AG, respectively.
- ➔ Potential conflicts of interest arising from the aggregate shareholding of 49% of Mr. Jianshe CAI and Mr. Jilin CAI in Grohe (Xiamen) Investment Management Co., Ltd. which is responsible 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, holds the remaining 51% of the shares in this management 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 (“Aktiengesetz/AktG”) and consists of three members. The current members of the Supervisory Board are Dr. Rainer SIMON (Chairman), Mr. Johnny CHEN (Deputy Chairman) and Mr. 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 2012 can be found in the Remuneration Report in the Group Management Report.

The members of the Supervisory Board are obliged to disclose potential conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. The following cases of potential conflicts of interest of Supervisory Board members existed in the financial year 2012.

Dr. Rainer SIMON is also Chairman of the Supervisory Board of Joyou Grohe Holding AG.

Mr. David HAINES is also Managing Director of Grohe Holding GmbH, the Chief Executive Officer (“Vorstandsvorsitzender”) of Grohe AG and a member of the Supervisory Board of Joyou Grohe Holding AG.

### 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).

#### 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. Joyou operates 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).



Mr. Jilin Cai, Deputy Chairman and Chief Operating Officer (COO)

#### 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, the 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 2012, no 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 > Corporate Governance > Directors' Dealings.

As at 31 December 2012, 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 their direct shareholdings (7.7% and 0.2%), the remaining voting rights were attributed to them in accordance with Sec. 22 Para. 2 Securities Trade Act from the holdings of Grohe Holding GmbH in connection with the shareholders agreement concluded on 15 June 2011 between Grohe Holding GmbH and Messrs. CAI regarding their respective shareholding in Joyou Grohe Holding AG. Detailed information can be found at [www.joyou.com](http://www.joyou.com) > Investor Relations > Corporate Governance > 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 2012, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been appointed as auditor by the Annual General Meeting on 28 June 2011. Thereafter, the auditor was engaged by the Chairman of the Supervisory Board on behalf of Joyou AG. Furthermore, the independent auditor was engaged to review the three condensed interim Consolidated Financial Statements and the interim Group Management Reports published in 2012, 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 2012  
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# 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, the premium 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 six 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"), Grohe (Xiamen) Investment Management Co., Ltd. ("Grohe Xiamen Management"), and a currently non-operating company which is in the process of having its name changed to Quanzhou Gaoyu Sanitation Technology Limited Company ("Gaoyu Sanitation") established on 6th March 2012. 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 the sole shareholder of Gaoyu Sanitation is Joyou Building Materials. 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, Gaoyu Sanitation and Grohe Xiamen Management.

Joyou designs, produces and sells products for bathroom solutions in China and internationally under its brand name "Joyou" and is also engaged as the 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. It also sells, through a master distributor agreement, certain Grohe branded products within China. Through its 51% holding in Grohe (Xiamen) Investment Management Co. Ltd., it is also responsible for the management of Grohe's China operations.

## 2 Business and Operating Environment

### 2.1 Overall Economic Development

China's gross domestic product (GDP) grew 7.8% year-on-year to reach RMB 51.9 trillion (USD 8.3 trillion) in 2012 due to both external and domestic factors, according to the China National Bureau of Statistics (NBS).

This was a decelerated growth rate from 2011's 9.3% and 10.4% in 2010. It was the slowest rate recorded since 1999, when the GDP expanded 7.6% year-on-year. However in the fourth quarter of 2012 the economy's fourth-quarter growth quickened to 7.9%, ending a even-straight-quarter slowdown according to the NBS. It was 8.1% in the first quarter, 7.6% in the second, 7.4% in the third quarter, and 7.9% in the fourth.

China's consumer price index (CPI) grew by 2.6% over year 2012. Of this total, the prices for food went up by 4.8%, while prices for investment in fixed assets increased by 1.1%. The producer prices and the purchasing prices for manufactured goods were down by 1.7% and 1.8% respectively. This change in CPI was below the government's target of keeping inflation under 4%. The government forecasts that CPI will pick up slightly in 2013, which will prevent the economy from overheating and be conducive to controlling inflation.

The decrease in CPI partly enabled a decrease of 0.2 percentage points in the benchmark lending rate from 4.9% to 4.7% which had a corresponding impact on residential property lending rates.

China's fixed-asset investment rose by 20.3% over the previous year to RMB 37,467.6 billion (USD 6.0 trillion) in 2012. The real growth was 19.0% after deducting the price factors. Of the total investment, the investment in fixed assets (excluding rural households) was RMB 36,483.5 billion, up by 20.6%; and the investment in rural households reached RMB 984.1 billion, up by 8.3%.

According to the NBS, China retail sales for 2012 increased 14.3% to RMB 20.7 trillion (USD 3.3 trillion), 2.8 percentage points less than that in 2011.

Of the total, urban consumption expanded 14.3% to RMB 17.9 trillion in 2012, while rural residents spent RMB 2.8 trillion, up 14.5%.

China's urban population accounted for 52.6% of the country's total population by the end of 2012, up 1.3 percentage points from a year earlier, according to the NBS. China's population stood at 1.354 billion at the end of 2012, 6.7 million more than the figure



at the end of 2011. Furthermore China's urban residents saw their average per capita disposable income increase 9.6% in 2012 after being adjusted for inflation, official data showed. The growth was 1.2 percentage points more than that of 2011, bringing average income to RMB 24,565 (USD 3,912), according to the NBS. Rural residents' average per capita net income climbed 10.7% in real terms to RMB 7,917 last year, 0.7 percentage points lower than the growth of 2011. In addition, in 2012, the newly started construction of affordable housing projects in urban areas amounted to 7.8 million units (households), and the affordable housing projects in urban areas basically completed was 6.0 million units.

## 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.

A pilot property tax introduced in 2010 to restrict speculative property market behaviour has been expanded to further provinces and to second homes. Although the tax rate is relatively low it puts pressure on the sales of bathroom products in the project (residential, civil and commercial) and retail sectors. The recent housing price rebound has fuelled calls for expansion of the property tax policy, which is expected to curb the number of homes investors buy.

The result was that more cities reported a slowdown year-on-year increases in property prices in September 2011 as a result of the government's tightening efforts to cool the market, according to the National Bureau of Statistics. However according to the NBS's data showed a warming property market starting 2012 despite the tight government controls. On average, each quarter saw a successive increase in the number of cities out of the government's indicative pool of 70 major cities, that saw month-on-month price increases of new houses in 2012. This has occurred despite repeated assurance by the central government that China will stick to control measures on the property sector.

Growth in investments in China's property sector was 11.9 percentage points lower than the 2011 level. Full-year investment in residential housing registered an increase of 11.4% from the same period the year before, down 18.9 percentage points from 2011. In 2012, construction began on 1.8 billion sqm of housing, down 7.3% from the 2011 level. Sales of commercial housing (housing that allows private ownership and sale) rose 1.8% to 1.1 billion sqm in 2012 year on year, down 2.6 percentage points from that of 2011 according to the NBS.

A total of 364.6 million sqm of commercial housing were held for sale, up 27% year-on-year. The figure declined 6.1 percentage points from the previous year.

Joyou believes that the growth rates seen before 2011 are unlikely to be seen again, due to the fact that in part they were driven by speculative activity. 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 and continuity of temporary administrative policies.

It was reported on Friday 1st March 2013 that the central government plans to further control house prices across China. Measures include the stricter implementation of an existing 20% capital gains tax on second-hand home sales, strengthening restrictions on home buying and increasing loan rates for those buying a second home in cities where prices are rising too quickly. Full details of the policies and their implementation were not available at the time of publication, however it is expected that these measures will have an effect on the domestic China market.

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. According to the minister of housing and urban-rural development China will continue to build millions of affordable housing units.

### Market Trends

Several trends have become more prevalent in the market landscape in 2012. These include:

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



*Joyou works with multiple media forms from traditional print media to celebrity event sponsorship.*

*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 for companies 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

According to BSRIA's "China Bathroom Study" 2012, the influence of brand awareness became even more important in 2011 (no more up-to-date data was available at the time of publication). Good brands generate good sales, and hence domestic bathroom enterprises are all heavily investing in their brand equity. The progress of brand formation therefore accelerated in 2011 and onwards. Manufacturers are also investing in research and development in order to create innovative products that are no longer viewed as simply tools for cleaning and sanitation. They are also seen as art, entertainment, and a way to promote health. Sales through E-commerce is developing rapidly. The internet has become one of the leading points of sale.

The government's measures to restrict excessive growth in the real estate market has also had an impact on the bathroom market, leading to lower housing transaction volumes, in particular for semi-finished houses, which had a negative effect on retail sales channels. However, fully decorated properties (houses which are sold with sanitary-ware already installed) demonstrated a positive trend in 2011, such that project sales performed more strongly than the retail channels.

However BSRIA's report does not publish data that enables direct comparison with the market data for faucets with prior years. Accordingly, it is not possible to comment as to whether this market continued to grow in 2011. Nonetheless, the report cites a number of obstacles experienced by this market in 2011. These include, in addition to the measures implemented by the Chinese government to restrict excessive expansion of the real estate market, the

absence of major events, such as the Beijing Olympics staged in 2008 and the Shanghai Expo in 2010, as well as a rail crash, the effect of which led to a slow-down in the construction of railway stations and public transport facilities. These factors resulted in a decline in the sale of mid-range and lower-end taps and mixers, whilst higher end products performed better.

#### Ceramic Sanitary-ware

The market consists of water closets, basins and urinals. According to the BSRIA's "China Bathroom Study" 2012, the value of ceramic and non-ceramic sanitary-ware sold increased from RMB 10,574 billion (EUR 1,175 million) in 2010 to RMB 11,654 billion (EUR 1,431 million) in 2011. Compared to the figures from the prior year, retail sales declined slightly, whilst project sales increased. Almost all cities in the first and second tiers exhibited strong demand for good quality sanitary-ware products. Nonetheless, the market has also suffered as a result of the effects of the restraints placed by the government on the real estate market, which has had its strongest impact on some of the smaller local enterprises.

#### Shower-cabinets and Bathtubs

BSRIA's "China Bathroom Study" 2012 has included shower-cabinets under this category for the first time, again making comparisons with prior year data difficult. However, demand for shower-cabinets is increasing as more consumers become more familiar with the product. This demand has, however, also been tempered by the restraints placed by the Chinese government on the real estate market. Although 2011 and the end of 2012 are not thought to have been lucrative periods for the shower-cabinet business, BSRIA predicts that demand will recover, either in the second half of 2012 or the beginning of 2013. Compared to shower-cabinets, bathtubs were not as popular in 2011 and sales declined slightly compared with 2010. In many cases, shower-cabinets have taken the place of bathtubs in hotels and commercial buildings. Whilst the market for shower-cabinets amounted to RMB 9.5 billion in 2011, the bathtub market amounted to roughly RMB 4.5 billion, compared to RMB 4.6 billion in 2010.

#### 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.

In general, most domestic companies service the lower-end to mid-market of the sanitary-ware market and compete mainly on price. International firms service the mid-market to the high-end market and differ from each other not only by pricing, but also by their respective product image and branding.

### China Taps and Mixers Market Share Ranking 2011\*

Group	Brand	Country	Value RMB million	Market share %
Joyou	Joyou	China	1,740	14.4
Jomoo	Jomoo	China	1,310	10.8
Kohler	Kohler	USA	1,110	9.2
Toto	Toto	Japan	910	7.5
Fortune Brand	Moen	USA	810	6.7
INAX	AS	Japan	650	5.4
Roca	Roca	Spain	610	5.0
Lehua Corp.	Arrow	China	580	4.8
Other			4,380	36.2
<b>Total</b>			<b>12,100</b>	<b>100.0</b>

\*Source BSRIA's "China Bathroom Study" 2012

According to the statistic put forward by BSRIA, Joyou's market share in 2011 for taps and mixers (faucets) was 14.4% in value of the taps and mixers sold, which is higher than 11.8% in 2010 and 11.5% in 2009. Joyou's market share in 2011 for ceramic sanitary-ware was 2.8%, an increase from 1.8% in 2010, and 1.3% in 2009 and unranked in 2008. For 2012, no data has been published yet.

#### 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 2012, sponsoring, and attending industry forums and events, and hosting several design associations at the Luncang facilities.

**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

In the financial year of 2012 a number of key developments occurred for Joyou:

- Experience Centre Openings
- Gain in Market Share in 2011
- International Launch of Joyou Branded Products
- Agreement on the management of operation
- Shower Kit Awarded with iF Product Design Award
- New Products Awarded with Water-Saving Certificates
- Joyou Secures Loan of RMB 300 million
- Expansion of Distribution Channel
- Research and Design
- In-House Production
- Marketing and Brand-Building Activities
- Strategic Alliance with Developers
- Galvanisation Plant Acquisition





*Joyou builds its brand equity with consumers and professionals in the industry.*



### Experience Centre Openings

In the financial year 2012, Joyou opened three experience centres. One of the three new experience centres is located in Fuzhou, the capital city of Fujian Province. Displaying products on an exhibition area of 700 sqm (7,535 sqft), this Experience Centre presents products of Joyou, e. g. its X-TIME Joyou brand. The second is a 710 sqm (7,642 sqft) Experience Centre opened in Hefei, the capital city of Anhui Province. The third experience centre, which was opened in December in Wuhan, with an exhibition area of some 700 sqm. Experience Centres are an integral layer of Joyou's overall retail distribution strategy by allowing the consumer to interact on a deeper level with the Joyou brand, and also they support the move into project business by acting as showrooms to project developers.

### Gain in Market Share in 2011

According to the latest "China Bathroom Study" of BSRIA which was published in Q2 2012, Joyou again increased its market share in 2011. In the segment "Taps and Mixers", Joyou increased its market share by value from 11.8% in 2010 to 14.4% in 2011 (2009: 11.5%; 2008: 8.1%), which places Joyou as the market leader in this segment for the fourth year in a row. According to the same study, in the overall ceramic sanitary-ware market Joyou holds a Top 10 position in China with an estimated market share of 2.8% in 2011, (2010: 1.8%). Further Joyou's market position in the Bathroom Cabinet segment stood as number five. The same report further reiterates Joyou's market leading position in the overall China Bathroom Fixtures and Fitting market. Based on overall current market feedback, Joyou believes that its market share in this market has improved in 2012.

### International Launch of Joyou Branded Products

As part of the extension of the ongoing relationship with Grohe, Q1 2012 marked the international launch of the Joyou brand, with Joyou's branded products being exhibited at the KBB Exhibition in Birmingham, UK. In cooperation with Grohe, Joyou simultaneously used the event as a launch ceremony and begin supplying its branded Joyou products to the UK market. A branded product distribution agreement via Joyou International Trading Co., Ltd. was reached with Robert Lee Distribution LTD, one of the largest independent distributors of bathrooms, showers and plumbing products, supplying retailers and merchants in the UK. The first order of the year was delivered comprising over 100 types of faucets and accessories. The Joyou branded products will be targeted to reach a universe of approximately 1,000 of Robert Lee's trading partners' outlets.

Since the launch, the cooperation with Grohe has further resulted two further Joyou branded distributors in the UK, one in Mexico, and also a substantial OEM distributor in the USA.

These first orders of Joyou branded products are part of the strategic co-operation between Joyou and Grohe to launch the Joyou brand in international markets, starting with Europe, North America and Middle East. The co-operation enables Grohe to introduce Joyou as its mass-market global brand. Products to be sold internationally so far are a selection from Joyou's pioneering portfolio offering, and high-quality internationally designed bathroom products, at very affordable prices.

### Agreement on the management of operations

On 30 August 2012, Grohe Xiamen Management and Grohe (Shanghai) Sanitary Products Co. Ltd, a subsidiary wholly-owned by Grohe Holding GmbH, entered into an agreement on management of operations. Based on this agreement, Grohe Xiamen Management became responsible for the management of Grohe's business operations in Mainland China (i.e. excluding Hong Kong, Macau and Taiwan). The existing Distribution Agreement between Joyou and Grohe, being the basis for Joyou's "Grohe Products" segment, remains unchanged according to which Joyou was appointed as the master distributor of certain Grohe Products. Accordingly, the aforementioned agreement on management of operations includes the sale, distribution and marketing of the remaining Grohe Products to be offered in China. Grohe Xiamen Management is entitled to receive a management fee based on targets agreed upon between Grohe and Joyou.

### Shower kit awarded with iF Product Design Award

In 2012 Joyou was awarded the prestigious iF award for the design of one of its luxury shower products. Inspired by the shape of sleek mobile phones, the cool and contemporary flat-panel shower unit from the X-Time Joyou series brings a new style and verve to the bathroom. LEDs around the temperature dial clearly display the water temperature: blue for cold turns to green, orange, yellow and red as the water gets hotter. And the handle slips easily into its cradle just like a traditional telephone.

Established in 1953, the iF product design award, which Joyou received for one of its shower products, is today among one of the most important awards for innovative product design with valuation criteria covering many areas; design quality, finish, choice of materials, degree of innovation, environmental impact, functionality, ergonomics, visualisation of intended use, safety, brand value & branding, and universal design. Past awards have gone to such international giants as BMW, Samsung and Honeywell.

### New Products Awarded with Water-Saving Certificates

Joyou announce that it was awarded with the 'China Certificate of Water Conservation Products' for six of its newly designed toilets. Awarded by the China Quality Inspection Centre in Beijing, the six new products have all met the requirements of CQC32372111-2009

'Water Conservation Rules for WC Pans'. The Chinese national standard for water flush volume amounts to an average of 6 litres per flush while the products developed and produced by Joyou save around 20% per flush, using an average flush volume of 4.8 litres. For an average Chinese household this can save up to 3,000 litres of water per year. Joyou invests heavily into its Research and Design, which accomplished this feat by emphasising on the design of the internal ducting and trapway. Both features initiate a quicker 'power flush' that is aimed at saving water and scrubbing the bowl with each flush through a forceful, but quiet, jetted action. In addition, the design team is constantly working on reducing flush-water usage through further precision in ducting, finish and flush technology. Through its social water-saving initiatives, Joyou intends to make a sustainable contribution to improve quality of life. By helping people around the globe to save water, the company is helping to reduce people's reliance on this natural resource.

#### Joyou secures loan of RMB 300 million

Joyou secured a RMB 300 million (approx. EUR 37 million) loan for its wholly-owned subsidiary Quanzhou Joyou Ceramics Co. Ltd. The lender is Standard Chartered Bank (Hong Kong) Limited. The loan will be used to finance phase two of the Meiyu ceramics facility and for associated working capital. The maturity of the loan amounts to three years with an annual interest rate of 7.9%. Due to the strong equity position of EUR 341.5 million as of 31 December 2012, representing an equity ratio of 75.7%, the new loan did not have a significant impact on Joyou's strong balance sheet structure.

#### Expansion of Distribution Channels

In line with Joyou's development strategy, Joyou opened 194 new branded retail stores across China in 2012:

#### Breakdown of Stores Opened in 2012

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total	%
Experience Centres	0	3	0	0	0	3	1.5
Flagship Stores	1	1	7	7	0	16	8.3
Exclusive Stores	5	10	25	47	8	95	49.0
Authorised Stores	3	10	25	23	19	80	41.2
<b>Total</b>	<b>9</b>	<b>24</b>	<b>57</b>	<b>77</b>	<b>27</b>	<b>194</b>	
%	4.6	12.4	29.4	39.7	13.9		

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

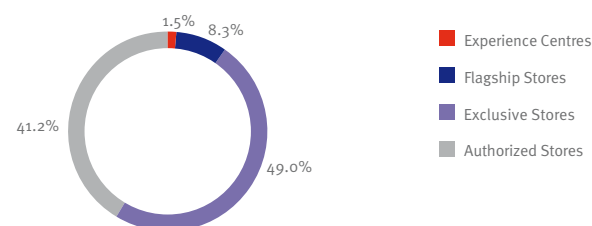
Tier 3: Prefecture-level cities

Tier 4: County-level cities

Tier 5: Towns and villages

During the past year 3 Experience Centres, 16 flagship stores, 95 exclusive stores, and 80 authorised stores were established. In total this brings Joyou's network of retail stores to 4,092 as of 31 December 2012 (3,898 stores as of 31 December 2011).

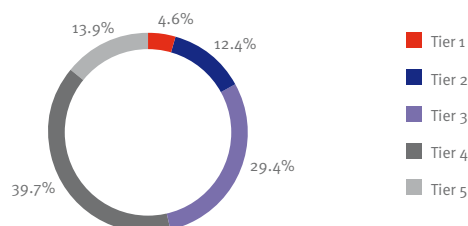
#### Joyou Branded Stores Opened by Type in 2012



Joyou's future growth strategy will focus on international sales, project development sales and on increasing sales per store. The goal to increase the sales per store will be achieved through the following steps: driving store traffic through marketing, training about up- and cross-selling as well as enhancing after-sales services and referral sales.

As at 31 December 2012, Joyou's retail distribution network included 54 regional distributors, covering most of the main business regions of China. In relation to its retail distribution network the focus of the Group's efforts has moved away from the expansion of the network in favour of concentrating on increasing sales per outlet. Accordingly, detailed information on the expansion of the network will not be covered in future reports.

#### Joyou Branded Stores Opened by Tier of City in 2012







### Research and Design

In 2012, 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 5.2 million in 2011 to EUR 6.0 million in 2012, the fruits of which have shown themselves in both patented technology and processes used to produce products, and also the award-winning designs from international award houses. On the reporting date, the Joyou Group held 316 (2011:231; 2010: 96; 2009: 69) patents for design, invention and utility model, and 38 patents were 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. 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, which are described more detailed in section 4.1 of this report.

As described above, in 2012 Joyou, for the first time, won the iF design award for the design of one of its luxury shower products, which was another testimony to Joyou’s successful investment in terms of Research and Design.

### In-House Production

In-line with Joyou’s strategy to produce the value added items that it sells, there were further developments in this area in 2012. The construction on the plastic facility’s building was finished in 2012. Technical equipment and production lines being ordered and will be installed in 2013 financial year. Beside this, construction works on the phase II of the ceramics facility is making progress and the factory is expected to start operations at the beginning of 2014. Phase three of the ceramics factory has been started.

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 orientated products. Internationally Joyou is currently also engaged as a manufacturer of OEM/ODM products for international sanitary-ware companies, wholesalers and trading companies as well as Joyou branded international sales.

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 2012, various marketing events were hosted around store opening events across China, with a mix of traditional and online promotional activities and increased emphasis on after-sales service and gaining sales from returning customers and referral sales.

### Strategic Alliance with Developers

With a growing brand, recognised first-class quality and an expansive store network, together with being the master distributor of the Grohe Asian product range, Joyou continued 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 a supplier with 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 underserved market. In regard to this, Joyou has opened 14 project developer sales offices across China, and is planning to open more Experience Centres in these locations to support its push.

### 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 ShuiTou Galvanisation Industry Park in Nan’an, Fujian Province. The process is still ongoing as Yongsheng Galvanisation has not yet received and supplied Joyou with 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

The Group increased its sales in 2012 by 14.8% year-on-year to a total of kEUR 329,614 (2011: kEUR 287,086) in EUR terms. During the period under review there was a 9.63% depreciation of the EUR to RMB. Adjusted for this currency effect sales growth was 3.8% in RMB Terms.

Operating income (EBIT) for full year 2012 increased by 12.3% from kEUR 45,285 to kEUR 50,849, representing an EBIT margin of 15.4%. Net income increased by 3.3% from kEUR 38,526 to kEUR 39,795 in 2012. The increase was below increases in sales mainly due to changes in taxes on profit.

The strong sales growth reflects a growth in core business from the Company's increased spending on selling and distribution.

#### 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 2012, together with the consolidated income statement for the year ended 31 December 2011.

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

	1 Jan. to 31 Dec. 2012		1 Jan. to 31 Dec. 2011		Variance	
	kEUR	%	kEUR	%	kEUR	%
<b>Sales revenues</b>	<b>329,614</b>	<b>100.0</b>	<b>287,086</b>	<b>100.0</b>	<b>42,528</b>	<b>14.8</b>
Cost of sales	-235,876	-71.6	-209,148	-72.9	-26,728	12.8
<b>Gross profit</b>	<b>93,738</b>	<b>28.4</b>	<b>77,938</b>	<b>27.1</b>	<b>15,800</b>	<b>20.3</b>
Other operating income	908	0.3	687	0.2	221	32.2
Selling and distribution expenses	-23,418	-7.1	-15,459	-5.4	-7,959	51.5
Administrative expenses	-19,674	-6.0	-16,990	-5.9	-2,684	15.8
Other operating expenses	-705	-0.2	-891	-0.3	186	-20.9
<b>EBIT</b>	<b>50,849</b>	<b>15.4</b>	<b>45,285</b>	<b>15.8</b>	<b>5,564</b>	<b>12.3</b>
Financial results	-1,273	-0.4	-853	-0.3	-420	49.2
<b>EBT</b>	<b>49,576</b>	<b>15.0</b>	<b>44,432</b>	<b>15.5</b>	<b>5,144</b>	<b>11.6</b>
Taxes on profit	-9,781	-3.0	-5,906	-2.1	-3,875	65.6
<b>Profit</b>	<b>39,795</b>	<b>12.1</b>	<b>38,526</b>	<b>13.4</b>	<b>1,269</b>	<b>3.3</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 Grohe Products. Most of Joyou's revenues are generated through its own brand business (domestic and export sales) and its OEM/ODM business (export sales).

Revenues increased from kEUR 287,086 in the year ended 31 December 2011 by kEUR 42,528, or 14.8%, to kEUR 329,614 in the year ended 31 December 2012. Increases refer mainly to the following movements in sales: Compared to that of the year ended 31 December 2011, the sales of Ceramics and Bathtubs increased by kEUR 12,268 or 48.9% and Kitchen Products increased by kEUR 4,949 or 14.8%.

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 Ceramics and Bathtubs and Kitchen 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. 2012		1 Jan. to 31 Dec. 2011		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper <sup>1)</sup>	88,503	37.5	80,681	38.6	7,822	9.7
Outsourced products <sup>2)</sup>	35,721	15.1	29,898	14.3	5,823	19.5
Other parts <sup>3)</sup>	43,807	18.6	45,420	21.7	-1,613	-3.6
Other metals	17,927	7.6	16,594	7.9	1,333	8.0
Overheads/Other <sup>4)</sup>	22,953	9.7	20,588	9.8	2,365	11.5
Zinc	11,490	4.9	4,350	2.1	7,140	164.1
Labor costs <sup>5)</sup>	11,696	5.0	8,403	4.0	3,293	39.2
Depreciation	3,779	1.6	3,214	1.5	565	17.6
<b>Cost of sales</b>	<b>235,876</b>	<b>100.0</b>	<b>209,148</b>	<b>100.0</b>	<b>26,728</b>	<b>12.8</b>

<sup>1)</sup> Copper including certain semi-finished copper-based products sourced from external manufacturers. In 2011 and 2012, a certain amount of brass purchase was also included.

<sup>2)</sup> Outsourced products include trading or merchandise goods, including Grohe Products.

<sup>3)</sup> Other parts mainly comprises of product components made of ceramic, plastic, rubber and showerheads.

<sup>4)</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>5)</sup> Labour costs include salaries, wages and benefits.

Cost of sales increased from kEUR 209,148 in the year ended 31 December 2011 by kEUR 26,728 or 12.8%, to kEUR 235,876 in the year ended 31 December 2012. The increase in cost of sales in the year ended 31 December 2012 resulted mainly from increase in sales. Copper as a percentage cost of sales decreased from 38.6% in the year ended 31 December 2011 to 37.5% in the year ended 31 December 2012, mainly due to a strategic shift away from sales of copper-based products. Outsourced Products increased from kEUR 29,898 by kEUR 5,823 or 19.5% to kEUR 35,721 due to the increases in business and a shift from assembling products to buying whole finished products. Therefore, Other Parts decreased from kEUR 45,420 by kEUR 1,613 or 3.6% to kEUR 43,807. Labour costs increased from kEUR 8,403 by kEUR 3,293 or 39.2% to kEUR 11,696 due to the need for semi-skilled production workers mainly in the ceramics plant, and increases in wages overall. This represents a shift towards a more skilled orientated manufacturing.

### 3.2.3 Gross Margin

For the year ended 31 December 2012, the gross margin amounted to 28.4%, which is a strong increase from 27.1% for the year ended 31 December 2011. Across the reporting segments there were increases and decreases in production costs which overall had a negligible net effect on the gross margin. The gross margin also benefited from a lower charge arising from the obsolescence provisions charged on Grohe merchandise inventory in 2012 compared to 2011. Whilst in 2011, the provision gave rise to charges of kEUR 1,889, such expenses declined to kEUR 795 for 2012. Cost of sales increased by 12.8% compared with the sales which increased by 14.8%.

### 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 increased from kEUR 15,459 in the year ended 31 December 2011 by kEUR 7,959, or 51.5%, to kEUR 23,418 in the year ended 31 December 2012. In 2012, the Group has entered into additional obligations regarding the after sales service provided by its distributors in order to improve customer's brand satisfaction, and also additional distributor incentives relating to retail management. Compared to 2011, selling and distribution expenses increased from 5.4% to 7.1% of sales revenues in 2012.

### 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 training charges.

Administrative expenses increased from kEUR 16,990 in the year ended 31 December 2011 by kEUR 2,684, or 15.8%, to kEUR 19,674 in the year ended 31 December 2012. The increase in administrative expenses is principally attributable to an increase in sales, brought about by the growth of the business combined with an increase in research and development costs as a result of increased activity in this area.

Compared to 2011, administrative expenses as a percentage of sales increased from 5.9% to 6.0% in 2012.

### 3.2.6 Other Operating Income and Expenses

Other operating income which mainly comprises, among other things, rental income, government grants, reimbursements and management fees increased from kEUR 687 in the year ended 31 December 2011 by kEUR 221, or 32.2%, to kEUR 908 in the year ended 31 December 2012, mainly due to the management fee resulting from management of Grohe China operations.

Other operating expenses mainly comprises, among other things, donations, depreciation and related costs of investment property, and decreased from kEUR 891 in the year ended 31 December 2011 by kEUR 186 or 20.9% to kEUR 705, mainly due to decreases in reimbursement fees.

### 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 on bank loans, exchange losses and bank charges.

Finance income decreased from kEUR 4,691 in the year ended 31 December 2011 by kEUR 2,692 to kEUR 1,999 in the year ended 31 December 2012. The decrease was mainly related to decreases in exchange gains due to exchange rate changes over the periods under review, and also interest income decreases due to the decrease in average bank deposits over the two periods under review.

Finance costs decreased from kEUR 5,544 in the year ended 31 December 2011 by kEUR 2,272 to kEUR 3,272 in the year ended 31 December 2012. The decreases were mainly attributable to a decrease in foreign currency exchange losses and a decrease in interest expense on bank loans. For further details refer to Sec. "24 Finance Income and Finance Costs" in the Notes to the Consolidated Financial Statements.

### 3.2.8 Taxes on Profit

Taxes on profit increased from kEUR 5,906 in the year ended 31 December 2011 by kEUR 3,875, or 65.6%, to kEUR 9,781 in the year ended 31 December 2012. This increase is mainly due to changes in deferred income taxes, and the fact that only one of Joyou's operational entities, Joyou Group Building Material Co. Ltd. was granted the certificate of High-tech Enterprise by PRC government and entitled to enjoy the preferential corporate income tax rate of 15% for a period of three years, starting on 1 January 2012. The preferential tax status reduces income tax rate for the enterprise in China from a statutory rate of 25% to a preferential rate of 15% during the granted period. When the granted period expires, the statutory rate of 25% will be applied. The income tax rate for other PRC subsidiaries of Joyou Group is 25% in 2012.

### 3.2.9 Earnings

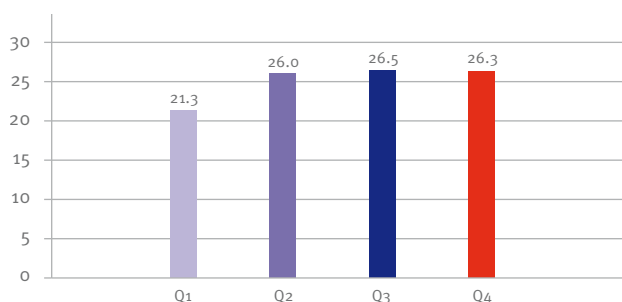
	1 Jan. to 31 Dec. 2012 kEUR	1 Jan. to 31 Dec. 2011 kEUR	Variance kEUR	%
EBIT	50,849	45,285	5,564	12.3
Depreciation and amortisation	6,250	4,606	1,644	35.7
<b>EBITDA</b>	<b>57,099</b>	<b>49,891</b>	<b>7,208</b>	<b>14.4</b>
Expenses on land-use rights	642	661	-19	-2.9
Adjusted EBITDA	57,741	50,552	7,189	14.2
<b>EBT</b>	<b>49,576</b>	<b>44,432</b>	<b>5,144</b>	<b>11.6</b>

### 3.2.10 Seasonality in Business

Having completed the 5<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 being the strongest period in terms of revenues and the fourth quarter with a slight decrease due to winter season period. 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 the first quarter. This week-long festival, coupled with the

winter weather, leads to a slow down in the business cycle. It is important to note that as Joyou's growth rates have matured, the variations in the seasonality patterns have diminished somewhat.

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



### 3.3 Financial Position

kEUR	1 Jan. to 31 Dec. 2012	1 Jan. to 31 Dec. 2011	Variance
Cash flow from operating activities	28,383	17,554	10,829
Cash flow used in investing activities	-38,280	-49,203	10,923
Cash flow from (used in) financing activities	21,389	-15,818	37,207
Changes in cash and cash equivalents	11,492	-47,467	58,959
Cash and cash equivalents at the beginning of the reporting period	68,696	113,181	-44,485
Foreign exchange movements	-568	2,982	-3,550
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>79,620</b>	<b>68,696</b>	<b>10,924</b>

Cash flow generated from operating activities increased from kEUR 17,554 in the year ended 31 December 2011 by kEUR 10,829, or 61.7%, to kEUR 28,383 in the year ended 31 December 2012. This increase is attributable to improved profitability and limited changes in Joyou's working capital.

Cash flow used in investing activities decreased from kEUR -49,203 in the year ended 31 December 2011 by kEUR 10,923, or 22.2%, to kEUR -38,280 in the year ended 31 December 2012. This decrease was mainly attributable to decreasing capital expenditure on property, plant and equipment in 2012.

Finally, cash flow from financing activities increased from kEUR -15,818 in the year ended 31 December 2011 by kEUR 37,207 to kEUR 21,389 in the year ended 31 December 2012. The increase was mainly attributable to a new long-term bank loan borrowed in December 2012.

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 2011 and 2012 was kEUR 13,022 and kEUR 14,498, respectively.

### 3.4 Net Assets

The asset and capital structure developed as follows: the balance sheet total increased from kEUR 406,460 by kEUR 44,796 to kEUR 451,256. This rise is principally attributable to an increase in intangible assets, investment property, property, plant and equipment, cash and cash equivalents as well as other receivables, prepayments and amounts due from Grohe Group.

Assets	31 Dec. 2012		31 Dec. 2011		Variance	
	kEUR	%	kEUR	%	kEUR	%
Intangible assets	599	0.1	338	0.1	261	77.2
Property, plant and equipment	146,433	32.5	114,675	28.2	31,758	27.7
Investment Property	3,218	0.7	2,117	0.5	1,101	52.0
Prepayments on land-use rights	26,429	5.9	27,269	6.7	-840	-3.1
Other non-current assets	243	0.1	245	0.1	-2	-0.8
Deferred tax assets	1,704	0.4	2,251	0.6	-547	-24.3
<b>Non current assets</b>	<b>178,626</b>	<b>39.6</b>	<b>146,895</b>	<b>36.1</b>	<b>31,731</b>	<b>21.6</b>
Inventories	80,971	17.9	83,465	20.5	-2,494	-3.0
Trade receivables	78,653	17.4	78,304	19.3	349	0.4
Amount due from Grohe Group	3,372	0.7	601	0.1	2,771	461.1
Other receivables and prepayments	29,110	6.5	28,407	8.0	703	2.5
Income tax receivables	813	0.2	-	0.0	813	100.0
Amounts due from related parties other than Grohe Group	91	0.0	92	0.0	-1	-1.1
Cash and cash equivalents	79,620	17.6	68,696	16.9	10,924	15.9
<b>Current assets</b>	<b>272,630</b>	<b>60.4</b>	<b>259,565</b>	<b>63.9</b>	<b>13,065</b>	<b>5.0</b>
<b>Balance sheet total</b>	<b>451,256</b>	<b>100.0</b>	<b>406,460</b>	<b>100.0</b>	<b>44,796</b>	<b>11.0</b>

Equity and liabilities	31 Dec. 2012		31 Dec. 2011		Variance	
	kEUR	%	kEUR	%	kEUR	%
<b>Equity</b>	<b>341,547</b>	<b>75.7</b>	<b>304,350</b>	<b>74.9</b>	<b>37,197</b>	<b>12.2</b>
Long term bank loan	28,465	6.3	3,677	0.9	24,788	674.1
Other provisions	634	0.1	529	0.1	105	19.8
<b>Non current liabilities</b>	<b>29,099</b>	<b>6.4</b>	<b>4,206</b>	<b>1.0</b>	<b>24,893</b>	<b>591.8</b>
Short term loans	24,029	5.3	32,790	8.1	-8,761	-26.7
Long term liabilities due within one year	7,116	1.6	-	0.0	7,116	100.0
Trade payables	7,020	1.6	4,388	1.1	2,632	60.0
Notes payable	30,885	6.8	40,147	9.9	-9,262	-23.1
Other payables and accruals	10,304	2.3	12,456	3.1	-2,152	-17.3
Amounts due to related parties	19	0.0	444	0.1	-425	-95.7
Amounts due to Grohe Group companies	1,237	0.3	5,491	1.4	-4,254	-77.5
Income tax payable	-	0.0	2,188	0.5	-2,188	-100.0
<b>Current liabilities</b>	<b>80,610</b>	<b>17.9</b>	<b>97,904</b>	<b>24.1</b>	<b>-17,294</b>	<b>-17.7</b>
<b>Balance sheet total</b>	<b>451,256</b>	<b>100.0</b>	<b>406,460</b>	<b>100.0</b>	<b>44,796</b>	<b>11.0</b>

#### 3.4.1 Non-Current Assets

Intangible assets comprise software and patents increased from kEUR 338 as at 31 December 2011 by kEUR 261 or 77.2%, to kEUR 599 as at 31 December 2012.

Property, plant and equipment mainly comprise buildings, machinery and construction in progress (CIP). Property, plant and equipment increased from kEUR 114,675 by kEUR 31,758, or 27.7%, to kEUR 146,433 as at 31 December 2012. This increase was mainly attributable to the completion of the dormitory and administration offices of the Meiyu ceramics facility as well as plastics production facility building which were completed in 2012. Also the construction in progress (CIP) of the second phase of the Meiyu ceramics facility and upgrades of current facilities increased.

Investment property refers to a building which is used to earn rental income and the land levelling cost on land use rights in Nan'an city held for investment purposes. The carrying amount of investment property increased from kEUR 2,117 by kEUR 1,101 to kEUR 3,218 as at 31 December 2012 mainly due to the addition of the land levelling cost on the land use rights mentioned above transferred from CIP.

Lease prepayments for land-use rights refer to prepayments made to use property in the PRC over a period of up to 50 years' for industrial purposes. The non-current carrying amount of land-use rights amounted to kEUR 27,269 as at 31 December 2011 and kEUR 26,429 as at 31 December 2012 respectively with a decrease of kEUR 840 or 3.1%, the decrease was mainly due to the amortisation expense for the year.

Deferred tax assets are temporary differences between the carrying amount of an asset and its tax base. Deferred tax assets decreased from kEUR 2,251 by kEUR 547, or 24.3%, to kEUR 1,704 as at 31 December 2012. The decrease arose primarily due to the use of tax losses brought forward and differences in the accounting treatment of fixed assets and research and development in the IFRS financial statements in comparison to their tax base values.

#### 3.4.2 Current Assets

Inventories comprise raw materials and consumables, work-in progress, finished goods, outsourced products and Grohe merchandise products. It decreased from kEUR 83,465 as at 31 December 2011 by kEUR 2,494, or 3.0%, to kEUR 80,971 as at 31 December 2012. The decrease was mainly caused by a decrease in Grohe merchandise products and inventory of finished goods.

Following the execution of the agreement on the management of operations between Grohe Shanghai and Grohe Xiamen Management, Joyou performed a review of its sales strategy in respect of the Grohe merchandise products between the end of December 2012 and early March 2013. Considering certain changes within both Joyou's and Grohe's organizations in China, Joyou revised its sales plans for 2013 and onwards. Joyou also reviewed the accounting estimate with respect to the provisions for obsolescence applied to those inventories. A valuation allowance for obsolescence of kEUR 2,859 was provided for such Grohe merchandise products held at 31 December 2012, representing a reduction of kEUR 1,447 compared to the valuation allowance for obsolescence applied to those Grohe merchandise products reported in the condensed interim consolidated financial statements as of 30 September 2012.

Trade receivables increased from kEUR 78,304 as at 31 December 2011 by kEUR 349, or 0.45%, to kEUR 78,653 as at 31 December 2012. Trade receivable turnover days [365 days x (average trade receivables/revenues)] remained constant at 87 days.

Other receivables and prepayments comprise mainly receivables from non-related companies, advances to suppliers and prepaid expenses. The increase from kEUR 28,407 as at 31 December 2011 by kEUR 703, or 2.5%, to kEUR 29,110 as at 31 December 2012 was mainly due to an increase in advances to suppliers.

Amounts due from Grohe Group increased from kEUR 601 as at 31 December 2011 by kEUR 2,771, or 461.1%, to kEUR 3,372 as at 31 December 2012, which was mainly due to an increase in sales to Grohe Group companies.

Amounts due from related parties other than Grohe Group decreased from kEUR 92 by kEUR 1, or 1.1%, to kEUR 91 as at 31 December 2012 due to currency translation adjustment.

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 304,350 as at 31 December 2011 to kEUR 341,547 as at 31 December 2012, this was mainly attributable to an increase in retained earnings and statutory reserves. The equity ratio increased from 74.9% in 2011 to 75.7% in the financial year 2012.

#### 3.4.4 Non-Current Liabilities

Long-term bank loan amounting to kEUR 3,677 as at 31 December 2011 increased by kEUR 24,788, or 674.1%, to kEUR 28,465 as at 31 December 2012 refers to a secured bank loan, which was borrowed in 2012. The amount due within one year of the long-term bank loan is under "Long term liabilities due within one year" of current liabilities amounting to kEUR 7,116 (2011: nil).

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 increased from kEUR 529 by kEUR 105 or 19.9% to kEUR 634. 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 secured bank loans. They decreased from kEUR 32,790 as at 31 December 2011 by kEUR 8,761 or 26.7% to kEUR 24,029 as at 31 December 2012. 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 decreased from kEUR 44,535 as at 31 December 2011 by kEUR 6,630 or 14.9% to kEUR 37,905 as at 31 December 2012. Trade payables increased from kEUR 4,388 by kEUR 2,632 or 60.0% to kEUR 7,020 as at 31 December 2012 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 decreased from kEUR 40,147 as at 31 December 2011 by kEUR 9,262 or 23.1% to kEUR 30,885 as at 31 December 2012. Joyou has used notes payable as a supplemental financing to finance operations. 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 property tax). The decrease from kEUR 12,456 as at 31 December 2011 by kEUR 2,152, or 17.3%, to kEUR 10,304 as at 31 December 2012

results primarily from the decrease of payables associated with accrued expenses and advance from customers.

Amounts due to Grohe Group decreased from kEUR 5,491 as at 31 December 2011 by kEUR 4,254 or 77.5%, to kEUR 1,237 as at 31 December 2012, which was mainly due to an decrease in purchase from Grohe Group companies.

### 3.5 Segment Reporting

The following table presents Joyou's revenues broken down by product categories for each of the years ended 31 December 2011 and 2012. The table also presents each item as a percentage of total revenues. Segment reporting is classified into nine categories: *CORE BUSINESS*: Bathroom Faucets, Kitchen Products, Shower Products, Ceramics and Bathtubs, Bathroom Cabinets, Bathroom Accessories, *COMMODITY BUSINESS*: Other Faucets and Sanitary Hardware, Copper and Semi-finished Products and *GROHE*: Grohe Products.

kEUR	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary Hardware	Copper and Semi- Finished Products	Grohe Products	Total
<b>2012</b>										
Revenue	132,458	38,313	59,064	37,355	15,219	11,299	23,795	6,142	5,969	329,614
Cost of sales	90,939	26,486	41,752	27,625	10,695	7,257	19,855	5,281	5,986	235,876
Gross Profit	41,519	11,827	17,312	9,730	4,524	4,042	3,940	861	-17	93,738
GP margin (in %)	31.3	30.9	29.3	26.0	29.7	35.8	16.6	14.0	-0.3	28.4
<b>Segment assets</b>	<b>141,550</b>	<b>40,943</b>	<b>63,118</b>	<b>131,395</b>	<b>16,264</b>	<b>12,075</b>	<b>25,428</b>	<b>6,564</b>	<b>13,919</b>	<b>451,256</b>
<b>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
GP margin (in %)	29.2	28.8	27.2	35.3	29.3	36.4	9.6	22.0	-7.1	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>



## CORE 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 116,160 in 2011 by kEUR 16,298, or 14.0%, to kEUR 132,458 in 2012. Measured in RMB, revenues from the sale of Bathroom Faucets increased by 2.9% during this period. The increase came from ASP increases in most subcategories, together with the increases of sales volume.

The percentage of revenues from Bathroom Faucets to total revenues decreased from 40.5% in 2011 to 40.2% in 2012. 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 increased from kEUR 33,364 in 2011 by kEUR 4,949, or 14.8%, to kEUR 38,313 in 2012. Measured in RMB, revenues from the sale of Kitchen Products increased by 3.7% during this period.

There was an increase in ASP across all sub-sectors, however this was offset by major subsectors' corresponding declining volumes.

The percentage of revenues from Kitchen Products to total revenues was the same at 11.6% in both years.

### 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 52,327 in 2011 by kEUR 6,737, or 12.9%, to kEUR 59,064 in 2012. Measured in RMB, revenues from the sale of Shower Products increased by 1.9% during this period.

Across the sub-categories in Shower Products there was an increase in ASPs in showerheads and shower enclosures with an ASP decline in faucets, and a significant volume increase in faucets and showerheads, with a volume decline in shower enclosures.

The percentage of revenues from Shower Products to total revenues decreased from 18.2% in 2011 to 17.9% in 2012.

### 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 25,087 in 2011 by kEUR 12,268, or 48.9%, to kEUR 37,355 in 2012.

Measured in RMB, revenues from the sale of Ceramics and Bathtubs increased by 34.6% during this period.

The increase in sales mainly came from significant increases in volume and ASP growth, although there was an ASP decrease across the toilets sub-category, but it was offset with strong increase in volume of these items thereby making a significant contribution to segment growth.

The percentage of revenues from Ceramics and Bathtubs to total revenues increased from 8.7% in 2011 to 11.3% in 2012.

### 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 13,455 in 2011 by kEUR 1,764, or 13.1%, to kEUR 15,219 in 2012. Measured in RMB, revenues from the sale of Bathroom Cabinets increased by 2.1% during this period.

There was a significant increase in ASP within the category, and with flat volume.

The percentage of revenues from Bathroom Cabinets to total revenues decreased from 4.7% in 2011 to 4.6% in 2012.

#### Bathroom Accessories

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

Revenues from the sale of Bathroom Accessories increased from kEUR 9,903 in 2011 by kEUR 1,396, or 14.1%, to kEUR 11,299 in 2012. Measured in RMB, revenues from the sale of Bathroom Accessories increased by 3.1% during this period.

There was a significant increase in volumes, which was slightly offset by a decline in ASP. The increase in volume is mainly due to an increased marketing promotion acceptance in the channel.

The percentage of revenues from Bathroom Accessories to total revenues remained virtually unchanged at 3.4% in both years.

#### COMMODITY BUSINESS

##### 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 increased from kEUR 20,807 in 2011 by kEUR 2,988, or 14.4%, to kEUR 23,795 in 2012. Measured in RMB, revenues from the sale of Other Faucets and Sanitary Hardware increased by 3.2% during this period.

The percentage of revenues from Other Faucets and Sanitary Hardware to total revenues remained virtually unchanged as 7.2% in both years.

##### 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 decreased from kEUR 9,821 in 2011 by kEUR 3,679, or 37.5%, to kEUR 6,142 in 2012. Measured in RMB, revenues from the sale of Copper and Semi-finished Components decreases by 42.0% during this period due to the exchange rate fluctuation.

The percentage of revenues from Copper and Semi-finished Components to total revenues decreased from 3.4% in 2011 to 1.9% in 2012.

#### GROHE PRODUCTS

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

Revenues from the sale of Grohe Products decreased from kEUR 6,162 in 2011 by kEUR 193, or 3.1%, to kEUR 5,969 in 2012. Measured in RMB, revenues from the sale of Grohe Products decreased by 12.4% during this period due to marketing challenges with the Asian product lines.

The percentage of revenues from Grohe Products to total revenues decreased from 2.1% in 2011 to 1.8% in 2012.

The cost of sales of the Grohe Products were affected by inventory impairment leading to a negative gross profit.

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

The following discussion compares the development in the business year 2012 with the figures from the comparative period 2011.

### 3.6.1 Financial Position

kEUR	2012	2011	Variance
<b>Assets</b>			
Tangible Assets	—	1	-1
Investments in affiliated company	174,026	137,585	36,441
Loans due from affiliated companies	5,000	41,441	-36,441
<b>Non-current assets</b>	<b>179,026</b>	<b>179,027</b>	<b>-1</b>
Receivables due from affiliated companies	2,537	2,702	-165
Other receivables	234	51	183
Prepayments	31	53	-22
Cash and cash equivalents	19	132	-113
<b>Current assets</b>	<b>2,821</b>	<b>2,938</b>	<b>-117</b>
<b>Balance sheet total</b>	<b>181,847</b>	<b>181,965</b>	<b>-118</b>
<b>Equity and liabilities</b>			
Capital subscribed	23,967	23,967	—
Additional paid-in capital	157,117	157,146	-29
Retained earnings	—	347	-347
<b>Equity</b>	<b>181,084</b>	<b>181,460</b>	<b>-376</b>
Trade payables	355	47	308
Other provision	366	454	-88
Other payables and accruals	42	4	38
<b>Current liabilities</b>	<b>763</b>	<b>505</b>	<b>258</b>
<b>Balance sheet total</b>	<b>181,847</b>	<b>181,965</b>	<b>-118</b>

The statement of financial position of Joyou AG shows a net equity of kEUR 181,084, which covers non-current assets of kEUR 179,026. The current liabilities amount to kEUR 763 and are compensated by current assets of kEUR 2,821. In the financial year 2012, the company realised a loss of kEUR 376 mainly caused by reduced interest income.

The investment in affiliated companies amounts to kEUR 174,026 (2011: kEUR 137,585) and refers to the investment in the holding company of Joyou Hong Kong. The increase of kEUR 36,441 is based on a loan conversion agreement to convert the loan partly into equity capital of Joyou Hong Kong and therefore into investments in an affiliated company of Joyou AG. Vice versa the loan due from an affiliated company decrease from kEUR 41,441 previous year to kEUR 5,000 as at 31 December 2012 by the same amount.

Receivables due from affiliated companies of kEUR 2,537 mainly relate to interest accrued on the aforementioned loan and Group management fee. Other receivables amount to kEUR 234 (2011: kEUR 51) 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 454 at 31 December 2011 by kEUR 88 to kEUR 366 at 31 December 2012. 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 2012.

### 3.6.2 Income Statement

The following analysis relates mainly to 2012 figures:

kEUR	1 Jan. to 31 Dec. 2012	1 Jan. to 31 Dec. 2011	Variance
Other operating income	432	201	231
Interest income	315	1,994	-1,679
Personnel expenses	-56	-39	-17
Depreciation of fixed assets	—	-1	1
Other operating expenses	-1,067	-1,808	741
Interest expenses	—	—	—
<b>EBIT/EBT/profit/loss</b>	<b>-376</b>	<b>347</b>	<b>-723</b>

Other operating income of kEUR 432 relates mainly to revenues from Group management fees. As a holding company, Joyou AG received interest of kEUR 315 on an 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 2012, expenses for the preparation and review of quarterly reports and annual financial statements, and fees for lawyers and other advisers. The net loss for the financial year 2012 amounts to kEUR 376 (2011: gain kEUR 347). The withdrawal from the additional paid-in capital was netted against the retained earnings, which led to retained earnings of zero as at 31 December 2012.

### 3.6.3 Cash Flow Statement

The cash available at year-end amounts to kEUR 19. Movements in liquid funds can be analysed as follows:

kEUR	2012	2011	Variance
Profit/loss for the period	-376	347	-723
Decrease/increase in provisions and accruals	-88	59	-147
<b>Cash flow</b>	<b>-464</b>	<b>406</b>	<b>-870</b>
Increase/decrease in receivables from and payables to affiliated companies	165	-535	700
Decrease/increase in other assets and prepaid expenses	-161	-45	-116
Decrease/increase in trade payables and other liabilities	347	22	325
<b>Cash flows from operating activities</b>	<b>-113</b>	<b>-152</b>	<b>39</b>
Changes in cash and cash equivalents	-113	-152	39
Cash and cash equivalents at the start of the reporting period	132	284	-152
Cash and cash equivalents at the end of the reporting period	19	132	-113

## 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 the implementation of 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 2012. It usually takes between 70 to 90 days from the initial concept for a new product to commence serial production. Initial small-scale production usually begins about 45 to 60 days after the first proposal of an idea for a new product, and approximately another 30 days are required before the product is ready for the market. Joyou believes this to be quicker than its peer group and regards it as part of its strategic competences.

Joyou's market research 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 2012, the Joyou Group held 316 (2011: 231; 2010: 96; 2009: 69) patents for design, invention and utility model, and 38 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. Joyou group employees 168 direct research and design staff as of the reporting date, up 50, or 42% from 118 at 31 December 2011.



For the reporting period under review, research and development costs came to EUR 6.0 million in total, which was a continued increase in comparison to the previous year (2011: EUR 5.2 million; 2010: EUR 3.3 million; 2009: EUR 1.7 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, approximately 68% of the cost of sales consisted of costs for raw materials. Joyou purchases copper, zinc, 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 facility and other production facilities, the supply chain has been shortened and dependency on suppliers has and will continue to 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 other merchandise products.

#### 4.3 Production

##### 4.3.1 Production

Joyou currently manufactures faucets, valves and other bathroom accessories made of brass, along with ceramic ware, bathroom cabinets and shower enclosures, among other things. Other finished products sold by Joyou such as shower sets and showerheads, are mainly 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 been imported from Europe, such as its low-pressure casting equipment, and 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, showerheads and assembly lines for semi-finished products as well as galvanisation lines. The Meiyu facility is currently used for the production of ceramic products.

The principle investments in property plant and equipment during the financial year were the construction of the building for the plastics facility in Luncang and the second phase of the ceramics facility in Meiyu. The group has also made significant upgrades to the equipment in its existing production facilities improving the efficiency of its manufacturing processes. Based on its own estimates, Joyou believes that the Company is one of the faucet manufacturers in China with the highest production capacity, and is becoming a major player in 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 (Domestic China market)

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 unaffiliated 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 stores 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 one of Joyou's largest retail store. 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 also 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 Joyou factories and usually store the products at their own warehouses. The products are transported to the retail store 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 store 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 2012 annual distributor meeting was held in January 2012 in Quanzhou, for the training of the regional distributors and retailers. Joyou also organises similar local, regional meetings with the same purpose.

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.



*Joyou attends many exhibitions and shows where it builds its brand image.*



#### **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 exhibits at 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 in China (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 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 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 by Joyou directly or from the local regional distributor. Joyou uses its vast national support network to support such developers, across the entirety of the country. Smaller, local projects are usually delivered directly from the acting distributor.

#### **4.4.5 Distribution through Joyou International Trading**

Joyou first signed a branded international distribution agreement with Grohe in March 2010, whereby Grohe would, on its own account, market Joyou branded products around the globe, outside China. 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. It is through this subsidiary that Grohe markets Joyou products internationally. To date this partnership has resulted in not only the sale of Joyou branded products to several markets around the globe, but also supply of OEM products to North America. In this relationship, Joyou usually bills directly to Joyou International as the sales partner. Sales of OEM products though Joyou International are done on a non-exclusive basis.

### **4.5 Employees**

During the year under review, Joyou had an average of 3,379 employees (2011: 3,195 employees). In comparison to the previous year, the number of employees increased by 184 employees, mainly in sales.

The increase in employee numbers is principally attributable to the strengthening of the sales department combined with an increase in the number of research and development employees. This was offset in part by decline in the number of production employee brought about by the improvements in the efficiency of the production processes.

## **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. All board members are generally paid by the Chinese entities with the exception of Mr Gerald MULVIN, who does not receive remuneration from any of the Joyou Group companies. In addition, Joyou is not paying any fees to Grohe for services provided by Mr MULVIN. Remuneration for the members of the Management Board paid by Joyou comprises mainly fixed remunerations and benefits in kind. There are no post-employment or other long-term benefits, including share-based payments in

2012 and 2011 respectively. Finally, there are no termination benefits that have been agreed upon. As at 31 December 2012, and 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) EUR	Jianshe CAI (CEO)	Jilin CAI (COO)	Zufang LI (CFO)	Gerald MULVIN (CDO)	Total
Fixed remuneration	294,618	265,156	88,385	—	648,159
Benefits in kind	27,547	28,873	589	—	57,009
<b>Total</b>	<b>322,165</b>	<b>294,029</b>	<b>88,975</b>	—	<b>705,168</b>

### 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 2012 are provided on an individual basis in the table below.

Name (Position) EUR	Dr. Rainer SIMON (Chairman)	Johnny CHEN	David HAINES	Total
Remuneration	60,000	45,000	10,000	115,000
Meeting fees	17,500	10,000	17,500	45,000
Remuneration of VAT	14,725	—	—	14,725
Expenses reimbursed	22,732	—	—	22,732
<b>Total</b>	<b>114,957</b>	<b>55,000</b>	<b>27,500</b>	<b>197,457</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. Under the Company's articles of association, there are no restrictions regarding voting rights or the transfer of shares going beyond the general provisions of the German Stock Corporation Act (AktG).

The Shareholders Agreement between Messrs. Jianshe CAI, Jilin CAI and Grohe Holding GmbH, dated of 15 June 2011 (the "Shareholders' Agreement 2011") contains the following restrictions regarding voting rights:

- ➔ Resolutions of Joyou AG's shareholders' meeting for which the law requires (be it in a mandatory or dispositive manner) a majority of 75% of the votes cast, may only be taken if Messrs. Jianshe CAI and Jilin CAI and Joyou Grohe Holding AG, mutually agree on such resolution.
- ➔ Upon request of either Mr. Jianshe CAI or Grohe Holding, Joyou Grohe Holding AG must exercise its voting rights in the shareholders' meeting of Joyou AG to resolve upon a minimum dividend of 15% of the balance sheet profits shown in the individual financial statements of Joyou AG, provided that Joyou AG has sufficient liquidity to pay such dividend and the payment is not detrimental to the business of Joyou AG.

The Shareholders Agreement 2011 contains the following restrictions regarding the transfer of shares:

- Joyou Grohe Holding AG may not dispose of any shares in Joyou AG without the consent of Messrs. Jianshe CAI, Jilin CAI and Grohe Holding GmbH.
- If any of Joyou Grohe Holding AG on the one hand and Mr. Jianshe CAI and Mr. Jilin CAI (jointly considered one party for the purposes of this obligation) on the other hand acquire additional shares in Joyou AG, they are obligated to offer 50% of these acquired shares to the other party at the price for which the shares were acquired by the acquiring party.

### 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**

The Company has no employee share participation programme in place and, therefore, no such 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.

There is no authorisation of the Management Board under the Company's Articles of Association to buy back shares.

#### **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**

Joyou Group operates a risk management system which also serves 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 countermeasures taking account of alternative risk scenarios. Joyou will thus endeavour to systematically counter risks and consistently exploit opportunities.

In 2012, 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 has a risk management system under which appropriate structures and processes for (Group) accounting and financial reporting are defined and implemented throughout the organisation. This

system is designed to guarantee timely, uniform and accurate accounting for all business processes and transactions. It ensures compliance with statutory regulations, accounting and financial reporting standards, which is binding upon all the companies included in the consolidated financial statements. The relevance and consequences for the consolidated financial statements of any amendments to laws, accounting or financial reporting standards or other pronouncements are continually analysed.

Apart from defined control mechanisms such as system-based and manual reconciliation processes, the fundamental principles of the internal control system include the 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 German service provider supporting the IFRS-based financial reporting.

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

The consolidated financial statements are prepared by a German external service provider centrally on the basis of the data supplied by the included subsidiaries. The consolidation, certain reconciliation operations to Group policies and monitoring of the related time schedules and procedures are performed by the accounting department of 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, across China 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, a figure that reached 52.6% of the country's total population by the end of 2012. Currently, around 52.6% or 710 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 in 2009 projected that between 2009 and 2025 China's urban population will grow by 325 million people. By 2025, China will have 221 cities with one million-plus inhabitants, compared with 35 cities of this size in Europe today and 23 cities with more than five million. 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.

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 2013. 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 previously 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 stores 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 stores, Joyou depends on the cooperation of its distributors. Such distribution agreements could adversely affect business if such retail stores selling the "Joyou" brand products are managed ineffectively or inappropriately. Joyou does not intend to further substantially increase the total number of its retail store but to focus on increasing sales per existing store in China. Joyou depends on finding new distributors which are of good standing and reputation to operate this network of retail store. There can be no assurance that Joyou will be able to upgrade as many retail store successfully as Joyou intends, or keep the number of opened stores at the current level, or that demand for its products will grow sufficiently to justify the opening or upgrading of these retail store

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, Joyou started selling both Joyou branded products as well as OEM/ODM products through Joyou International and other Grohe Group companies to international customers. This approach allows 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 established between Joyou and Joyou International is based on the arm's length principle, Joyou is 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.

As a result of Joyou selling Joyou branded products outside China, certain risk and opportunities may also take on an international aspect. Accordingly, the risk of potential or alleged infringements of intellectual property rights and product liability claims may increase, although Joyou will do its utmost to avoid such risks by investigating targeted markets prior to any shipment of products. Furthermore, the company may be affected by additional foreign exchange rate risks and its insufficient business insurance.

#### **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 adjustment procedure will be set forth in the contract. Furthermore, Joyou diverts raw material risks by increasing product prices and tries to reduce the risk by increasing productivity and inventory management in order to increase inventory turnover. However, Joyou has not used any hedging arrangements to 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 subsoil contamination in the future. The legal requirements in the PRC relating to environmental protection and health and safety have over time become more stringent and are expected to become stricter in the future. Joyou may be subject to numerous new laws and regulations relating to, among other things, the protection of the environment and natural resources, health and safety, the management of hazardous substances and waste, air emissions, water discharges and the cleaning up of contaminated soils. In particular, these standards may require Joyou to clean up any contamination that was caused by production at its Dayu facility in Nan'an in the past. As a result, Joyou may face substantial costs in the future to remedy any contamination and comply with more stringent laws and regulations relating to environmental protection and health and safety. These could also lead to temporary or

permanent plant closures or may otherwise affect the usability or value of Joyou's plants. In addition, any violations of these laws could result in substantial fines or criminal convictions.

#### **7.5.6 Insufficient Financing Capabilities**

In order to finance our growth strategy, Joyou may have to raise additional capital in the future through debt or equity offerings. Joyou cannot be certain that suitable financing will be available in the required amounts or on acceptable terms. If additional debt is incurred, this would result in debt service obligations which could have a negative impact on profitability and could expose Joyou to general adverse economic and industry conditions. In addition, the terms of any financing agreement could limit the ability to pay dividends or restrict 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 Chinese counterpart. In addition, if the Company or Joyou Hong Kong finances the operating entities of Joyou in China through additional capital contributions to Joyou Sanitation Technology or Joyou Ceramics, the amount of these capital contributions must be approved by, and registered with, the relevant Chinese 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 or Joyou Hong Kong 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.

Today Joyou relies on loans taken from banks located in the PRC and on Joyou Hong Kong obtaining RMB denominated loans. 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 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 opera-



tions 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.

#### **7.5.11 World Economy**

As a consequence of the ongoing uncertainties with respect to the development of the Eurozone, the public debt crisis in many developed countries in Europe and the USA and the resulting implications for China's export-orientated businesses, economic uncertainty is also rising in China. This increased level of uncertainty could continue to affect the buying behaviour of our customers if this uncertainty were to increase significantly.

Following the aforementioned slowdown in the global economy, world market prices for Joyou's main raw materials could exhibit a declining trend, which, if sustained, could improve Joyou's profitability unless competitors in the Chinese market put Joyou under pressure to pass on the cost savings to its customers by lowering average selling prices.

### **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, is required to set aside at least 10% of its after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of its registered capital. Furthermore, foreign-invested entities may be required to set aside a portion of their after-tax profits to fund an employee welfare fund in an amount which lies within the discretion of the subsidiary's board. These reserves are not distributable as cash dividends.

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

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

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.

As a result of Joyou selling Joyou branded products outside China, certain risks and opportunities might get an international aspect too. Accordingly, the risk of potential or alleged infringements of intellectual property rights and product liability claims might increase although Joyou will do its utmost to avoid such risks by investigating targeted markets prior to any shipment of products. Furthermore, the company might be affected by additional foreign exchange rate risks and its insufficient business insurance.

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 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.com](http://www.joyou.com) under Investor Relations > Corporate Governance > Declaration of Compliance.

## **10 Report on Events after the Reporting Period**

There have been no 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 2013, and World Bank economists are now forecasting growth of 2.4% for the global economy in 2013, from 2.3% in 2012. The bank projected that growth in advanced economies should reach 1.3% in 2013 weighed down by spending cuts, high unemployment and weak consumer and business confidence. It states that growth should strengthen to 2% in 2014 and 2.3% in 2015.

#### Economic Development in China

According to the World Bank, weak exports and the government's efforts to cool down the overheating housing sector slowed down China's economy in 2012, but there was recovery in the final months of 2012. It stated that in 2013, China's economy is expected to grow faster than 2012, fuelled by fiscal stimulus or looser monetary policy and the faster implementation of large investment projects.

The Chinese Academy of Sciences forecasts that consumer prices in the world's second-biggest economy will accelerate in 2013. It expects China's annual rate of inflation to reach 3.5% for the full-year 2013, faster than the full-year of 2.6% in 2012. But some analysts say the CPI growth is still moderate, and prices are not yet a top concern. The academy attributes CPI growth mainly to strong domestic consumption due to the brighter economic outlook 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 2013 and beyond.

According to BSRIA's China Bathroom Study 2012 that in the mid-term until 2016, the taps and mixer market segment is expected to reach annual volume growth rates of 5%. The growth rates for the other segments of the ceramics sanitary-ware market are predicted

at around 5%, for shower enclosures between 3% and 4%. At the time of approval by the Management Board, no other reliable source of data was available for a more recent outlook. Joyou, however, believes that the analysis shown above is 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 continuing to shift towards purchasing the whole bathroom suite from one brand, whereas the premium segment retains a single-item preference.

Although the global economic outlook indicates possible 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 will contribute to the growth perspectives in 2013 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 growth to continue in the foreseeable future. In order to benefit from this growth, Joyou intends to:

- Further enhance its distribution network
- Expand its production base
- Benefit from the strategic cooperation with Grohe Group
- Investment into research and design
- Further increase brand awareness and market share
- Expand its business from the project segment
- Improvement of financial structure

#### Enhance Distribution Network Expansion

As a fundamental part of Joyou's business model, the Group will continue to enhance its network in terms of market influence. This enhancement, and refinement will firstly come through the expansion of the 'Experience Centre Model'. As at the reporting date, Joyou had three Experience Centres across China with an average floor space of over 700 square meters. These centres allow the consumer to interact deeper with the Joyou brands, and have proved very successful as an integral layer of the distribution channel. They have also proved instrumental in allowing Joyou to gain inroads into the substantial, yet under represented, projects sector. Joyou's experience centres to date have been opened with the local distribution partners. Further to this, Joyou is currently refurbishing and expanding many key existing retail stores to not only carry more of the expansive product portfolio, but also enhance the customers brand experience.

### Expand Production Base

In 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 start operations at the beginning of 2014. 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. Phase three of the Meiyu ceramics facility has also been started.

At 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 products market. The total investment is expected to be approximately 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 production to Joyou and support the company in setting up the new facility. In 2012, the facility's building was completed, and progress was being made designing process layout and equipment ordering. The facility is expected to become operational in the second half of 2013.

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 2013 which would enable Joyou to close the transaction.

### Strategic Cooperation with Grohe Group

Joyou believes that the partnership with Grohe will not only lead to increasing sales volumes but also continue to create value moving forward in other areas such as component sourcing and technology and skill transfer. Joyou started to sell both Joyou-branded products as well as OEM/ODM products through Joyou International and other Grohe Group companies to international customers in 2012, adding both to Joyou's revenues and enabling additional economies of scale without significant additional investments being made. Since the branded sales launch in 2012 in the UK, the international sales cooperation with Grohe has further resulted two further Joyou branded distributors in the UK, one in Mexico, and also a substan-

tial OEM distributor in the USA. During 2013, Joyou expects to gain further branded and non-branded distributors around the world for its products, as well as increasing the supply of components to Grohe. Further it is expected that Joyou will continue to benefit in terms of production quality improvements through Grohe's process improvement assistance.

Finally, based on the agreement on the management of operations between Grohe Shanghai and Grohe Xiamen Management and considering changes within both Joyou's and Grohe's organizations in China facilitating the promotion and sale of Grohe merchandise products in China, Joyou and Grohe will use their joint best efforts to improve the revenues and profitability of the Grohe Products segment in 2013.

### 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 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 product design and development 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 major, sustainable market segment in China. This will be carried out mainly through both localised marketing campaigns in partnership with Joyou's regional distributors. For 2013, the major focus will be to reinforce the brand pillars of quality and design in the consumer's mind.

### 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% to 50% of the overall sanitary-ware market. 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 2013 and beyond.

### Improvement of financial structure

Given the growth opportunities for Joyou in 2013 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 expand the opportunities of financial instruments currently 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, 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 stretching into the 2013, and expects its growth to continue to outpace that of the market.

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 expand the opportunities of financial instruments currently being used by the group as discussed. These growth investments, however, 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. Today, Joyou strongly believes that dividends shall only be paid out of future profits of its PRC subsidiaries. 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 dividend payments from its subsidiaries, Joyou AG expects a small net loss, with a negative operating cash flow in 2013 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 2013 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.

Hamburg, 20 March 2013

Jianshe CAI      Jilin CAI      Zufang LI      Gerald MULVIN

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# Consolidated Financial Statements

for the reporting period ended 31 December 2012

## Consolidated Statement of Comprehensive Income

kEUR	Notes	2012	2011
Revenue	5.	329,614	287,086
Cost of sales	6.	-235,876	-209,148
<b>Gross profit</b>		<b>93,738</b>	<b>77,938</b>
Other operating income	5.	908	687
Selling and distribution expenses	7.	-23,418	-15,459
Administrative expenses	8.	-19,674	-16,990
Other operating expenses	9.	-705	-891
<b>Operating profit</b>		<b>50,849</b>	<b>45,285</b>
Finance income	24.	1,999	4,691
Finance costs	24.	-3,272	-5,544
<b>Profit before income tax</b>		<b>49,576</b>	<b>44,432</b>
Income tax	25.	-9,781	-5,906
<b>Profit for the period</b>		<b>39,795</b>	<b>38,526</b>
Exchange differences on translating foreign operations		-2,598	22,598
Other comprehensive income for the period		-2,598	22,598
<b>Total comprehensive income for the period</b>		<b>37,197</b>	<b>61,124</b>
<b>Profit attributable to:</b>			
Owners of the parent		39,673	38,526
Non controlling interests		122	-
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		37,039	61,124
Non controlling interests		158	-
<b>Earnings per share</b>		<b>EUR</b>	<b>EUR</b>
Basic		1.66	1.61
Diluted		1.66	1.61



**Consolidated Statement of Financial Position**

kEUR	Notes	31. Dec. 2012	31. Dec. 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	18.	80,971	83,465
Trade receivables	19.	78,653	78,304
Other receivables and prepayments	19.	29,110	28,407
Income tax receivables	25.	813	–
Amounts due from Grohe Group	19.	3,372	601
Amounts due from related parties other than Grohe Group	28.	91	92
Cash and cash equivalents	20.	79,620	68,696
		<b>272,630</b>	<b>259,565</b>
<b>Non-current assets</b>			
Property, plant and equipment	11.	146,433	114,675
Investment property	12.	3,218	2,117
Intangible assets	13.	599	338
Lease prepayments for land-use rights	14.	26,429	27,269
Other non-current assets	15.	243	245
Deferred tax assets	17.	1,704	2,251
		<b>178,626</b>	<b>146,895</b>
<b>Total assets</b>		<b>451,256</b>	<b>406,460</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term loans	16.	24,029	32,790
Long term liabilities due within one year	16.	7,116	–
Trade payables	22.	7,020	4,388
Notes payable	22.	30,885	40,147
Other payables and accruals	22.	10,304	12,456
Amounts due to related parties other than Grohe Group	28.	19	444
Amounts due to Grohe Group	28.	1,237	5,491
Income tax payable	25.	–	2,188
		<b>80,610</b>	<b>97,904</b>
<b>Non-current liabilities</b>			
Long-term bank loans	16.	28,465	3,677
Provisions	22.	634	529
		<b>29,099</b>	<b>4,206</b>
<b>Total liabilities</b>		<b>109,709</b>	<b>102,110</b>
<b>CAPITAL AND RESERVES</b>			
Equity attributable to owners of the parent:			
Share capital	21.	23,967	23,967
Capital reserves	21.	115,710	115,738
Statutory reserves	21.	10,710	9,841
Currency translation reserve	21.	31,090	33,723
Retained earnings	21.	159,650	120,819
Equity attributable to shareholders		341,127	304,088
Non-controlling interests	21.	420	262
<b>Total equity</b>		<b>341,547</b>	<b>304,350</b>
<b>Total liabilities and equity</b>		<b>451,256</b>	<b>406,460</b>

**Consolidated Statement of Changes in Equity**

kEUR	Share capital	Capital reserves	Other reserves	Currency translation reserve	Retained earnings	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
<b>Balance as at 31 December 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 January 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 minorities	–	–	–	–	–	–	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 December 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>
Transfer to reserves	–	–	869	–	-869	–	–	–
Withdrawals from reserves	–	-28	–	–	28	–	–	–
Total comprehensive income*	–	–	–	-2,633	39,672	37,039	158	37,197
<b>Balance as at 31 December 2012</b>	<b>23,967</b>	<b>115,710</b>	<b>10,710</b>	<b>31,090</b>	<b>159,650</b>	<b>341,127</b>	<b>420</b>	<b>341,547</b>

\* The other comprehensive income for the period as disclosed in the consolidated statement of comprehensive income does only include exchange difference on translating foreign operation and is therefore disclosed in column "currency translation reserve".

**Consolidated Statement of Cash Flows**

kEUR	Notes	2012	2011
<b>Operating activities</b>			
Profit before tax		49,576	44,432
Adjustments for non-cash items	27.	8,409	8,546
Net changes in working capital	27.	-17,345	-27,628
Income tax paid		-12,257	-7,796
<b>Cash flow from operating activities</b>		<b>28,383</b>	<b>17,554</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets	13.	-49	-11
Lease prepayments on land-use rights	14.	-	-2,133
Purchase of property, plant and equipment	11.	-40,230	-52,542
Repayment of deposit for galvanization plant		-	4,033
Interest received		1,999	1,450
<b>Cash flow used in investing activities</b>		<b>-38,280</b>	<b>-49,203</b>
<b>Cash flow from financing activities</b>			
Proceeds from non-controlling interests	27.	-	271
Increase/(Decrease) in short term bank borrowings		-8,593	-13,146
Increase/(Decrease) in long term bank borrowings	16.	32,224	-
Interest paid		-2,242	-2,943
<b>Cash flow from financing activities</b>		<b>21,389</b>	<b>-15,818</b>
<b>Net increase in cash and cash equivalents</b>		<b>11,492</b>	<b>-47,467</b>
Cash and cash equivalents at beginning of period	20.	68,696	113,181
Foreign exchange movements		-568	2,982
<b>Cash and cash equivalents at end of period</b>	<b>20.</b>	<b>79,620</b>	<b>68,696</b>

# Notes to the Consolidated Financial Statements

for the reporting period ended 31 December 2012

## General Notes

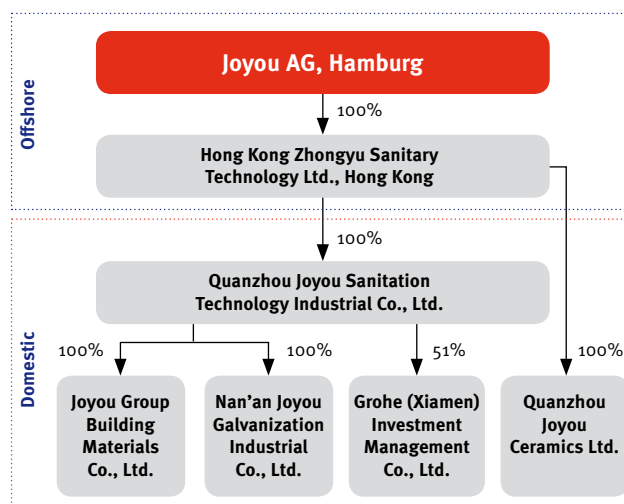
### 1 Nature of Operations and Structure

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 commercial, civil and residential 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. Joyou also sells its products internationally through Joyou International Trading Company Limited, a 100% owned subsidiary of the Grohe Group.

Since July 2011 Joyou’s strategic distribution partner Grohe Group owns a majority of the shares in Joyou AG. The parent company to Joyou AG is Joyou Grohe Holding AG, Düsseldorf/Germany. The ultimate parent company of Grohe Holding GmbH is Glacier Partners, L.P., Cayman Islands, which in turn is controlled by its general partner, Glacier G.P., Inc., Cayman Islands. The shareholders of Glacier G.P., Inc., both of which hold a 50% interest, are TPG Partners IV, L.P., a Delaware limited partnership, and DLJ Merchant Banking Funds, which is part of DLJ Merchant Banking Partners, which is, in turn, part of the Credit Suisse Asset Management Division.

### Joyou AG Structure



Note: Quanzhou Gaoyu Sanitation Technology Limited Company is not shown on the chart above because it is currently non-operating.

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 2012:

Name	Legal seat	Currency	Group equity share %	Equity kEUR	Net income kEUR
Hong Kong Zhongyu Sanitary Technology Ltd.	Hong Kong, PRC	HKD	100	127,390	-103
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Nan’an, PRC	RMB	100	111,132	8,012
Joyou Group Building Materials Co., Ltd.	Nan’an, PRC	RMB	100	142,171	30,322
Nan’an Joyou Galvanization Industrial Co., Ltd.	Nan’an, PRC	RMB	100	2,666	165
Quanzhou Joyou Ceramics Ltd.	Nan’an, PRC	RMB	100	86,154	1,987
Grohe (Xiamen) Investment Management Company Ltd.	Xiamen, PRC	RMB	51	857	252
Quanzhou Gaoyu Sanitation Technology Limited Company*	Nan’an, PRC	RMB	100	12,153	-11

\* founded in 2012

## 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 Westhafentower, Westhafenplatz 1, 60327 Frankfurt am Main to Winterstraße 4-8, 22765 Hamburg. The office in Frankfurt was closed in 2012. 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"), a company with limited liability under the laws of Hong Kong. The address of the registered office is Suite 3104-6, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong, Special Administrative Region of the PRC. The principal activity of the company is the holding of investments.

The Consolidated Financial Statements of Joyou Group for the reporting period 31 December 2012 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 2012 (including comparative information relating to the accounting year 2011) were approved and authorised for issue by the Management Board on 20 March 2013. They were approved by the Supervisory Board in its meeting of 27 March 2013.

## 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.

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 2012.

An overview of standards, amendments and interpretations issued, but not yet effective, is given in Sec. 3.1.4.

#### 3.1.2 Changes in Accounting Policies and Estimates

As a result of changes in sales strategy and the availability of more detailed data on its Grohe inventories, the accounting estimate with respect to the valuation allowance applied to the Grohe goods being part of Joyou's inventories as at 31 December 2012 was revised. A valuation allowance of EUR 2.9 million was deemed to be management's best estimate for the purpose of reporting the net realizable value of these inventories. Accordingly, the respective valuation allowance provided for in the condensed interim consolidated financial statements as of 30 September 2012 amounting to EUR 4.3 million was reduced by EUR 1.4 million.

#### 3.1.3 Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the 2012 financial year

The following standards and interpretations of the IASB as well as their changes or revisions were required to be applied for the first time in the 2012 reporting period:

- IFRS 1 (Amendments) – Severe Hyperinflation and Removal of Fixed Assets for first time Adopters
- IAS 12 (Amendments) – Deferred tax: Recovery of Underlying Assets
- IAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income

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.

#### 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 2012 financial year, and were therefore not applied by the Joyou Group:

- IFRS 9 – Financial Instruments (issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 und IFRS 7 issued 16 December 2011)
- IFRS 1 (Amendments) – Government Loans (issued 13 March 2012)
- Improvements to IFRSs 2009–2011 (issued 17 May 2012)
- Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued 28 June 2012)
- Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued 31 October 2012)
- IFRS 7 (Amendments) – Disclosures – Offsetting Financial Assets and Financial Liabilities
- IAS 32 (Amendments) – Disclosures – Offsetting Financial Assets and Financial Liabilities
- 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 (issued 12 May 2011)
- IAS 28 – Investments in Associates and Joint Ventures (issued 12 May 2011)
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
- IAS 19 (Amendments) – Employee Benefits

The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the Joyou Group from the 2013 financial year or later. Management does not expect the standards to have a material effect 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 2012. 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. The companies of Joyou Group included in the consolidated financial statements as well as information presented on equity and net income of each company, are disclosed in Sec. 1.

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 trans-

lated 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. 2012</b>	<b>RMB</b>	<b>8.2207</b>	<b>8.1461</b>
31. December 2011	RMB	8.1588	9.0140
1. January 2011	RMB	8.8231	

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 sales of basin faucets, bathtub faucets, bidet faucets, and sensor faucets which were manufactured by Joyou, except for limited sales of bathroom faucets, the production of which was outsourced to external manufacturers. The "Kitchen Products" segment includes the sales of kitchen faucets and kitchen basins. The "Shower Products" segment represents the sales of shower faucets, showerheads and shower enclosures. The segment of "Ceramics and Bathtubs" mainly comprises 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, robe hooks, corner shelves and toilet paper holders. "Other Faucets and Sanitary Hardware" mainly comprises of small faucets, drainage covers, angle valves, and crude products. In the segment of "Copper and Semi-Finished Products" unfinished products such as copper tubing and accessories are combined. Finally, the segment "Grohe Products" comprises of sale of Grohe Products including those gained from Asian Product Lines 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 Products" 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 Sec. 5.

#### 3.2.5.1 Sales of Goods

Sales of goods comprise the sale of hardware items for a bathroom or a kitchen. 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 Sec. 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 five to 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 10 to 15 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 2012, 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.

**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 Sec. 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 Sec. 3.2.5 and Sec. 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.

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 Grohe Group, amounts due from related parties other than Grohe Group 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, amounts due to Grohe Group and amounts due to related parties other than Grohe Group.

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" unless interest on qualified assets is capitalised.

### 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 Sec. 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 Sec. 3.2.20.2.

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

Changes in deferred tax assets or liabilities are 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 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.

### **3.2.20 Significant Management Judgment in Applying Accounting Policies**

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

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

#### **3.2.20.1 Allowance for Trade Receivables**

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

Management uses judgment to determine the allowance for doubtful receivables which is supported by historical repayment records of the customers. The Group reviews its allowance for doubtful receivables monthly or more frequently. Accounts balances are 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.

#### **3.2.20.2 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.

#### **3.2.20.3 Sales Rebates, Distributor Incentives and After-sales Service Costs**

Joyou sells a significant portion of its products to independent distributors. To increase the efforts of these distributors the Group offers them rebates, incentives and after-sales service support based on the attainment of agreed upon individual sales targets and other assessment criteria. Once the sales targets and assessment criteria have been reached, generally the rebates, incentives and after-sales service support for the individual distributor is calculated.

#### 3.2.20.4 Impairments on inventories

Joyou makes impairment testing on inventories based on the lower of cost and net realisable value of its inventories. 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.

#### 3.2.21 Estimation Uncertainty

##### 3.2.21.1 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 5 to 20 years, and property, plant and equipment and investment property has been revised to be within 7 to 28 years. In the 3rd quarter of 2011, Joyou AG 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 2012, management assesses that the new useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in Sec.11, 12 and 13. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

##### 3.2.21.2 Inventories

Inventories are measured at the lower of cost and net 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.

##### 3.2.21.3 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 buildings on land-use by the Group by means of land-use rights 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 Sec. 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.

kEUR	Bathroom Faucets	Kitchen Products	Shower Products	Ceramics and Bathtubs	Bathroom Cabinets	Bathroom Accessories	Other Faucets and Sanitary Hardware	Copper and Semi- Finished Products	Grohe Products	Total
<b>Twelve months ended 31 Dec. 2012</b>										
Revenue	132,458	38,313	59,064	37,355	15,219	11,299	23,795	6,142	5,969	329,614
Cost of sales	90,939	26,486	41,752	27,625	10,695	7,257	19,855	5,281	5,986	235,876
Gross Profit	41,519	11,827	17,312	9,730	4,524	4,042	3,940	861	-17	93,738
<b>Segment assets</b>	<b>141,550</b>	<b>40,943</b>	<b>63,118</b>	<b>131,395</b>	<b>16,264</b>	<b>12,075</b>	<b>25,428</b>	<b>6,564</b>	<b>13,919</b>	<b>451,256</b>
<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>

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	2012	2011
Domestic	297,621	244,033
International*	31,993	43,053
<b>Total</b>	<b>329,614</b>	<b>287,086</b>

\* International sales contain direct and indirect exports.

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

During 2012, kEUR 14,511 (2011: kEUR 7,793) or 4% (2011: 3%) of the Groups' revenues depended on a single customer.

Domestic sales relate to customers located in the PRC, which includes sales of merchandise products acquired from Grohe. 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.

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	2012	2011
<b>Gross profit</b>	<b>93,738</b>	<b>77,938</b>
Other operating income	908	687
Selling and distribution expenses	-23,418	-15,459
Administrative expenses	-19,674	-16,990
Other operating expenses	-705	-891
<b>Operating profit</b>	<b>50,849</b>	<b>45,285</b>
Finance income	1,999	4,691
Finance costs	-3,272	-5,544
<b>Profit before income tax</b>	<b>49,576</b>	<b>44,432</b>
Income tax	-9,781	-5,906
<b>Profit for the period</b>	<b>39,795</b>	<b>38,526</b>

## Notes to the Statement of Comprehensive Income

### 5 Revenue and Income

kEUR	2012	2011
<b>Revenue</b>	<b>329,614</b>	<b>287,086</b>
<b>Other operating income</b>		
Rental income	345	312
Management Fee	337	–
Government grant	44	85
Reimbursements	31	122
Samples	–	89
Others	151	79
	<b>908</b>	<b>687</b>
<b>Finance income</b>		
Interest income	1,999	4,691
<b>Total income</b>	<b>332,521</b>	<b>292,464</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 Sec. 4.

The rental income derived from investment property is stated in Sec. 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	2012	2011
Copper	88,503	80,681
Zinc	11,490	4,350
Other metals	17,927	16,594
Other parts	43,807	45,420
<b>Subtotal materials</b>	<b>161,727</b>	<b>147,045</b>
Labor costs	11,696	8,403
Depreciation	3,779	3,214
Outsourced products	35,721	29,898
Overheads/other	22,953	20,588
<b>Total</b>	<b>235,876</b>	<b>209,148</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 on inventories to kEUR 795, mainly on Grohe Products (2011: kEUR 1,889). In 2012 financial year the total impairment on all inventories expensed amount to kEUR 995.

### 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 obligations, travel expenses and labour costs for employees engaged in the sales and marketing department. In 2012, the Group has entered into an additional obligation regarding the after sales service provided by its distributors and distributor incentives relating to retail management.



## 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 staff education charges:

kEUR	2012	2011
Labor costs	4,675	3,782
Research and development and product testing	6,042	5,230
Travel and entertainment costs	1,754	1,386
Office cost	1,938	1,389
Listing costs and consulting fees	1,705	2,231
Depreciation	1,328	926
Other taxes	663	550
Bad debt provision	210	604
Other	1,359	892
<b>Total</b>	<b>19,674</b>	<b>16,990</b>

## 9 Other Operating Expenses

kEUR	2012	2011
Donation	352	232
Expenses on land-use rights awaiting construction	22	374
Expenses on investment property	170	136
Consulting fees reimbursed	–	122
Other	161	27
<b>Total</b>	<b>705</b>	<b>891</b>

In the previous year, reimbursed fees relate to expenses on the purchase price allocation by Grohe Acquisition, which are reimbursed by Grohe Group to Joyou. The corresponding income is reported under other operating income.

## 10 Selected Expenses Affecting Operating Profit

The following operating expenses are included in operating profit:

kEUR	2012	2011
<b>After charging/(crediting)</b>		
Cost of inventories recognised as expense	235,876	209,148
Depreciation of property, plant and equipment	6,105	4,484
Depreciation on investment property	117	106
Staff costs	18,791	12,867
Amortization of intangible assets	28	13
Expensing on land-use rights	642	661
Rental payments expensed	1,033	418
Allowance for doubtful trade debts/ (no longer required)	338	555
Allowance for doubtful non-trade debts/ (no longer required)	-127	49
Research and development charge	6,042	5,230

The expenses on land-use rights and the depreciation charge on property, plant and equipment are principally charged to cost of sales.

## Notes to the Statement of Financial Position

### 11 Property, Plant and Equipment

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

kEUR	Buildings	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>						
Balance as at 1 Jan. 2011	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
Balance as at 31 Dec. 2011	54,000	42,690	2,560	2,764	29,122	131,136
Currency translation adjustment	-622	-396	-23	-21	-280	-1,342
Additions	142	5,807	357	9	33,955	40,270
Reclassifications	23,634	2,432	–	–	-26,066	–
Reclassifications to investment property	–	–	–	–	-1,245	-1,245
<b>Balance as at 31 Dec. 2012</b>	<b>77,154</b>	<b>50,533</b>	<b>2,894</b>	<b>2,752</b>	<b>35,486</b>	<b>168,819</b>
<b>Accumulated depreciation</b>						
Balance as at 1 Jan. 2011	3,656	7,552	303	69	–	11,580
Currency translation adjustment	305	855	59	36	–	1,255
Charge for the year	890	2,974	328	292	–	4,484
Disposal	–	-858	–	–	–	-858
Balance as at 31 Dec. 2011	4,851	10,523	690	397	–	16,461
Currency translation adjustment	-55	-108	-10	-7	–	-180
Charge for the year	2,075	3,114	508	408	–	6,105
<b>Balance as at 31 Dec. 2012</b>	<b>6,871</b>	<b>13,529</b>	<b>1,188</b>	<b>798</b>	<b>–</b>	<b>22,386</b>
<b>Net carrying amount</b>						
as at 1 Jan. 2011	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
as at 31 Dec. 2012	70,283	37,004	1,706	1,954	35,486	146,433

The Group has a contractual commitment at the reporting date for the construction of new plants of kEUR 4,820 (31 December 2011: kEUR 18,860).

Construction in progress includes an amount of kEUR 438 (2011: kEUR 319) in respect of interest capitalised on qualifying assets. For further information regarding capitalised interest please refer to Sec. 24.

## 12 Investment Property

Investment properties comprise a building rented in the surrounding area of Joyou's production site in Nan'an, PRC as well as land levelling on land use rights in Nan'an city held for investment purposes.

kEUR	Building	Ground Work	Total
<b>Cost</b>			
Balance as at 1 Jan. 2011	2,410	-	2,410
Currency translation adjustment	196	-	196
Balance as at 31 Dec. 2011	2,606	-	2,606
Currency translation adjustment	-20	-11	-31
Reclassifications from property plant and equipment	-	1,245	1,245
<b>Balance as at 31 Dec. 2012</b>	<b>2,586</b>	<b>1,234</b>	<b>3,820</b>
<b>Accumulated depreciation</b>			
Balance as at 1 Jan. 2011	344	-	344
Currency translation adjustment	39	-	39
Charge for the year	106	-	106
Balance as at 31 Dec. 2011	489	-	489
Currency translation adjustment	-4	-	-4
Charge for the year	117	-	117
<b>Balance as at 31 Dec. 2012</b>	<b>602</b>	<b>-</b>	<b>602</b>
<b>Net carrying amount</b>			
as at 1 Jan. 2011	2,066	-	2,066
as at 31 Dec. 2011	2,117	-	2,117
as at 31 Dec. 2012	<b>1,984</b>	<b>1,234</b>	<b>3,218</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 2012 amounts to kEUR 345 (2011: kEUR 312) and is included in "other operating income". Direct operating expenses of kEUR 53 (2011: kEUR 17), mainly for depreciation and property-related taxes, were reported in other operating expenses.

The property was leased out under an operating lease agreement until the end of the 2012 financial year. The operating lease agreement was extended until 31 December 2013. Future minimum lease payments, which become due within one year, amount to kEUR 345.

## 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. 2011	110	227	337
Currency translation adjustment	10	18	28
Additions	11	-	11
Balance as at 31 Dec. 2011	131	245	376
Currency translation adjustment	-1	-5	-6
Additions	49	246	295
<b>Balance as at 31 Dec. 2012</b>	<b>179</b>	<b>486</b>	<b>665</b>
<b>Accumulated amortisation</b>			
Balance as at 1 Jan. 2011	22	-	22
Currency translation adjustment	3	-	3
Charge for the year	13	-	13
Balance as at 31 Dec. 2011	38	-	38
Currency translation adjustment	-	-	-
Charge for the year	19	9	28
<b>Balance as at 31 Dec. 2012</b>	<b>57</b>	<b>9</b>	<b>66</b>
<b>Net carrying amount</b>			
as at 1 Jan. 2011	88	227	315
as at 31 Dec. 2011	93	245	338
as at 31 Dec. 2012	<b>122</b>	<b>477</b>	<b>599</b>

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 2012, the land-use rights have remaining lease periods of 30 to 46 years.

	kEUR
<b>Balance as at 1 Jan. 2011</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>
Currency translation adjustment	-198
Additions	-
Expensed for the year	-642
<b>Balance as at 31 Dec. 2012</b>	<b>27,027</b>
<b>Balance as at 31 Dec. 2012</b>	
Thereof current	598
Thereof non-current	26,429
<b>Balance as at 31 Dec. 2011</b>	
Thereof current	598
Thereof non-current	27,269

## 15 Other non-current assets

The Group made a deposit payment on the proposed acquisition of a new galvanisation plant in 2010. As the management expects not to finish the transaction in the coming twelve months, the deposit payment is disclosed as non-current asset. The book value equals the maximum credit risk exposure as at the reporting date.

## 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	2012	2011
Trade receivables	19.	78,653	78,304
Other receivables and prepayments	19.	2,394	2,867
Amounts due from Grohe Group	19.	3,372	601
Amounts due from related parties other than Grohe Group	19.	91	92
Cash and cash equivalents	20.	79,620	68,696
<b>Total</b>		<b>164,130</b>	<b>150,560</b>

#### Financial Liabilities measured at amortised costs

kEUR	Notes	2012	2011
<b>Non-current</b>			
Long-term loan	16.	28,465	3,677
<b>Current</b>			
Short term loan (bank loans)	16.	24,029	32,790
Long term liabilities due within one year	16.	7,116	-
Trade payables	22.	7,020	4,388
Notes payable	22.	30,885	40,147
Other payable and accruals	22.	9,522	10,266
Amounts due to related parties other than Grohe Group	28.	19	444
Amounts due to Grohe Group	28.	1,237	5,491
<b>Total</b>		<b>108,293</b>	<b>97,203</b>

See Sec. 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 Sec. 31.

### 16.2 Short-term Loans

Short-term loans include the following financial liabilities:

kEUR	2012	2011
Secured bank loans	24,028	29,260
Unsecured bank loans	–	3,530
<b>Total</b>	<b>24,028</b>	<b>32,790</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 means of guarantees granted by related parties (see Sec. 28.3.4). Current interest rates are fixed and average 7.56% (2011: 7.22%).

### 16.3 Long-term Loans

Long-term loans originally related to a bank loan of EUR 3.7 million, which was granted in 2010 and was due for repayment in 2013. In the 2nd quarter 2012 Joyou repaid the long-term bank loan before maturity due to prepare a restructuring of the overall financing, which was started immediately after the early repayment by the Group. In the 4th quarter 2012 a new long-term loan at a nominal value of approx. EUR 37 million was granted to the Group by Standard Chartered Bank (Hong Kong) Limited to finance phase two of the ceramics facility and for associated working capital. The loan will be paid off in five equal semi-annual instalments starting from the 12th month after the first drawdown of the loan and expired in three years with an annual interest rate of 7.9%. The long-term loan is measured using the effective interest method and can be analysed as follows:

kEUR	2012
Gross nominal value	36,493
Less: arrangement costs	-912
<b>Net liability</b>	<b>35,581</b>
<b>Balance as at 31 Dec. 2012</b>	
Thereof current	7,116
Thereof non-current	28,465

### 17 Deferred Tax Assets and Liabilities

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

kEUR	1 Jan. 2012	Foreign exchange adjustments	Recognised in equity	Recognised in profit and loss	31 Dec. 2012
Trade and other receivables	1,275	-9	–	-17	1,249
Provisions	179	-2	–	28	205
Inventories	571	-5	–	241	807
Amounts due to related parties	-295	-1	–	296	–
Trade liabilities	-94	–	–	94	–
Land-use right	154	-2	–	4	156
Future benefit from tax losses	316	–	–	-316	–
Bank Loan	–	2	–	-230	-228
Research and development	655	-2	–	-340	313
Property, plant and equipment	-510	7	–	-295	-798
<b>Total</b>	<b>2,251</b>	<b>-12</b>	<b>–</b>	<b>-535</b>	<b>1,704</b>
Recognised as					
Deferred tax asset	2,251				1,704
Deferred tax liability	–				–
<b>Total</b>	<b>2,251</b>				<b>1,704</b>

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	1,276
Provisions	200	9	–	-30	179
Inventories	55	14	–	502	571
Amounts due to related parties	–	-28	–	-267	-295
Trade liabilities	-34	-14	–	-46	-95
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>
Recognised as					
Deferred tax asset	426				2,251
Deferred tax liability	–				–
<b>Total</b>	<b>426</b>				<b>2,251</b>

Beside tax losses carried forward of two of the Group's companies, which were not capitalised due to improbable usage in the future and disclosed in Sec. 25, in 2012 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	2012	2011
Raw materials and consumables	17,992	12,331
Finished goods	32,828	34,903
Merchandise products	13,919	18,585
Work in process	16,232	17,646
<b>Total</b>	<b>80,971</b>	<b>83,465</b>

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

In the twelve months ended 31 December 2012, a total of kEUR 235,876 (31 December 2011: kEUR 209,148) of inventories was included in profit and loss within cost of sales as an expense. Included within inventories is an amount of EUR 4.1 million which the Group does not anticipate to sell within 12 months after the reporting date.

## 19 Trade Receivables, Amounts due from Grohe Group, other Receivables and Prepayments, and Amounts due from Related Parties other than Grohe Group

kEUR	2012	2011
Trade receivables	80,876	80,206
Allowance for trade receivables	-2,223	-1,902
<b>Total</b>	<b>78,653</b>	<b>78,304</b>

### Amounts due from Grohe Group

Amounts due from Grohe Group relate to trade receivables due from companies of Grohe Group as set out in more detail in Sec. 28.2.

### Other Receivables and Prepayments

kEUR	2012	2011
Other receivables	2,394	2,867
Advances to suppliers	27,424	24,661
Lease prepayments on land-use rights	598	598
Value added tax refunds	189	1,646
Prepaid expenses	174	445
Allowance for other receivables and prepayments	-1,669	-1,810
<b>Total</b>	<b>29,110</b>	<b>28,407</b>
<b>Related parties</b>		
Amounts due from related parties other than Grohe Group (non-trade)	91	92

Other receivables and prepayments are recognised at their fair values, which are measured at the expected cash flow. All items within other receivables, which are overdue are fully impaired. Impairments made on other receivables are described in Sec. 31.2.

#### 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, which are evaluated at the expected cash flow on trade receivables. The aging figures are as follows:

kEUR	2012	2011
<b>Thereof not past due</b>		
Within 30 days	26,230	31,903
31–90 days	46,636	36,670
	<b>72,866</b>	<b>68,573</b>
<b>Thereof past due</b>		
91–180 days	6,334	10,162
181–360 days	434	886
1–2 years	678	100
2–3 years	99	329
over 3 years	465	156
	<b>8,010</b>	<b>11,633</b>
<b>Total</b>	<b>80,876</b>	<b>80,206</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 Sec. 28.2.

#### Allowance for doubtful Receivables

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

kEUR	2012	2011
Provision for trade receivables	2,223	1,902
Provision for other receivables	1,669	1,810
<b>Total</b>	<b>3,892</b>	<b>3,712</b>

Trade receivables are adjusted for impairment on the basis of their ages. 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	2012	2011
<b>Provision for trade receivables</b>		
Balance as at 1 Jan.	1,902	1,245
Currency translation adjustment	-17	102
Impairment loss (- = reversed)	338	555
<b>Balance as at 31 Dec.</b>	<b>2,223</b>	<b>1,902</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	2012	2011
<b>Provision for other receivables</b>		
Balance as at 1 Jan.	1,810	1,628
Currency translation adjustment	-14	133
Impairment loss (- = reversed)	-127	49
<b>Balance as at 31 Dec.</b>	<b>1,669</b>	<b>1,810</b>

Provision for doubtful receivables amounted to a net loss of kEUR 211 (period ended 31 December 2011: a net loss of kEUR 604).

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	2012	2011
Cash on hand	20	21
Cash in banks	65,102	55,653
Security deposits for letters of credit	2,277	1,860
Security deposits for short term loans	2,433	-
Security deposits for notes payable	9,788	11,162
<b>Total</b>	<b>79,620</b>	<b>68,696</b>

For the purpose of providing security on the issue of letters of credit and 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 2012 amounts to kEUR 14,498 (31 December 2011: kEUR 13,022). The restrictions on bank deposits are normally removed on settlement of the underlying letters of credit and notes.

Of the Groups cash and cash equivalents an amount of kEUR 76,308 (31 December 2011: kEUR 39,242) are held by companies located in the PRC. Any availability of these funds other than on current business transactions within the domestic market can be restricted or may require the approval by governmental bodies.

## 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	2012	2011
Shares issued and fully paid		
Beginning and end of the year	23,967	23,967
Shares issued and fully paid	23,967	23,967
Shares authorised		
Beginning and end of the year	11,983	11,983
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 2011 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 2012, no capital increases were resolved from this authorised capital. The authorised capital as at 31 December 2012 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. 2011</b>	<b>115,843</b>
Transfer to stock options	67
Reversal of stock options	-172
<b>Balance as at 31 Dec. 2011</b>	<b>115,738</b>
Withdrawals from reserves	-28
<b>Balance as at 31 Dec. 2012</b>	<b>115,710</b>

In 2012 a withdrawal from reserves at kEUR 28 was made against retained earnings to cover the parent company's current year losses.



### 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 2012, the statutory reserve of Joyou AG amounts to Nil (31 December 2011: Nil).

According to the Company 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 10,710 at 31 December 2012 (31 December 2011: kEUR 9,841).

### 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

Retained earnings comprises the cumulative net gains and losses recognised in the Group's Consolidated Statement of Comprehensive Income. In accordance with the dividend policy agreed to between the management board and supervisory board dividend payments will be made from future profits of the Group's PRC subsidiaries.

### 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. Grohe (Xiamen) Investment Management Co., Ltd. was founded on 27 June 2011 by Quanzhou Joyou Sanitation Technology Industry Co., Ltd. together with the before mentioned related parties with a subscribed capital of EUR 0.5 million. As Joyou Group holds 51.00% of the share capital the company has been consolidated as of 27 June 2011. Grohe (Xiamen) Investment Management Co., Ltd., business operations have started in the reporting period. In 2012, Grohe (Xiamen) Investment Management Co., Ltd. showed a net result of kEUR 252 (2011: 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	2012	2011
Trade payables	7,020	4,388

kEUR	2012	2011
Accruals expenses	2,845	5,717
Accrued payroll	1,467	1,340
Other payable	3,154	1,928
Advance from customers	683	1,940
Security deposits	2,056	1,281
Other tax payables	99	250
<b>Total</b>	<b>10,304</b>	<b>12,456</b>

### Amount due to Grohe Group

All items relate to trade payables due to Grohe Group 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	2012	2011
Carrying amount as at 1 Jan.	529	885
Currency translation adjustment	-4	71
Usage of provision	-	-50
Reversal of provision	-	-599
Accumulation of interest	31	19
Additional provisions	78	203
<b>Carrying amount as at 31 Dec.</b>	<b>634</b>	<b>529</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 are 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.

The carrying amounts may be analysed as follows:

kEUR	Warranty	Decommissioning	Total
Carrying amount as at 1 Jan.	195	334	529
Currency translation adjustment	-1	-3	-4
Accumulation of interest	-	31	31
Additional provisions	38	40	78
<b>Carrying amount as at 31 Dec.</b>	<b>232</b>	<b>402</b>	<b>634</b>

## 23 Employee Remuneration

### 23.1 Employee Benefits Expense

Expenses recognised for employee benefits are analysed below:

kEUR	2012	2011
Wages and salaries	18,403	12,568
Social security costs	388	299
<b>Total</b>	<b>18,791</b>	<b>12,867</b>

The employee payroll costs can be allocated as follows:

kEUR	2012	2011
Cost of sales	11,696	8,403
Selling and distribution expenses	2,032	682
Administrative expenses	4,675	3,483
<b>Total</b>	<b>18,403</b>	<b>12,568</b>

The employee social insurance costs are all recorded in administrative expenses which are kEUR 388 for the reporting period (comparative period: kEUR 299).

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

kEUR	2012	2011
Management and administration	400	335
Research and development	168	118
Sales	332	214
Production	2,479	2,528
<b>Total</b>	<b>3,379</b>	<b>3,195</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	2012	2011
Interest income	907	1,450
Exchange gain	1,092	3,241
<b>Total</b>	<b>1,999</b>	<b>4,691</b>

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

kEUR	2012	2011
Interest on bank and other loans	2,470	2,948
Bank charges	210	378
Exchange losses	999	2,518
Interest portion on provision	31	19
<b>Total finance expenses</b>	<b>3,710</b>	<b>5,863</b>
Less: Interest expenses capitalised	-438	-319
<b>Total finance costs</b>	<b>3,272</b>	<b>5,544</b>

The borrowing costs have been capitalised at a rate of 7.67% per annum (2011: 6.63%).

## 25 Taxation

### 25.1 Major Components of Income Tax Expense

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

kEUR	2012	2011
Current income tax	9,246	7,561
Deferred income tax induced by change of tax rates	450	-940
Deferred income tax induced by temporary differences	85	-715
<b>Total</b>	<b>9,781</b>	<b>5,906</b>

### 25.2 Relationship between Tax Expense and Accounting Profit

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

kEUR	2012	2011
<b>Accounting profit before income tax</b>	<b>49,576</b>	<b>44,432</b>
Tax at respective companies' domestic income tax rate	9,019	6,820
Effect of change in tax rates	450	-940
Tax benefits from tax losses of the prior year	-	-114
Taxable losses written down or not capitalised	66	135
Taxes for previous years	514	-
Non-deductible expenses	-268	5
<b>Total income tax</b>	<b>9,781</b>	<b>5,906</b>

As at 31 December 2012, Joyou has not recognised deferred tax assets on tax losses in Hong Kong amounting to kEUR 1,004 and tax losses in Germany amounting to kEUR 354 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 9,911 are deemed to have expired at Joyou AG under Sec. 8c of the German Corporate Tax Act.

Deferred taxes on outside basis differences are recorded in accordance with the expected dividend payments as disclosed in Sec. 21.5. For the year ending 31 December 2012 deferred taxes on outside based differences did not apply.

**Joyou AG**

In Germany, Joyou is subject to corporate income tax at a rate of 15% plus a 5.5% solidarity surcharge (Solidaritatzuschlag) 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 2012, the effective trade tax rate for Hamburg is 16.45% of the trade taxable income (Gewerbeertrag). Dividend income that Joyou AG receives from corporations domiciled outside Germany such as Joyou Hong Kong is generally exempt from corporate income tax. However, 5% of the tax-exempt dividend income is deemed to be a non-deductible business expense for corporate income tax purposes, and as a result is subject to corporate income tax (plus solidarity surcharge). Dividend income of Joyou AG derived from its shares in Joyou Hong Kong will also be subject to trade tax. However, such dividend income of the Company will be exempt from trade tax but for 5%, if specific preconditions are fulfilled (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 2012 (2011: 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.

In the 4th quarter 2012 the Fujian national tax bureau of China renewed a preferential tax treatment as a “High-Tech Enterprise” for three years to Joyou’s main operating subsidiary Joyou Group Building Materials Co. Ltd. As a High-Tech Enterprise, the subsidiary receives a preferential tax rate of 15% for the years 2012 through 2014 inclusive, compared with the normal corporate tax rate of 25%. For all other Joyou Group companies beside Joyou Group Building Materials Co. Ltd. the general income tax rate of 25% is applicable.

**25.3 Income Tax Payable/Receivable**

The movements in taxation payables in the statement of financial position are as follows:

kEUR	2012	2011
Liability as at 1 Jan.	2,188	2,298
Currency translation adjustment	10	125
Enterprise income tax provision for the year	9,246	7,561
Income tax paid	-12,257	-7,796
<b>Liability as at 31 Dec.</b>	<b>-</b>	<b>2,188</b>
<b>Receivable as at 31 Dec.</b>	<b>813</b>	<b>-</b>

The income tax receivable of kEUR 813 arises as a result of overpayment of income tax during the year because Joyou Group Building Material Co. Ltd. was granted the certificate of High-tech Enterprise and entitled to enjoy the preferential income tax rate of 15% instead of a statutory income tax rate of 25%, on which the advance payments were based.

**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 2012 amounted to 23,967,492 shares.

There are no potentially dilutive shares in existence, such that diluted earnings per share need not be disclosed.

## 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, 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, Changes in Working Capital and proceeds from non-controlling interests

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	2012	2011
<b>Adjustments for non-cash items:</b>		
Amortization of intangible assets	28	13
Expenses on land-use rights	642	661
Changes in other provision	69	-454
Allowance for doubtful trade, other receivables	210	604
Impairments on inventories	995	1,743
Other non-cash related items	-31	-104
Depreciation of property, plant and equipment	6,105	4,484
Depreciation of investment property	117	106
Interest income	-1,999	-1,450
Interest cost	2,273	2,943
<b>Total adjustments</b>	<b>8,409</b>	<b>8,546</b>

kEUR	2012	2011
<b>Net changes in working capital</b>		
(Increase)/decrease in:		
Inventories	888	-13,440
Trade receivables	-1,285	-17,201
Other receivables and prepayments	-1,043	-9,301
Amounts due from Grohe Group (trading)	-2,801	-544
Amounts due from related parties other than Grohe Group	-	1,028
Increase/(decrease) in:		
Trade payables and notes payable	-6,352	-211
Other payables and accruals	-2,075	6,692
Amounts due to Grohe Group companies (trading)	-4,252	4,971
Amounts due to related parties other than Grohe Group companies	-425	378
<b>Total changes in working capital</b>	<b>-17,345</b>	<b>-27,628</b>

Beside the before mentioned adjustment and changes in working capital the statement of cash-flows for the financial year 2011 shows "proceeds from non-controlling interests" of kEUR 271, which relate to contributions made by the 49% non controlling interest of Grohe (Xiamen) Investment Management Company Ltd.

## 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

Joyou Group's transactions with related parties other than Grohe Group relate to bank and other guarantees and with related from Grohe Group to purchase and sales of components and finished goods/merchandise as well as the provision of management services.

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. 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. The ultimate

parent company of Grohe Holding GmbH is Glacier Partners, L.P., Cayman Islands, which in turn is controlled by its general partner, Glacier G.P., Inc., Cayman Islands. The shareholders of Glacier G.P., Inc., both of which hold a 50% interest, are TPG Partners IV, L.P., a Delaware limited partnership, and DLJ Merchant Banking Funds, which is part of DLJ Merchant Banking Partners, which is, in turn, part of the Credit Suisse Asset Management Division.

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 2012 and 31 December 2012. 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%)

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. Jilin CAI	Member of the Management Board (Vorstandsvorsitzender), Shareholder directly holding 0.19% of the company's shares
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. Tingfang 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

The shareholders of the 49% non-controlling interest of Grohe (Xiamen) Investment Management Company Ltd. are Mr Jianshe CAI and Mr Jilin CAI with a share interest of 24.5% each. In 2012 financial year Grohe (Xiamen) Investment Management Company Ltd. had nearly no transaction with Joyou Group companies.

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

During the financial year 2012 Joyou purchased inventory from Grohe Group companies in a total amount of kEUR 1,440 and realised sales on deliveries to Grohe companies in a total amount of kEUR 5,950 (including the resale of Grohe Products at an amount of kEUR 2,233).

During the financial year 2012, Grohe (Xiamen) Investment Management Company Ltd. realised services income with Grohe Group companies of kEUR 337 resulting from management of Grohe China operations.

As of 31 December 2012, trade receivables in a total amount of kEUR 3,372 are outstanding. As Grohe companies are related parties and customers of Joyou Group, these trade receivables are stated under the amounts due from Grohe Group, which will be settled in accordance with the related trade terms. For these trade receivables no securities are granted.

As of 31 December 2012, trade payables in a total amount of kEUR 1,237 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 or services 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	2012	2011
Grohe Shanghai Sanitary Products Company Ltd.	1,171	534
Joyou International Trading	1,769	-
Grohe AG	76	5
Grohe Siam Ltd.	228	43
Grohe Canada	9	-
Grohe USA	9	-
Grohe Portugal	110	19
<b>Grohe Group</b>	<b>3,372</b>	<b>601</b>
Mr. Jianshe CAI	91	92
<b>Total</b>	<b>3,463</b>	<b>693</b>
<b>Reconciliation</b>		
Amounts due from Grohe Group	3,372	601
Amounts due from related parties other than Grohe Group	91	92
<b>Total</b>	<b>3,463</b>	<b>693</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 and provision of services.

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

kEUR	2012	2011
Grohe Pacific Pte Ltd.	1,237	3,338
Grohe Shanghai Sanitary Products Company Ltd.	–	2,153
<b>Subtotal Grohe Group</b>	<b>1,237</b>	<b>5,491</b>
Mr. Jianshe CAI	19	26
Fujian Nan'an Pengxin Copper Co., Ltd.	–	257
Ms. Tingfeng CAI	–	161
<b>Total</b>	<b>1,256</b>	<b>5,935</b>
<b>Reconciliation</b>		
Amounts due to Grohe Group	1,237	5,491
Amounts due to related parties other than Grohe Group	19	444
<b>Total</b>	<b>1,256</b>	<b>5,935</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 2012 financial year:

#### 28.3.1 Management Board Members

- Mr Jianshe CAI, businessman, Fujian Province, PRC, Chairman
- Mr Jilin CAI, businessman, Fujian Province, PRC
- Mr Zufang LI, businessman, Fujian Province, PRC
- Mr Gerald MULVIN, businessman, Düsseldorf, Germany

#### 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

### 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. Benefits in kind mainly relate to private car usage. As at 31 December 2012, all members of the Management Board received no variable remuneration or any other form of performance-related bonus. 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 or by Grohe Group. The total compensation of the members of the Management Board amounted to kEUR 650 (2011: kEUR 698) in the 2012 financial year. Beside the before mentioned compensation the management board did not receive any further compensation especially no post-employment benefits, other long-term benefits, termination benefits and share-based payments.

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 kEUR 197 in the 2012 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 Materials' bank loans:

- On 28 July 2010, Mr. Jianshe CAI provided a joint and several guarantee with a ceiling amount of RMB 150,000,000 to secure loans to be taken out by Joyou Building Materials from China Construction Bank Nan'an Sub-branch during the period from 28 July 2010 to 28 July 2012. Under such credit facility, in 2010 Joyou Building Materials took out one loan in the amount of RMB 30,000,000 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. Such loan has been repaid in 2012.
- 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 credit facility, respectively in 2011 Joyou Building Materials took out nine loans 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 a non-affiliated 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 a non-affiliated party with a ceiling amount of RMB 11,000,000. Among these loans, two loans have been repaid in 2011 and the other seven loans have been repaid in 2012.
- 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 to RMB 70,000,000 during the period from 24 January 2011 to 23 January 2012. Under such 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. Such loans have been repaid in 2012.
- 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. Such loan has been repaid in 2012.
- On 12 April 2012, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 200,000,000, Joyou Sanitation Technology provided a joint and several guarantee with a ceiling amount of RMB 150,000,000 and Joyou Building Materials provided a mortgage with a ceiling amount of RMB 8,880,000 to secure loans by Joyou Building Materials during the period from 12 April 2012 to 11 April 2013 under a credit facility agreement concluded between Joyou Building Materials and China CITIC Bank Quanzhou Branch with a credit facility of up to RMB 150,000,000. The loans under this credit facility agreement are additionally secured by two mortgages from a non-affiliated party with a ceiling amount of RMB 11,000,000 and RMB 15,800,000 respectively. Under such credit facility, respectively in 2012 Joyou Building Materials took out four loans in the total amount of RMB 50,000,000.
- On 11 January 2012, 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 to RMB 70,000,000 during the period from 11 January 2012 to 10 January 2013. Under such credit facility, respectively in 2012 Joyou Building Materials took out two loans with a term of one year and in the total amount of RMB 30,000,000.

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

- 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 credit facility, in 2011 Joyou Sanitation Technology took out two loans in the total amount of RMB 30,000,000. Such loans have been repaid in 2012.
- 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 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. Such loan has been repaid in 2012.
- 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.
- On 5 March 2012, Mr. Jianshe CAI, Mr. Jilin CAI, Mr. Jiansheng CAI, Mrs. Liqin WANG, Mrs. Jiaping ZHOU and Mrs. Jinyun HONG provided a joint and several guarantee with a ceiling amount of RMB 250,000,000 to secure five loans taken out by Joyou Sanitation Technology in the total amount of RMB 61,650,000 from Industrial and Commercial Bank of China Nan'an Luncang Sub-branch ("ICBC"), among which one loan in the amount of RMB 10,500,000 is additionally secured by a mortgage from Joyou Sanitation Technology with a ceiling amount of RMB 16,476,200 and two loans in the amount of RMB 22,350,000 are additionally secured by a mortgage from a non-affiliated party with a ceiling amount of RMB 80,000,000.
- On 1 March 2012, 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 43,171,000 and Joyou Building Materials provided a mortgage with a ceiling amount of RMB 13,565,000 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 1 March 2012 to 28 February 2013. Under such credit facility, Joyou Sanitation Technology took out one loan in the amount of RMB 20,000,000 and with a term of 23 March 2012 to 22 March 2013.
- On 12 April 2012, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 200,000,000 and Joyou Building Materials provided a joint and several guarantee with a ceiling amount of RMB 50,000,000 to secure loans by Joyou Sanitation Technology during the period from 12 April 2012 to 11 April 2013 under a credit facility agreement concluded between Joyou Sanitation Technology and China CITIC Bank Quanzhou Branch with a credit facility of up to RMB 50,000,000.
- 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 Bank (China) Company Limited 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 credit facility, in 2012 Joyou Sanitation Technology took out two loans in the total amount of RMB 40,000,000. The said credit facility agreement has been extended on 4 December 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. 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. The said loan has been repaid in 2012. 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. The said loan has been repaid in 2012.

None of the guarantees were provided against consideration.

## 29 Operating lease

Since 2011, the Group has leased offices under operating lease agreements. The future minimum lease payments are as follows:

kEUR	2012	2011
due within one year	1,013	952
due within 1–5 years	2,739	2,164
due after 5 years	1,668	2,145
<b>Total</b>	<b>5,420</b>	<b>5,261</b>

## 30 Commitments and Contingencies

### 30.1 Commitments

As at 31 December 2012, Joyou Group has contractual commitments from the construction of new plants of kEUR 4,820 (2011: kEUR 18,860).

### 30.2 Contingent Liabilities

As at 31 December 2012 Joyou Group has no contingent liabilities to be disclosed.

## 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 Sec. 16. The main types of risks are market risk, credit risk and liquidity risk.

By the end of 2012, the Management Board has defined Group-wide principles and rules of behaviour as well as guidelines for systematic and effective risk management.

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).

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	2012	2011
<b>Short-term exposure USD</b>		
Financial assets	4,045	2,013
Financial liabilities	-1,691	-4,080
<b>Total exposure</b>	<b>2,354</b>	<b>-2,067</b>
<b>Short-term exposure GBP</b>		
Financial assets	104	100
Financial liabilities	-120	-4
<b>Total exposure</b>	<b>-16</b>	<b>96</b>
<b>Short-term exposure AUD</b>		
Financial assets	620	8,801
Financial liabilities	-18	-
<b>Total exposure</b>	<b>602</b>	<b>8,801</b>
<b>Short-term exposure SGD</b>		
Financial assets	-	-
Financial liabilities	-21	-
<b>Total exposure</b>	<b>-21</b>	<b>-</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 +/-1% change of the RMB/foreign currency exchange rate for the year ended 31 December 2012 (31 December 2011: +/-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 1%, respectively, then this would have had the following impact:

kEUR	Profit for the year					Equity				
	USD	AUD	GBP	SGD	Total	USD	AUD	GBP	SGD	Total
as at 31 Dec. 2012	-18	-5	-	-	-23	-18	-5	-	-	-23
as at 31 Dec. 2011	155	-660	-8	-	-513	155	-660	-8	-	-513

If the RMB had weakened against the USD, AUD and GBP by 1% then this would have had the following impact:

kEUR	Profit for the year					Equity				
	USD	AUD	GBP	SGD	Total	USD	AUD	GBP	SGD	Total
as at 31 Dec. 2012	18	5	-	-	23	18	5	-	-	23
as at 31 Dec. 2011	-155	660	8	-	513	-155	660	8	-	513

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 financing. As at 31 December 2012, the Group is exposed to changes in market interest rates through 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%
as at 31 Dec. 2012	-894	894	-894	894
as at 31 Dec. 2011	-547	547	-547	547

### 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	2012	2011
Trade receivables	19.	78,653	78,304
Other receivables and prepayments	19.	2,394	2,867
Amounts due from Grohe Group	19.	3,372	601
Amounts due from related parties other than Grohe Group	19.	91	92
Cash and cash equivalents	20.	79,620	68,696
<b>Total</b>		<b>164,130</b>	150,560

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	2012	2011
Thereof past due, but not impaired		
91–180 days	6,017	9,657
181–360 days	217	443
<b>Total</b>	<b>6,234</b>	<b>10,100</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 Sec. 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 2012, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

kEUR	Current		Non-current		Total
	within 6 months	6–12 months	1–5 years	later than 5 years	
Bank loans	11,852	23,239	31,548	–	66,639
Trade payables	7,020	–	–	–	7,020
Other payables	10,304	–	–	–	10,304
Notes payable	30,885	–	–	–	30,885
Amounts due to Group companies	1,237	–	–	–	1,237
Amounts due to related parties other than Grohe Group	19	–	–	–	19
<b>Total</b>	<b>61,317</b>	<b>23,239</b>	<b>31,548</b>	<b>–</b>	<b>116,104</b>

This compares to the maturity of the Group's financial liabilities as at 31 December 2011 as follows:

kEUR	Current		Non-current		Total
	within 6 months	6–12 months	1–5 years	later than 5 years	
Bank loans	24,241	13,465	127	–	37,833
Trade payables	4,388	–	–	–	4,388
Other payables	12,456	–	–	–	12,456
Notes payable	40,147	–	–	–	40,147
Amounts due to Group companies	5,491	–	–	–	5,491
Amounts due to related parties other than Grohe Group	444	–	–	–	444
<b>Total</b>	<b>87,167</b>	<b>13,465</b>	<b>127</b>	<b>–</b>	<b>100,759</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"). Joyou AG's goal in capital management is 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	2012	2011
Total equity	341,547	304,350
Cash and cash equivalents	-79,620	-68,696
<b>Total</b>	<b>261,927</b>	<b>235,654</b>
Total equity	341,547	304,350
Bank loans	59,610	36,467
Notes payable	30,885	40,148
<b>Total</b>	<b>432,042</b>	<b>380,965</b>
<b>Capital-to-overall financing ratio (in %)</b>	<b>0.61</b>	<b>0.62</b>

### 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 197 on audit services of the financial statements as well as of kEUR 86 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.com/ipo](http://www.joyou.com/ipo) under Investor Relations > Corporate Governance > Declaration of Compliance.

Hamburg, 20 March 2013  
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.

Hamburg, 20 March 2013  
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 2012. 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 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 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 2012 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, 21 March 2013

Warth & Klein Grant Thornton AG  
Wirtschaftsprüfungsgesellschaft

Joachim Riese  
Wirtschaftsprüfer  
(German certified auditor)

Ralf Clemens  
Wirtschaftsprüfer  
(German certified auditor)

# Financial Calendar 2013

May 15	Interim Report January through March
June 25	Annual General Meeting, Frankfurt am Main
August 15	Interim Report January through June
November 15	Interim Report January through September, Analyst Meeting

# Contact information

## **Joyou AG**

Ian M. OADES  
Vice President of Finance and  
Head of Investor Relations  
Winterstraße 4–8  
22765 Hamburg  
Germany

Tel.: +86 595 8618 8887

Fax: +86 595 8618 7886

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

Internet: [www.joyou.com](http://www.joyou.com)

## **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).

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