JOYOU
中宇卫浴

Diversified Growth.
Annual Report 2013









Group Key Data

kEUR	2013	2012
Selected income statement data		
Sales revenues	357,843	329,614
Cost of sales	-258,827	-235,876
Gross profit	**99,016**	**93,738**
Other operating income	1,667	908
Selling and distribution expenses	-25,211	-23,418
Research and development expenses	-6,312	-6,042
Administrative expenses	-15,246	-13,632
Other operating expenses	-719	-705
Operating profit	**53,195**	**50,849**
Finance income	2,302	1,999
Finance costs	-13,720	-3,272
Profit before income tax	**41,777**	**49,576**
Income tax	-17,512	-9,781
Profit for the period	24,265	39,795
Adjusted profit for the period [1]	29,635	39,795
Selected financial position data		
Total assets	528,155	451,256
Total liabilities	167,992	109,709
Total equity	360,163	341,547
Selected cash flow data		
Cash flow from operating activities	36,144	28,383
Cash flow used in investing activities	-37,350	-38,280
Cash flow (used in) from financing activities	51,828	21,389
Cash and cash equivalents at the end of period	128,008	79,620
Other selected financial data		
Gross profit margin [2]	27.7%	28.4%
EBIT [3]	53,195	50,849
EBIT margin [4]	14.9%	15.4%
Adjusted EBITDA [5]	62,431	57,741
Adjusted EBITDA margin [6]	17.4%	17.5%
Adjusted net profit margin [7]	8.3%	12.1%
Number of employees [8]	3,458	3,379
Number of stores	4,129	4,092

1) Adjusted profit for the period considers revocation of preferential income tax treatment (refer to “Note 27.1 Major Components of Income Tax Expense” of the notes to the consolidated financial statements for detailed explanation)
2) Gross profit margin is calculated as gross profit divided by revenues times 100
3) EBIT is calculated as net income less interest income plus interest expense plus tax expenses
4) EBIT margin is EBIT divided by revenues times 100
5) Adjusted EBITDA is calculated as net income less interest income plus interest expense plus tax expenses plus depreciation and amortisation plus expenses from land-use rights in Mainland China
6) Adjusted EBITDA margin is EBITDA divided by revenues times 100
7) Adjusted net profit margin is adjusted net profit divided by revenues times 100
8) Own employees including contract workers and trainees

Company Statement

Joyou is a leading designer, manufacturer and marketer of products for bathroom solutions in China, with a growing international presence. We offer a comprehensive range of high-quality, design-led products.

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

Content

Highlights of the Year 2013

January
- *Joyou Claims Three Great Honours of Labour Union*

February
- *Joyou Launches New Interactive Website*

March
- *New Shareholder Structure Strengthens Global Cooperation with Grohe*
- *Joyou Passes QEO Three-System Certification*

April
- *Joyou Donates to Earthquake Victims in Ya'an*

May
- *Joyou Launches "Crazy Toilet Festival" Promotional Campaign*
- *Joyou Presents New Products at the Shanghai International Kitchen & Bathroom Show*

June
- *Joyou Purchases Galvanisation Company*
- *Joyou Strengthens Internal Audit Training to Accelerate Operation Standardisation*

July
- *Joyou Draws Down on a USD 100 Million Loan Facility from Nomura Bank*
- *Joyou Holds Training-Camp to Enhance Regional Distributor's Market Planning and Development*

August
- *Grand Opening of Chongqing Regional Dealer Strategic Summit in West of China*
- *Joyou Supports Scholarship Fund for Underprivileged Children*

September
- *Indirect Acquisition by LIXIL Corporation and the Development Bank of Japan, Leads to Public Takeover Offer*
- *Joyou Listed among the "Top 500 Asia Brands" for Four Years in a Row*

October
- *Joyou Establishes University Scholarship Program*

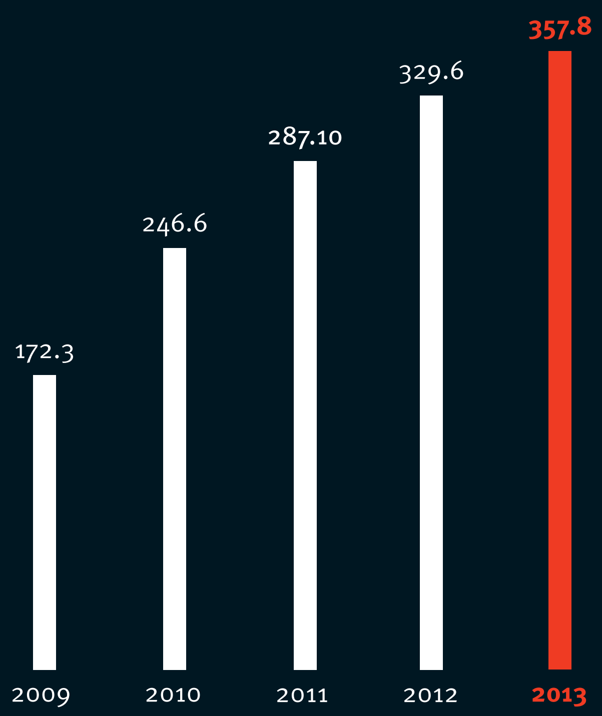
November
- *Joyou Holds Franchise Managers Training Event*

December
- *Joyou Presents at China International Real Estate & Architectural Technology Fair*

Facts

- Sales growth of 8.6 % to EUR 357.8 million
- EBIT increase by 4.6 % to EUR 53.2 million
- International sales increased by 28.7 % to EUR 41.2 million
- 3,458 employees

Sales revenues 2009 – 2013



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
ENJOY WATER®

Grohe Products

cover 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 shareholders and friends of our company,

We can all look back on a very successful year for Joyou.

That assessment is based on two key factors. First, we made good strategic progress in 2013, as we continued to pursue our fascinating mission "to be the leading branded bathroom solution supplier in China, with a significant share of the global market." In line with this mission, we have demonstrated diversified growth, and succeeded in our cooperative business development model, all of which has brought us nearer to our goal.

Second, we were operationally very successful, with continued growth momentum in most of our product subcategories. This was driven mainly by the expansion of international markets, where we believe we are setting new, untrodden ground, and nationally where our growth was driven by our brand and our product offering.

This success was a real achievement, particularly given the continued tightening measures on the China domestic market, and also the weakness of international economic growth.

Our 2013 group sales increased by 8.6 % year-on-year in Euro terms to EUR 357.8 million, and in RMB terms group sales increased by 9.0 %. However, EBIT – or earnings before financial result and taxes – grew at a slower rate of 4.6 %, reaching EUR 53.2 million. This was largely due to the increase in international sales, which is a lower gross margin business segment.

International sales grew by an impressive 28.7 %, which was primarily a result of the collaborative efforts with the Grohe Group in international markets, with sales increases coming from customers gained in 2012 and new ones gained in 2013. Furthermore, these sales are recurring sales and they show an increased momentum. I would like to thank all those in the group for the support and passion that has lead to this success. I can proudly declare that Joyou products are now sold in every continent across the world. Well done, a sounding success.

National sales grew strongly by 6.4 %, which we believe is quality, sustainable growth that was gained from our unrelenting investment into Joyou's brand equity and our product offering. Our localised marketing campaigns are now giving strong returns, as the Joyou brand gains increasing awareness.

The year has also opened up more exciting opportunities for Joyou. The acquisition by the LIXIL Corporation, the largest housing and building materials company in Japan, of our parent, Grohe Group S.à r.l.,will give us more growth opportunities. I would like to express, on behalf of the whole management board, and all employees of Joyou Group, our enthusiasm to be working with, and be part of the LIXIL Corporation.

We see many growth opportunities for Joyou in the domestic and international sanitary-ware market. For 2014, we plan to invest on the expansion and upgrading of our production facilities. And over the next three years we intend to continue investing a significant portion of the available funds into capacity expansion as well as the working capital requirements associated herewith to meet the expected demand.

Looking forward, of crucial importance to us here at Joyou is that we continuously grow sales and profitability. For 2014, Joyou expects continued robust growth of its consolidated revenues amounting to between 5 % and 10 % in RMB terms. We anticipate gross margin to decline due to rapidly increasing international sales, which have associated lower gross margins and this decline will also affect our operating profit margin compared to 2013. As certain financing and tax items affecting our profitability in 2013 are not to recur in 2014, we expect growth of our net profit for the period compared to 2013, and hence growth of our earnings per share. With that in mind I am looking forward to the new financial year with great confidence.

I would also like to thank you, our shareholders, for your ongoing support as we continue to pursue our growth strategy and our mission.

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 (CFO). 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 2013.

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.

No changes occurred in the Supervisory Board or Management Board of the Company in 2013.

Important Matters in 2013

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 2013. 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 2013.

In particular, during the year 2013, the following matters were discussed by the Supervisory Board:

In its meeting of 27 March 2013 in Xiamen, 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. Further Mr. Jianshe CAI, and Mr. Jilin CAI were reappointed as management board members for a period of five years.

In its meeting on 15 May 2013 in Xiamen, 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 Inventory forecast model was discussed along with cash conversion cycles, and net working capital plans.

In telephone conferences on 4 March 2013 and 7 June 2013 the Supervisory Board discussed and approved a USD 100 million syndicated loan facility agreement with Nomura International (Hong Kong) Limited as lead arranger.

In its meeting in Frankfurt on 24 June 2013, the Supervisory Board and Management Board reviewed Joyou's business and financial development up to that date, in particular development of revenues, margins, net working capital, and financing of the Group. The Supervisory Board and Management Board also approved revised Rules of Procedure for the Management Board. New service agreements were approved and executed for Joyou AG's three Chinese Management Board Members Mr. Jianshe CAI, Mr. Jilin CAI and Mr. Zufang LI.

In its meeting on 14 August 2013 in Nan'an, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the second quarter, in particular development of revenues, margins, inventory levels, and net working capital. The preferential tax status of Joyou's PRC subsidiaries as high-tech enterprises, in particular the recent revocation of this status for the subsidiary Joyou Sanitation Technology Industrial Co., Ltd. was presented and discussed with the Management Board.

In a meeting on 12 November 2013 in Xiamen, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the third quarter. The 2014 budget was presented by the Management Board and was approved. Progress in investment projects was reviewed, the further investment in the Luncang plastics facility and the investment in the second phase of the Meiyu ceramics facility were approved.

Committees

The Supervisory Board has not established any committees.

Conflicts of Interest

Mr. David HAINES, Chief Executive Officer of Grohe AG and of Grohe Group S.à r.l., the parent company of Grohe Group and Joyou Group, has been a member of the Supervisory Board of the Company since 1 October 2011. Mr. HAINES' appointment was made against the background of the shareholders' agreement between Grohe Holding GmbH and Messrs. Jianshe CAI and Jilin CAI, and the partnership between Joyou and Grohe established by this. Joyou's shareholding structure was reorganised in March / April 2013 based on a new shareholders agreement between, inter alia, Grohe Group S.à r.l., Grohe Holding GmbH, Joyou Grohe Holding AG, and Messrs. Jianshe CAI and Jilin CAI dated 22 March 2013. The Company and Grohe Group therefore do not consider each other as competitors but rather as partners. However, Grohe Group, 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 bilateral 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. In the financial year 2013, no conflict of interest has arisen which has prevented Mr. HAINES from voting.

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. In the financial year 2013, no conflict of interest has arisen which has prevented Dr. SIMON from voting.

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 26 March 2014. 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 2013.

Dr. Rainer SIMON
Chairman of the Supervisory Board
Hamburg, 26 March 2014

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 Supervisory 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 China. 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.

Mr. David J. HAINES

Member of the Supervisory Board

Mr. 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. Before that, 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.

Since 2012, Mr. HAINES has been a Non-Executive Director of Imperial Tobacco, a FTSE top 20 company, where he serves on the Nominations, Audit and Remuneration Committee. Mr. HAINES was Chairman of the Supervisory Board of Vimpelcom A / O, the NYSE-listed leading Russian mobile phone operator, for three years.

Mr. HAINES joined GROHE in 2004. Under his leadership, the company has become Europe's largest and the world's leading provider of sanitary fittings with a turnover of EUR 1.4 billion in 2012. GROHE today is running its business in more than 130 countries, with a strong exposure to growth markets. Mr. HAINES lead the successful restructuring and transformation of GROHE in the years 2005 – 2008, implementing a business model that focuses on profitable growth and innovation, cash flow, state-of-the-art production and cost management and proved its resilience during the economic crisis in 2009. In 2013, Mr. HAINES successfully managed the sale of GROHE from its previous owners, the two private equity companies TPG and DLJ Merchant Banking Partners, to LIXIL Corporation and Development Bank of Japan. LIXIL is Japan's largest housing and building materials company, posting EUR 11 billion in consolidated sales in fiscal year 2013. The closing of this transaction took place in January 2014.

The Share

The Trend in the German Stock Market

Although the German DAX could not top its previous year's result, with an increase of 25.5 % increase in 2013 it gradually approached the 10,000 point barrier. Much better performer was the MDAX which climbed 39.3 % and the TecDAX which went up 40.9 %. In comparison, in the year 2013 the Dow Jones was up 26.5 %, the S&p500 29.6 % and the Nasdaq Composite 38.3 %. The markets were driven by the supply of massive liquidity by the national central banks which lowered the interest rates to nearly zero percent, and ECB President Draghisignaled readiness to provide every necessary financial measure to support the euro area. Standing out among the euro countries, Germany was a "driving engine". A low unemployment rate, higher real wages, healthy consumer confidence combined with a very competitive export industry laid the foundations for the excellent stock market performance in 2013.

Second-tier stocks in the SDAX also had high growth rates in 2013 and saw substantial increases in value. The index rose by 29.3 % – starting at 5,249 points and closing at 6,788 points at the end of 2013.

Joyou Stock Performance

The Joyou share had a positive performance overall in 2013 – the share enjoyed a near continuous price rise in the first three quarters of the year the year so that the annual performance was a plus of nearly 38.3 %. This outpaced the SDAX and DAX trends.

After the take-over-offer intention-announcement by LIXIL Corporation and the Development Bank of Japan on 26th September the share price surged to its near four year peak of EUR 15.3, thereby gaining 19.7 % on the news, and 64.0 % from the start of the year. After the tender offer price of EUR 12.16 was announced, the share price declined from it's peak to EUR 12.3, and finished the year at EUR 12.8.

Investor Relations

During the financial year 2013, 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 Macquarie Bank, Deutsche Bourse, and the European Securities Network. In the 2013 financial year, the Company maintained a continuous flow of communication, and provided information to investors, analysts and media about important events and news.

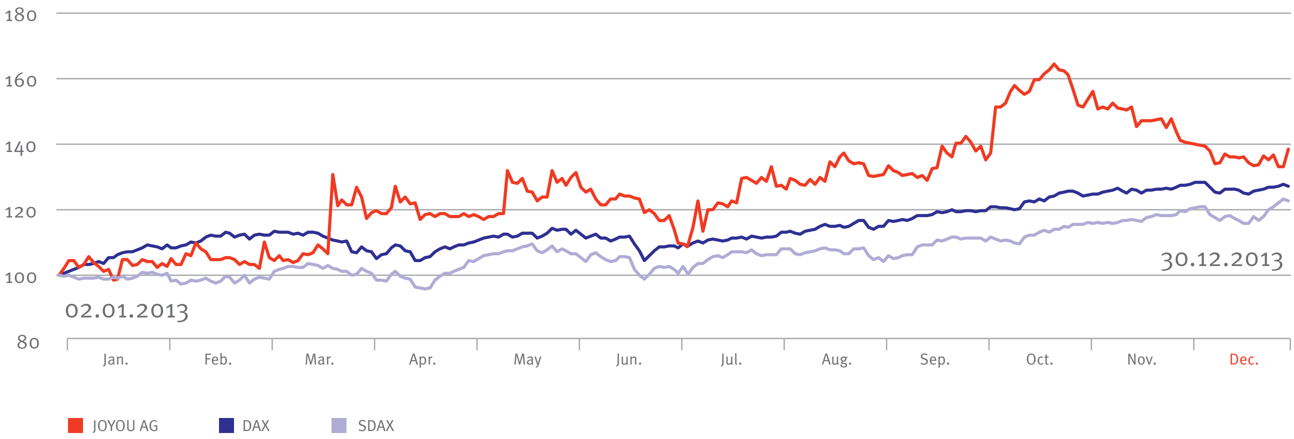
All reports and publications are published on the Company's website at **www.joyou.com.**

Analyst Coverage

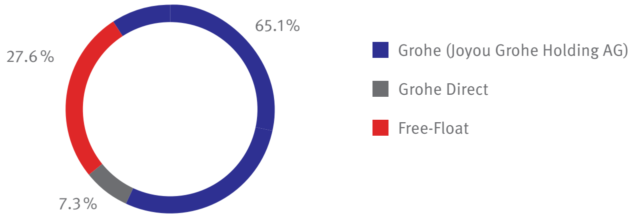
The Joyou stock was evaluated by three institutions in 2013: Macquarie, equinet and DZ Bank.

Shareholder Structure

Joyou AG's main shareholder and group parent company is Grohe Group S.à r.l., which in aggregate directly and indirectly holds 72.3 % of the shares (65.1 % are held directly by Joyou Grohe Holding AG, the 100 % subsidiary of Grohe Group S.à r.l., and 7.2 % of the are held shares directly). Grohe Group S.à r.l. in September 2013 was acquired by GraceB S.à r.l., a holding company jointly owned by LIXIL Corporation, a Japanese building materials conglomerate, and the Development Bank of Japan. The acquisition was completed on 21 January 2014.



Joyou Shareholder Structure 2013



Note: Shareholder structure as of 31 December 2013;
The name "Grohe" refers to Grohe Grohe Group S.à r.l.

Contact

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Frankfurt Stock Exchange

Corporate Governance Report

(including Corporate Governance Statement)

Joyou AG is committed to the principles of good and responsible corporate governance and focused on responsible long-term value creation. The Management Board and Supervisory Board appreciate the trust of Joyou's shareholders, clients and employees, and in their interest cooperate closely, faithfully and constructively. 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. 289 a 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** 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 2013, 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 2013 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 2013:

- 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.

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 2013 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 2013.

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

Mr. David HAINES is also Managing Director of Grohe Group S.à r.l. 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. 289 a 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.**

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 Combined Management Report for Joyou AG and the Group. 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.**

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 rules of procedure for the Management Board were amended in 2013 to reflect more appropriately the current structure of 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. 15 a 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 2013, no transactions were reported to the Company. A detailed account of directors' dealings can be found at **www.joyou.com** › Investor Relations › Corporate Governance › Directors' Dealings.

As at 31 December 2013, no members of Joyou's Management Board or Supervisory Board had any direct shareholdings in Joyou AG.

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. 315 a 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. 37 w, 37 x Para. 3, 37 y 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 2013, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been appointed as auditor by the Annual General Meeting on 25 June 2013. 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 2013, in accordance with the German generally accepted standards for the review of financial statements promulgated by Institut der Wirtschaftsprüfer (IDW). The Supervisory Board has greed 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.

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.**

Combined Management Report

for the reporting period ended 31 December 2013

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Combined Management Report of Joyou AG and the Group

1 Foundations of the Group

1.1 Business Model

Joyou Group (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, as well as Joyou branded international sales. In addition, Joyou sells some products, components for faucets and semi-finished products to trading companies and sanitary-ware companies in China and the Grohe Group. It also sells, through a master distributor agreement, certain Grohe branded products within China.

1.2 Strategy

Joyou's corporate strategy is to become the leading branded bathroom solution supplier in China, with a significant share of the global market. This will be accomplished by a number of strategic initiatives, namely: further enhance its distribution network, expand production base; deepening strategic cooperation with Grohe Group in respect to international sales and inter-group gales, investing in brand and market share development, expansion of the project business, and investment into research and design.

1.3 Organisational and Management Structure of 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 a 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 seven legal entities located in or around Nan'an City, 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")
- Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. ("Yongsheng Galvanisation")

and the currently non-operating companies:

- Grohe (Xiamen) Investment Management Co., Ltd. ("Grohe Xiamen Management")
- Quanzhou Gaoyu Sanitation Technology Limited Company ("Gaoyu Sanitation")

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 and Yongsheng Galvanisation 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, Yongsheng Galvanisation and Grohe Xiamen Management.

Joyou AG and therefore the Joyou Group are led by the Management Board of Joyou AG consisting of four members. In 2013, the 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). Joyou's management structure is ordered in a classical matrix structure with the production departments (brassware, ceramics, plastics, shower enclosures, bathroom cabinets, galvanisation) being in grid with sales and administration (human resources, finance, information, design, national sales, international sales, production, supply, quality control, logistics). The various department heads report in line with their function to the respective members of the Management Board. This organisational structure allows for an efficient flow of information and facilitates the decision-making process within the organisation enabling fast responses to the day-to-day developments.

1.4 Significant changes within the Group

On 2 April 2013, the 100 % subsidiary of Joyou Building Materials, Quanzhou Gaoyu Chuwei Ltd, was renamed Quanzhou Gaoyu Sanitation Technology Co. Ltd and is intended to be utilised for operating the Luncang plastics facility.

On 7 June 2013 Joyou completed the acquisition of Quanzhou Yongsheng Galvanisation Industrial Limited Company thereby becoming a 100 % subsidiary of Joyou Building Materials.

On 1 October 2013, a department was established within Joyou Building Materials to manage Grohe's China operations. As part of this reorganisation, the management contract between Grohe (Shanghai) Sanitary Products Co. Ltd. and Joyou Group was reassigned to Joyou Building Materials from Grohe Xiamen Management. Although the terms of this reassigned contract remain much the same, Joyou AG will now gain 100 % of the economic benefit from the arrangement since the contract is now signed with a 100 % subsidiary.

2 Economic Report

2.1 Economic Development

2.1.1 Overall Economic Development

China's gross domestic product (GDP) grew by 7.7 % in the year 2013 which was slightly above the Chinese government's full-year target of 7.5 %.

This was a decelerated growth rate from 2012's 7.8 %, 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. The Chinese National Bureau of Statistics (NBS) stated that China's economic performance had stabilised in 2013 in reference to the 2013 figure, on a quarterly basis, China's GDP grew by 7.7 % in the fourth quarter, down from 7.8 % in the third quarter of 2013, up from 7.5 % in the second quarter, and equal to the 7.7 % during the first quarter, according to the NBS. According to the NBS data, GDP totalled RMB 56.9 trillion (USD 9.3 trillion) for the whole year of 2013.

For the whole of 2013, China's consumer price index (CPI inflation) averaged 2.6 % year-on-year, unchanged from 2012, and well below the government's target of 3.5 % which was published in March of 2013, according to the NBS.

In 2013, the investment in fixed assets (excluding rural households) reached RMB 43,652.8 billion, up by 19.6 % year-on-year in nominal terms (the real growth rate was 19.2 %, after deducting price factors), the growth rate dropped 0.3 percentage points over that in the first eleven months of 2013, and dropped 1.1 percentage points over that in 2012.

According to the NBS, China's retail sales grew 13.1 % year-on-year to RMB 23.44 trillion (USD 3.84 trillion) in 2013 down from the 2012 increase of 14.3 % or RMB 20.7 trillion (USD 3.3 trillion), 2.8 percentage points less than that in 2011.

2.1.2 Development of the Chinese Sanitary-Ware Industry

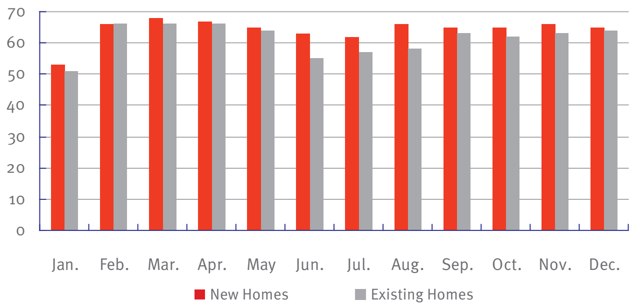
2.1.2.1 Market Development

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, and changes in consumer spending. 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.

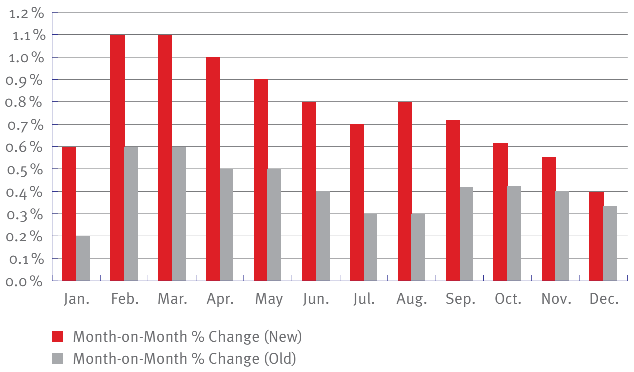
Housing prices, consumer prices rise and especially water prices have come in the focus of people's daily life. As the most populous country, China is also one of the most water-scarce countries, owning only 6 % of the global water resources. Furthermore, China's water resource per capita equals only 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 water resources in China. Consequently in 2013 the Chinese National Development and Reform Commission and the Chinese Ministry of Housing and Urban-Rural Development released guidelines for charging residents in all cities tiered prices for water use by 2015. According to the guidelines the first-tier price will cover 80 % of urban residents; a further 15 % will pay the second-tier price, while the 5 % of urban residents that use the most water will be charged the third-tier price, which is three times the first-tier price.

An emerging, new market segment in addition to the commercial, residential and civil segments, the so-called "social" economically affordable housing segment, or "affordable housing" increased by more than the private buildings market for the first time in over a decade. The country started the construction of 24.9 million affordable housing units from 2011 to 2013, accounting for nearly 70 % of the construction target of 36 million affordable units during the 2011 – 2015 period, according to the Chinese Ministry of Housing and Urban-Rural Development. From 2011 to 2013, China finished constructing 15.8 million affordable units, which included the renovation of run-down neighbourhoods for 6.7 million households. The country plans to start construction of more than 6 million affordable housing units and complete the construction of 4.8 million units in 2014, according to the minister of housing and urban-rural development.

The following graph depicts, the number of cities where the sales price of New Homes (excluding affordable state housing), and Existing Homes, increased in the statistical pool of 70 major cities in China in 2013:



The following graph shows the month on month change (%) of sales prices of New Homes (excluding affordable state housing), and Existing Homes, in the statistical pool of 70 major cities in China in 2013:



In 2013 the government brought out further measures to control the property market. The measures include capital gain taxes of 20 % to be levied on home owners, an increasing down payment rate to 70 % from 60 % for second home buyers and higher loan interest rates for buyers who purchase the second unit. It is important to note that second purchases is defined as families who have previously ever purchased a house, irrespective of whether they currently own their first property.

However according to the NBS's data showed a warming property market starting in late 2012 and extending throughout 2013 despite the tighter government controls. This has occurred despite repeated assurance by the central government that China will stick to control measures on the property sector until prices have reached "reasonable" levels.

Joyou believes that the market 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 will ultimately be 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 and the increases in consumer spending.

Market Trends

Several trends have become more prevalent in the market landscape in 2013. These include:

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

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

Brand power – The ability to establish a strong brand in China and abroad 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. The Chinese sanitary-ware market is still quite fragmented as no market player has a market share of more than 15 % with many players having a market share of 4 % to 5 %. Consequently, Joyou expects the consolidation process to continue as weaker competitors in China are driven out of the market or acquired.

Sales to housing and non-housing industry – Sales volume on housing and non-housing sectors continued to grow, due to the greater number of finished housings and continuous growth of affordable housing construction, as well as the growth of construction and refurbishment of luxury hotels, economy hotel chains, spas, health clubs, gyms and sauna centres, and the continued boom of the tourism, leisure and fitness industries.

Faucets

According to BRG Building Solutions (BRG) "The World Bathroom Product Markets (2013 Update) China", the Chinese faucets market continued to grow in 2012 (no more up-to-date information was available at the time of publication) at around 5 % based on volume, however at a slightly lower growth rate than in the previous year of 8.1 %, mainly driven by the higher proportion of newly completed houses and apartments. Newly constructed properties represent around 70 % of the market according to the same report. There was an increase in project activity centred around tourism, namely construction of resorts, hotels and cheaper hotel chains in recent years. Sales of faucets were also assisted by the growth in the amount of construction of affordable housing in 2012.

Ceramic Sanitary ware

According to the "China Bathroom Study 2013" published by BSRIA Ltd., a UK-based consultancy, the total market size for Chinese ceramic sanitary-ware reached RMB 12.3 billion in 2012, which was an increase by 5.8 % compared to 2011. The Chinese sanitary ware market grew more steadily compared to taps and mixers market. Exports decreased by 10 % compared to 2011.

In the local China market, the sales of one piece WCs were better than those of two piece WCs. Two piece WCs are becoming obsolete. The sales of small ceramic urinals, automatic ceramics flushing urinals and sensor squatting WCs increased quickly in 2012, reflecting the growth of sales in the commercial sector. Ceramic bidet sales were still small due to the competition from washlets and intelligent WCs. The markets of other products such as ceramic sinks, ceramic mop basins, etc., remained small in 2012. Bathroom solution sales tended to grow further in 2012 due to the increased interest in interior design for bathrooms, and customer's preference for suite solutions increased.

As in previous years, the majority of sales of ceramic sanitary ware were through distributors or wholesalers to both the project and retail markets in China. Internet sales are also becoming increasingly popular in China even for these bulkier, more fragile items.

Shower-Enclosures, Bathroom Cabinets

According to BSRIA, the demand for shower enclosures and bathroom cabinets continued to grow at a pace of 20 % – 30 % ever since 2012 the first time BSRIA put the two product categories into China bathroom study. Joyou's Management believes that this figure is too high. Compared with 2011, shower enclosure market size grew by 19.4 % while bathroom cabinet stayed rather stable with a growth of only 3 %. Bathtub market kept dropping and mid to low-end bathtubs are gradually being replaced by shower cabinets. Bathtubs are moving towards high end trend, they are becoming more consumer friendly, with better designed appearance, electric controlled massage type. Nevertheless, the competition is fiercer than ever.

Many small local manufacturers went bankrupt due to lack of good management and brand awareness. The market is very fragmented. Key players do not take bulk of the market share, but only about 10 % while 90 % is covered by unnamed local manufacturers.

BRG states that the volume of synthetic bathtubs grew by 9.1 % in 2012 with the growth coming from the mid-end segment, and a 12.9 % decline in volume overall in caste-iron bath segment. They state that volumes of shower enclosure increased by 7.3 % overall in 2012, but do not disclose figures relating to Bathroom Cabinets. BSRIA however did state that the market for bathroom cabinet stayed rather stable with a growth of only 3 %, which management believes to be a few percentage points too low in regards to the market value growth rate.

2.1.2.2 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 2012*

Group	Brand	Country	Value RMB million	Market share %
Grohe	Joyou	China	1.85	13.31
Jomoo	Jomoo	China	1.40	10.07
Kohler	Kohler	USA	1.20	8.63
Toto	Toto	Japan	0.75	5.40
Fortune Brands	Moen	USA	0.72	5.18
LIXIL Corp.	American Standard	Japan	0.63	4.53
Masco Corp.	Hansgrohe	USA	0.52	3.74
Roca	Roca	Spain	0.50	3.60
Others			6.33	45.54
Total			**13.90**	**100**

* Source BSRIA's "China Bathroom Study" 2013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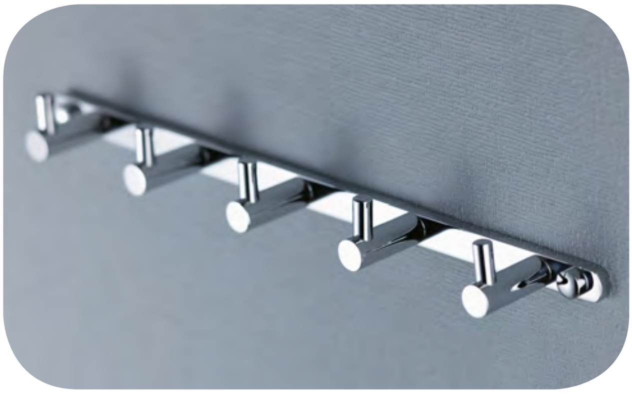

According to the statistic put forward by BSRIA, Joyou's market share in 2012 for taps and mixers (faucets) was 13.3 % which was slightly down from the 2011 figure of 14.4 % in value of the taps and mixers sold, but higher than 11.8 % in 2010 and 11.5 % in 2009. Joyou's market share in 2012 for ceramic sanitary ware was 3.0 %, an increase from the 2011 figure of 2.8 %, an increase from 1.8 % in 2010, and 1.3 % in 2009 and unranked in 2008. For 2013, no data has been published yet. In Shower enclosures, Joyou was third in China in 2012 with 0.7 % of the market. In the bathtub market Joyou was seventh place with 0.6 % market share, third place in bathroom cabinets with 1.3 % market share.

2.1.2.3 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 2013, 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.

2.2 Development of the Joyou Group

In the financial year of 2013 a number of key developments occurred for Joyou:

- Indirect Acquisition by LIXIL Corporation and the Development Bank of Japan, Leads to Public Takeover Offer
- New Shareholder Structure of Joyou AG Strengthens Global Cooperation with Grohe
- Joyou's Preferential Tax Treatment 2010 – 2011 of Subsidiary Revoked Retrospectively
- Joyou Draws Down on a USD 100 Million Loan Facility from Nomura Bank
- Joyou Purchases Galvanisation Company
- Joyou Listed among the "Top 500 Asia Brands" for Four Years in a Row
- Joyou Presents at China International Real Estate & Architectural Technology Fair

2.2.1 Indirect Acquisition by LIXIL Corporation and the Development Bank of Japan, Leads to Public Takeover Offer

On 26 September 2013 the major shareholder of Grohe Group S.à r.l. (“Grohe Group”), Glacier Luxembourg One S.à r.l. (“Glacier”), entered into an agreement with LIXIL Corporation (“LIXIL”) and Development Bank of Japan (“DBJ”) in relation to the sale of the 87.5 % equity interest held by Glacier in Grohe Group to LIXIL and DBJ. LIXIL and DBJ acquired Grohe Group through a jointly owned entity of which each party owns a 50 % voting interest (“GraceB S.à r.l.”). Messrs. Jianshe CAI and Jilin CAI intend for the time being retain to their shareholding of 12.5 % in Grohe Group via their holding company Cai GmbH.

As a consequence of the acquisition of Grohe Group, GraceB S.à r.l. made a voluntary public takeover offer (freiwilliges öffentliches Übernahmeangebot) to all shareholders of Joyou AG for the acquisition of their shares. GraceB S.á r.l. offered to the shareholders of Joyou AG a cash consideration of EUR 12.16 per share, which corresponded to the statutory minimum price pursuant to section 31 para. 1 of the German Securities Acquisition and Takeover Act (WpÜG). On 18 November 2013 the Management Board and Supervisory Board of Joyou AG published their joint statement pursuant to Sec. 27 para.1 of the German Securities Acquisition and Takeover Act on the public takeover offer in which they concluded that they consider the offer price of EUR 12.16 per Joyou AG share not to be adequate and, thus, recommend the Joyou shareholders not to accept the takeover offer.

Due to the low offer price offered in the takeover offer, only 5,985 Joyou AG shares (0.02 % of Joyou’s share capital) were tendered. Following completion of the takeover offer, GraceB indirectly held 72.3 % of the shares in Joyou AG, Grohe Group as well as Joyou Group became part of the LIXIL Corporation on 21 January 2014.

2.2.2 New Shareholder Structure of Joyou AG Strengthens Global Cooperation with Grohe

On 22 March 2013 the then major shareholders of Joyou AG, Mr. Jianshe CAI and Mr. Jilin CAI, Grohe Group and the major shareholders of the Grohe Group, agreed on a new shareholder structure of the company. Messrs. CAI traded their direct holdings of approximately 7.9 % in Joyou AG as well as their indirect holdings of approximately 28.6 % via Joyou Grohe Holding AG for an important stake in the Grohe Group. As a result the Grohe Group increased its total Joyou AG shareholdings to approximately 72.3 % and Grohe Group S.à r.l., Luxembourg, became the next most senior parent to Joyou AG that produces consolidated financial statements available for public use.

The ultimate parent company of Grohe Group S.à r.l. was Glacier Partners L.P., Cayman Islands, which was, in turn, controlled by 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 was part of DLJ Merchant Banking Partners, which was, in turn, part of the Credit Suisse Asset Management Division. The free float of 27.7 % was not influenced by the transaction and the Management Board expects that Joyou’s status as a listed company will remain unaffected. Since the cooperation with the Grohe Group began, areas of success include international roll-out of the JOYOU brand which is supported by recently agreed contracts with large customers in the United States, United Kingdom and Mexico. Further there has been a focus on operational and production efficiency improvements within the Chinese production plants of the Group, as well as inter-group component sales. To date, internationally, the cooperative relationship has resulted in sales to North and South America, Asia, Europe and the Middle East.

2.2.3 Joyou’s Preferential Tax Treatment 2010 – 2011 of Subsidiary Revoked Retrospectively

On 6 July 2013 Joyou AG’s indirectly wholly owned PRC subsidiary Quanzhou Joyou Sanitation Technology Industrial Co., Ltd. (“Joyou Sanitation”) was informed by the local tax bureau of Nan’an, Fujian Province, PRC, that its preferential income tax treatment in China as a high-tech enterprise will be revoked with retrospective effect for the years 2010 and 2011 based on an order of authorities of the Fujian Province. The reason for this revocation is that because of its intensive growth from the years 2009 onwards which resulted in a substantial increase in the number of production workers and its broadened product mix, Joyou Sanitation no longer met the applicable requirements for high-tech enterprises. Such requirements had been met during 2006 until 2008 enabling the respective Chinese authorities to grant this high-tech status to Joyou Sanitation. While management interpreted the law to mean that this high-tech status would enable them to benefit from a preferential income tax treatment for the three consecutive years, higher Chinese authorities have now come to a different conclusion and instructed the local tax bureau to act accordingly.

Because of the revocation, Joyou Sanitation’s income for the periods 2010 and 2011 were retrospectively taxed at the standard tax rate of 25 % instead of 15 %. Accordingly, a payment of kEUR 3,117, which comprised taxes of kEUR 2,419 and interest of kEUR 698, was made on 25 September 2013. The second portion was paid by Joyou on 15 October 2013. This payment amounted to kEUR 2,253, which comprised of taxes of kEUR 1,646 plus interest of kEUR 607.


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2.2.4 Joyou Draws Down on a USD 100 Million Loan Facility from Nomura Bank

In July 2013, Joyou drew down in full on a USD 100 million (approx. EUR 72.6 million) syndicated loan facility entered into with Nomura Bank. The loan has a repayment schedule with a first repayment of 5 % after 18 months, further repayments of 15 % every three months thereafter and a final repayment of 20 % after 36 months. The loan has an annual interest rate of USD LIBOR (for the relevant interest period) plus 4.25 %. Additionally there was a facility fee of approximately USD 5 million (approx. EUR 3.7 million) which was expensed and paid in July. The loan has certain non-financial and financial covenants associated with it, which may affect Joyou's ability to obtain further debt financing. The purpose of the loan is to align Joyou's financing structure with the company's asset structure, and will be used mainly to support the on-going expansion of Joyou's production facilities including a plastics facility, phase two and three of the ceramics plants, an upgrade of the faucet production lines as well as for general corporate purposes. During the quarter, the loan was transferred to the Group's operating companies in Mainland China, enabling the loan to be put to its intend use. Accordingly, during the quarter, the Group has completed the upgrading of some of its existing production lines and continued the construction of the second and third phases of its Meiyu ceramics production facility. The second phase of the Meiyu ceramics facility is expected to come on line towards the end of 2014. The Group's planned construction of a plastics production facility is currently under assessment and consultation to ensure an efficient implementation of this project. In 2013 the major capital expenditure projects were the acquisition of the Shuitou Galvanisation facility, increases in machinery (especially on existing production lines), and buildings (especially in a new dormitory).

2.2.5 Joyou Purchases Galvanisation Company

On 7 June 2013, Joyou Building Materials Ltd., a 100 % affiliated company of Joyou Group, finalised the acquisition of 100 % of the issued share capital and voting rights of Quanzhou Yongsheng Galvanisation Industry Co. Ltd., a company based in Shuitou, Fujian Province, People's Republic of China. The purchase price of kEUR 12,164, of which kEUR 243 had been paid as a deposit to the Galvanisation Company and disclosed as other non-current asset in the consolidated financial statements as of 31 December 2012, was settled in cash. The company acquired, operates as a galvanisation facility for several of the Group's business segments. The objective of the acquisition is to extend the galvanisation capacity of the Group as an enlargement of the existing facilities was not feasible due to Chinese environmental regulations.

2.2.6 Joyou Listed among the "Top 500 Asia Brands" for Four Years in a Row

Held in Hong Kong the 8th Asia Brand Ceremony Joyou was grandly awarded the "Top 500 Asia Brands", "Top 10 Influential Asia Brands", "Top 10 Asia Brand Innovators" and "Asia Brand Persons of the Year" awards, were all presented at the Ceremony under the banner of "Gathering New Powers of Asia Brands" in September 2013. Joyou was awarded a place in the prestigious group for the fourth year in a row. The award is determined by the standing ABAS Expert Committee, and awarded to enterprises of influential excellence and in compliance with the four-dimensional selection process; market performance, development potential, quality level and benefit level. Further criteria include brand age, internationalisation, marketing combination, brand awareness, total assets growth rate, innovation capacity, after-sales service, quality level, turnover, and net profit. Further, Jilin CAI the COO of Joyou AG was also listed among "Asian Brand Persons of the Year" for Fourth Year in a Row, signifying his achievements in taking the Joyou brand to its current level.

2.2.7 Joyou Presents at China International Real Estate & Architectural Technology Fair

On 11 December 2013, the China International Real Estate & Architectural Technology Fair (CIHAF), hailed as "China Real Estate Festival" and "the Olympics of China's Real Estate Industry", is one of the largest annual real estate exhibitions with the highest value in China, and has been among the top three real estate exhibitions in the world. Adhering to bring together upper stream and downstream organisations involving any aspects of the industry chain and build a world class integrated real estate communication. It is an exchange platform focusing on brand-driven business, this CIHAF attracted about 60,000 participants, 500 leading organisations and guests of the industry and 1,200 media organizations from China and foreign countries.

Beside a superb distribution retail network, strategic alliances with real estate developers can been seen as key success drivers in China. To develop and strengthen such strategic alliances is therefore one of Joyou's core strategies for growth on the Domestic Chinese 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 this drive. As part of this strategy, the Group is investing into a new Experience Centre in Beijing, the key centre for the domestic Chinese real estate development industry.

2.3 Results of Operations, Financial Position and Net Assets

2.3.1 Summarising assessment by the Management Board

Overall in 2013 Joyou achieved the goals it had set for itself. From an outlook perspective, it achieved its goal of continued growth. This was done mainly by enhancing its distribution network and gaining from the benefits of the cooperation with Grohe Group, and assisted by investment into research and design, its brand equity, and expansion of the project business. National Chinese sales were boosted by the joint efforts of distribution enhancement, branding and increases in project business, as during that period Joyou curtailed its growth in the store base openings. International sales increased mainly due to the successful cooperation with the Grohe Group. Sales growth was further supported by research and design investments. Further, the cooperation with Grohe has led to production efficiency improvements, which were however somewhat masked by product range shifts.

The Group increased its sales in 2013 by 8.6 % year-on-year to a total of kEUR 357,843 (2012: kEUR 329,614) in EUR terms. The ongoing growth in sales reflects a growth in core business, especially international sales. During the period under review there was a 0.4 % appreciation of the EUR to RMB. Adjusted for this currency effect sales growth was 9.0 % in RMB terms.

Operating income (EBIT) for full year 2013 increased by 4.6 % from kEUR 50,849 to kEUR 53,195, representing an EBIT margin of 14.9 % (2012: 15.4 %). Net income decreased in comparison to financial year 2012 by 39.0 % from kEUR 39,795 to kEUR 24,265 in 2013. The decrease is mainly based on increased financing costs, which partially relate to non-recurring arrangement fees for a new loan granted, and non-recurring prior year tax expenses. Further details on these movements are given below.

2.3.2 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 2013 and 31 December 2012.

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

	1 Jan. to 31 Dec. 2013		1 Jan. to 31 Dec. 2012		Variance	
	kEUR	%	kEUR	%	kEUR	%
Sales revenue	**357,843**	**100.0**	**329,614**	**100.0**	**28,229**	**8.6**
Cost of sales	-258,827	-72.3	-235,876	-71.6	-22,951	9.7
Gross profit	**99,016**	**27.7**	**93,738**	**28.4**	**5,278**	**5.6**
Other operating income	1,667	0.5	908	0.3	759	83.6
Selling and distribution expenses	-25,211	-7.0	-23,418	-7.1	-1,793	7.7
Research and development expenses	-6,312	-1.8	-6,042	-1.8	-270	4.5
Administrative expenses	-15,246	-4.3	-13,632	-4.1	-1,614	11.8
Other operating expenses	-719	-0.2	-705	-0.2	-14	2.0
EBIT	**53,195**	**14.9**	**50,849**	**15.4**	**2,346**	**4.6**
Finance income	2,302	0.6	1,999	0.6	303	15.2
Financial costs	-13,720	-3.8	-3,272	-1.0	-10,448	319,3
EBT	**41,777**	**11.7**	**49,576**	**15.0**	**-7,799**	**-15.7**
Taxes on profit	-17,512	-4.9	-9,781	-3.0	-7,731	79.0
Profit	**24,265**	**6.8**	**39.795**	**12.1**	**-15,530**	**-39.0**

2.3.2.1 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 Chinese and export sales) and its OEM/ODM business (export sales).

Revenues increased from kEUR 329,614 in the year ended 31 December 2012 by kEUR 28,229, or 8.6 %, to kEUR 357,843 in the year ended 31 December 2013. Adjusted for the currency appreciation effect, sales growth was 9.0 % in RMB terms. Increases refer in main to the increase in Copper and Semi-Finished Products by kEUR 6,744 (or 109.8 %), Grohe Business by kEUR 5,406 (or 90.6 %), in Shower Products by kEUR 5,443 (or 9.2 %). With the exception of the segment bathroom faucets, which decreased by kEUR 1,040 (or 0.8 %) all other segments remained stable. For further information we refer to section "2.3.5 Segment Reporting" for a detailed analysis on all segments. International sales increased by 28.7 %, through further sales to customers gained in 2012, and new customers gained in 2013.

2.3.2.2 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. 2013		1 Jan. to 31 Dec. 2012		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper 1)	96,867	37.4	88,503	37.5	8,364	9.5
Outsourced products 2)	57,007	22.0	35,721	15.1	21,286	59.6
Other parts 3)	40,912	15.8	43,807	18.6	-2,895	-6.6
Other metals	13,670	5.3	17,927	7.6	-4,257	-23.7
Overheads / Other 4)	21,886	8.5	22,953	9.7	-1,067	-4.6
Zinc	9,066	3.5	11,490	4.9	-2,424	-21.1
Labour costs 5)	13,982	5.4	11,696	5.0	2,286	19.5
Depreciation	5,437	2.1	3,779	1.6	1,658	43.9
Cost of sales	**258,827**	**100.0**	**235,876**	**100.0**	**22,951**	**9.7**

1) Copper including certain semi-finished copper-based products sourced from external manufacturers. A certain amount of brass purchase was also included.
2) Outsourced products include trading or merchandise goods, including Grohe Products.
3) Other parts mainly comprises of product components made of ceramic, plastic, rubber and showerheads.
4) 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.
5) Labour costs include salaries, wages and benefits.

Cost of sales increased from kEUR 235,876 in the year ended 31 December 2012 by kEUR 22,951 or 9.7 %, to kEUR 258,827 in the year ended 31 December 2013. The increase in cost of sales in the year ended 31 December 2013 resulted mainly from increase in sales. Within costs of sales the major items increased are outsourced parts and depreciation. Outsourced products increased by 59.6 % from kEUR 35,721 in the year ended 31 December 2012 by kEUR 21,286 or 59.6 %, to kEUR 57,007 in the year ended 31 December 2013. The increase relates to increases in business and since financial year 2012 ongoing shift from assembling products to buying whole finished products. Depreciation increased by 43.9 % and amount to kEUR 5,437 in the year ended 31 December 2013. Depreciation expenses increased from kEUR 3,779 in 2012, by kEUR 1,658 or 43.9 % in 2013 due to increased production facilities and capacity expansions. Expenses for copper, our main raw material, amounts to kEUR 96,687 in the year ended 31 December 2013 and increased from kEUR 88,503 in the year ended 31 December 2012 by kEUR 8,364. The increase by 9.5 % is fully in line with the increase in sales.

2.3.2.3 Gross Margin

For the year ended 31 December 2013, the gross margin amounted to 27.7 %, which is a slight decrease from 28.4 % for the year ended 31 December 2012. The change in gross margin must always be seen with focus on the product mix sold. In 2013 the increase in inter-group component sales, Grohe inventory destocking and increase in international sales in general were the main causes of the margin decline.

2.3.2.4 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, travel expenses and labour costs for employees engaged in the sales and marketing department.

Selling and distribution expenses increased from kEUR 23,418 in the year ended 31 December 2012 by kEUR 1,793, or 7.7 %, to kEUR 25,211 in the year ended 31 December 2013. Compared to 2012, selling and distribution expenses in proportion to sales decreased from 7.1 % in 2012 to 7.0 % in 2013. This was mainly the result of improved efficiencies gained through the localisation strategy in marketing efforts, and increased international sales which has lower marketing costs associated with it.

2.3.2.5 Research and Development Expenses

In 2013 Joyou discloses research and development expenses as a separate line item to give a better view on this activity as the research and development of new products is one future key factor for Joyou's success in business. In previous years, research and development expenses were included within administrative expenses. The prior year disclosure is separated accordingly. The item contains labour costs for employees, third-party costs and depreciation on those fixed assets used for research and development. Research and development expenses increased from kEUR 6,042 in the year ended 31 December 2012 by kEUR 270, or 4.5 %, to kEUR 6,312 in the year ended 31 December 2013. The below sales growth increase was due to a decrease in material expenses, because in 2012 there had been large investments in researching the engineering behind new product lines, which was no longer necessary in 2013. As a percentage of sales, the rounded figure remained constant at 1.8 % over the two periods.

2.3.2.6 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, and training charges, but no research and development expenses as described above.

Administrative expenses increased from kEUR 13,632 in the year ended 31 December 2012 by kEUR 1,614, or 11.8 %, to kEUR 15,246 in the year ended 31 December 2013. 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 depreciation and office costs as well as increased maintenance and repair charges. Compared to 2012, administrative expenses as a percentage of sales increased from 4.1 % to 4.3 % in 2013.

2.3.2.7 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 908 in the year ended 31 December 2012 by kEUR 759, or 83.6 %, to kEUR 1,667 in the year ended 31 December 2013, mainly due to the management fee resulting from management of Grohe China operations and reimbursements by Grohe Group to compensate all costs incurred in connection with the previously intended IPO of the Grohe Group or its sale to a new investor. The corresponding expenses are reported under other operating expenses.

Other operating expenses mainly comprises, among other things, expenses which are reimbursed, donations, depreciation and related costs of investment property, decreased from kEUR 705 in the year ended 31 December 2012 by kEUR 14 or 2.0 % to kEUR 719, mainly due to decreases in donations, and depreciation and related costs of investment property, but was off-set by increases in reimbursed fees as described above.

2.3.2.8 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 increased from kEUR 1,999 in the year ended 31 December 2012 by kEUR 303 or 15.2 % to kEUR 2,302 in the year ended 31 December 2013. The increase was mainly related to increased exchange gains due to exchange rate changes over the periods under review, while the interest income decreases were due to the decrease in average bank deposits over the two periods under review. The exchange gain mainly consists of an unrealised foreign exchange gain of kEUR 1,541, which is based on USD / RMB exchange rate fluctuations as the new long-term loan granted by Nomura Bank is repayable in USD.

Finance costs increased from kEUR 3,272 in the year ended 31 December 2012 by kEUR 10,448 or 319.3 % to kEUR 13,720 in the year ended 31 December 2013. The increase is mainly attributable to an increase in interest on additional long and short-term bank loans by kEUR 4,430 and interest on tax payments related to the retrospective preferential tax rate revocation for previous years of kEUR 1,305. Bank charges contain beside current recurring bank charges a non-recurring bank charge (facility fee) of KEUR 3,759, which was due on the long-term loan, and was paid out in July 2013. For further details refer to Note 26 Finance Income and Finance Costs of the Notes to the Consolidated Financial Statements.

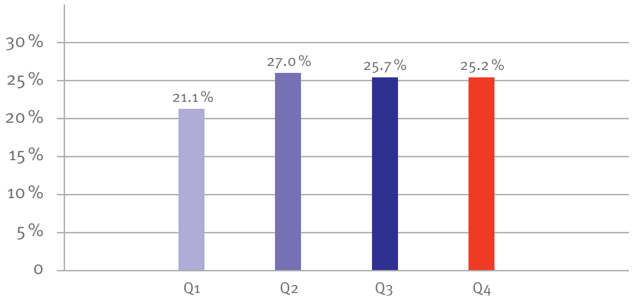
2.3.2.9 Taxes on Profit

Taxes on profit increased from kEUR 9,781 in the year ended 31 December 2012 by kEUR 7,731, or 79.0 %, to kEUR 17,512 in the year ended 31 December 2013. This increase is principally attributable to the charge of kEUR 5,370 mainly arising from the revocation of Joyou Sanitation's status as a high-tech enterprise, as discussed in more detail in section 2.2.3 of this report. In addition the item "income tax prior year" includes additional taxes charged in relation to prior years as a result of tax inspection of the Group's principal entities performed during the year. The expected income tax rate for all PRC subsidiaries of Joyou Group is 25 % in 2013.

2.3.2.10 Seasonality in Business

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, and are then weaker in the third, and fourth quarters. 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.

Historical Seasonal Average Sales



2.3.3 Financial Position

kEUR	1 Jan. to 31 Dec. 2013	1 Jan. to 31 Dec. 2012	Variance kEUR	Variance %
Cash flow from operating activities	36,144	28,383	7,761	27.3
Cash flow used in investing activities	-37,350	-38,280	930	-2.4
Cash flow from financing activities	51,828	21,389	30,439	142.3
Changes in cash and cash equivalents	50,622	11,492	39,130	340.5
Cash and cash equivalents at the beginning of the reporting period	79,620	68,696	10,924	15.9
Foreign exchange movements	-2,234	-568	-1,666	293.3
Cash and cash equivalents at the end of the reporting period	**128,008**	**79,620**	**48,388**	**60.8**

Cash flow generated from operating activities increased from kEUR 28,383 in the year ended 31 December 2012 by kEUR 7.761, or 27.3%, to kEUR 36,144 in the year ended 31 December 2013. This increase is caused mainly by improvements on the Group's operating profit as well as working capital management (mainly changes in inventories), reducing the cash outflow on changes in working capital.

Cash flow used in investing activities is nearly unchanged in comparison to 2012. The cash-flow amounted to kEUR -38,280 in the year ended 31 December 2012 and kEUR -37,350 in the year ended 31 December 2013. Beside several investments in new production facilities the item contains the purchase price of kEUR 12,164 paid on the acquisition of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd.

Cash flow from financing activities increased from kEUR 21,389 in the year ended 31 December 2012 by kEUR 30,439 or 142.3 % to kEUR 51,828 in the year ended 31 December 2013. The increase was mainly attributable to a new long-term bank loan borrowed in July 2013.

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 amounted to kEUR 12,673 as at 31 December 2013 and kEUR 14,498 as at 31 December 2012.

2.3.4 Financial Position

2.3.4.1 Assets

The asset and capital structure developed as follows: the balance sheet total increased from kEUR 451,256 by kEUR 76,899 or 17 % to kEUR 528,155. This rise is principally attributable to an increase in property, plant and equipment, which was mainly due to the acquisition of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd., improvements in buildings and production facilities and an increase in cash and cash equivalents.

Assets	31 Dec. 2013 kEUR	31 Dec. 2013 %	31 Dec. 2012 kEUR	31 Dec. 2012 %	Variance kEUR	Variance %
Inventories	73,576	13.9	80,971	17.9	-7,395	-9.1
Trade receivables	85,518	16.2	78,653	17.4	6,865	8.7
Receivables due from Grohe Group	5,571	1.1	3,372	0.7	2,199	65.2
Other receivables and prepayments	31,270	5.9	29,110	6.5	2,160	7.4
Income tax receivables	–	–	813	0.2	-813	–
Amounts due from related parties other than Grohe Group	90	–	91	–	-1	-1.1
Cash and cash equivalents	128,008	24.2	79,620	17.6	48,388	60.8
Current assets	**324,033**	**61.4**	**272,630**	**60.4**	**51,403**	**18.9**
Intangible assets	358	0,1	599	0.1	-241	-40.2
Property, plant and equipment	172,589	32,7	146,433	32,5	26,156	17.9
Investment Property	3,058	0,6	3,218	0,7	-160	-5.0
Prepayments on land-use rights	25,962	4.9	26,429	5.9	-467	-1.8
Other non-current assets	–	–	243	0.1	-243	-100.0
Deferred tax assets	2,155	0.4	1,704	0.4	451	26.5
Non-current assets	**204,122**	**38.6**	**178,626**	**39.6**	**25,496**	**14.3**
Balance sheet total	**528,155**	**100.0**	**451,256**	**100.0**	**76,899**	**17.0**

2.3.4.2 Current Assets

Inventories comprise raw materials and consumables, work-in progress, finished goods, outsourced products and Grohe merchandise products. It decreased from kEUR 80,971 as at 31 December 2012 by kEUR 7,395, or 9.1 %, to kEUR 73,576 as at 31 December 2013. The decrease was mainly caused by a decrease in Grohe merchandise products and inventory of finished goods. Inventory Turnover Days [(Average Inventory / COGS) x 365 days] declined from 127 days in 2012 to 109 days in 2013.

Trade receivables increased from kEUR 78,653 as at 31 December 2012 by kEUR 6,865, or 8.7 %, to kEUR 85,518 as at 31 December 2013. Trade receivable turnover days [365 days x (average trade receivables / revenues)] declined from 87 days in 2012, to 84 days in 2013.

Other receivables and prepayments comprise mainly receivables from non-related companies, advances to suppliers and prepaid expenses, increased from kEUR 29,110 as at 31 December 2012 by kEUR 2,160, or 7.4 %, to kEUR 31,270 as at 31 December 2013 which was mainly due to an increase in advances to suppliers.

Amounts due from related parties other than Grohe Group are nearly unchanged and relate only to receivables on reimbursements.

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 drafts.

2.3.4.3 Non-Current Assets

Intangible assets comprise software and patents and decreased from kEUR 599 as at 31 December 2012 by kEUR 241 or 40.2 %, to kEUR 358 as at 31 December 2013. The decrease relates to the disposal of a patent, which was returned to its former owner.

Property, plant and equipment mainly comprise buildings, machinery and construction in progress (CIP). Property, plant and equipment increased from kEUR 146,433 as at 31 December 2012 by kEUR 26,156, or 17.9 %, to kEUR 172,589 as at 31 December 2013. This increase was mainly attributable to the acquisition of the Yongsheng galvanisation company as discussed in section 2.2.5 of this report, increases in machinery (especially on existing production lines) and buildings (especially in a new dormitory) at the Luncang facility.

Investment property refers to a building which is currently used to earn rental income and the land levelling cost relating to land use rights in Nan'an city held for investment purposes. The carrying amount of investment property decreased from kEUR 3,218 as at 31 December 2012 by kEUR 160 or 5.0 % to kEUR 3,058 as at 31 December 2013 mainly due to ordinary depreciation. The building was leased out under an operating lease agreement until the end of the 2013 financial year and was extended verbally until the intended departure of the lessee expected mid of 2014. The subsequent usage of the building has yet to be finalized.

Lease prepayments for land-use rights refer to prepayments made to use land 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 26,429 as at 31 December 2012 and decreased by kEUR 467 or 1.8 %, to kEUR 25,962 as at 31 December 2013 mainly due to the expense for the year. In connection with the acquisition of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. land-use rights with a fair value of kEUR 590 are acquired. For further information we refer to note 4 of the consolidated financial statements. As the before mentioned addition is offset by foreign movements in this item line.

Deferred tax assets are temporary differences between the carrying amount of an asset and its tax base. Deferred tax assets increased from kEUR 1,704 at 31 December 2012 by kEUR 451, or 26.5 %, to kEUR 2,155 as at 31 December 2013. The increase arose primarily due to the accounting treatment of fixed assets, trade and other receivables and research and development in the IFRS financial statements in comparison to their tax base values.

Equity and liabilities	31 Dec. 2013		31 Dec. 2012		Variance	
	kEUR	%	kEUR	%	kEUR	%
Short-term loans	20,743	3.9	24,029	5.3	-3,286	-13.7
Long-term liabilites due within one year	14,147	2.7	7,116	1.6	7,031	98.8
Trade payables	5,526	1.0	7,020	1.6	-1,494	-21.3
Notes payable	21,427	4.1	30,885	6.8	-9,458	-30.6
Other payables and accruals	14,147	2.7	10,304	2.3	3,843	37.3
Amounts due to related parties	17	–	19	–	-2	-10.5
Amounts due to Grohe group companies	959	0.2	1,237	0.3	-278	-22.5
Income tax payable	3,432	0.6	–	–	3,432	–
Current liabilities	**80,398**	**15.2**	**80,610**	**17.9**	**-212**	**-0.3**
Long-term bank loan	86,658	16.4	28,465	6.3	58,193	204.4
Other provisions	936	0.2	634	0.1	302	47.6
Non-current liabilities	**87,594**	**16.6**	**29,099**	**6.4**	**58,495**	**201.0**
Equity	**360,163**	**68.2**	**341,547**	**75.7**	**18,616**	**5.5**
Balance sheet total	**528,155**	**100.0**	**451,256**	**100.0**	**76,899**	**17.0**

2.3.4.4 Current Liabilities

Short-term loans comprise secured bank loans. They decreased from kEUR 24,029 as at 31 December 2012 by kEUR 3,286 or 13.7 % to kEUR 20,743 as at 31 December 2013. The short-term loans are spread across a number of local financial institutions, with differences in interest rates and maturity terms. The decrease mainly relates to the new financing structure of the Group after the long-term loan by Nomura was paid out in July 2013.

Trade payables and notes payable as a composite figure decreased from kEUR 37,905 as at 31 December 2012 by kEUR 10,952 or 28.9 % to kEUR 26,953 as at 31 December 2013 mainly due to the new financing structure mentioned before. Trade payables decreased from kEUR 7,020 by kEUR 1,494 or 21.3 % to kEUR 5,526 as at 31 December 2013 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 30,885 as at 31 December 2012 by kEUR 9,458 or 30.6 % to kEUR 21,427 as at 31 December 2013. 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 increase from kEUR 10,304 as at 31 December 2012 by kEUR 3,843, or 37.3 %, to kEUR 14,147 as at 31 December 2013 results primarily from the increase in accrued expenses.

Amounts due to Grohe Group decreased from kEUR 1,237 as at 31 December 2012 by kEUR 278 or 22.5 %, to kEUR 959 as at 31 December 2013, which was mainly due to a decrease in purchases from Grohe Group companies.

Income tax payable amounts to kEUR 3,432 (2012: kEUR: nil) and relates to accrued income taxes for the financial year 2013.

2.3.4.5 Non-Current Liabilities

Long-term bank loans amounting to kEUR 28,465 as at 31 December 2012 increased by kEUR 58,193, or 204.4 %, to kEUR 86,658 as at 31 December 2013. The increase is mainly attributable to a new long-term loan paid out to the Group at an amount of USD 100 million, which equalled kEUR 72,615 when drawn down on 12th July. 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 14,147 (2012: kEUR 7,116).

Provisions include provisions for the future cost of decommissioning plants on a discounted basis on the construction of those plants, warranty provisions and provisions for legal claims. The item increased from kEUR 634 as at 31 December 2012 by kEUR 302 or 47.7 % to kEUR 936 as at 31 December 2013. 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. In 2013 an additional provision of kEUR 90 was initially recorded in connection with the acquisition of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. Warranty provisions are accrued on potential warranty claims by customers under Joyou's warranty policy. Provisions for legal claims are accrued in 2013 for a legal claim brought against the Group by a third party claiming the violation of a contract by the Group and amount to kEUR 146.

2.3.4.6 Equity

Equity increased from kEUR 341,547 as at 31 December 2012 by kEUR 18,616 or 5.5 % to kEUR 360,163 as at 31 December 2013, which was mainly attributable to an increase in retained earnings. Due to the increase in total assets, the equity ratio decreased from 75.7 % in 2012 to 68.2 % in the financial year 2013.

2.3.5 Segment Reporting

The following table presents Joyou's revenues broken down by product categories for each of the years ended 31 December 2012 and 2013. 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
2013										
Revenue	131,418	43,408	64,507	41,216	16,027	11,643	25,363	12,886	11,375	357,843
Cost of sales	91,802	31,312	45,621	28,565	10,906	8,096	20,857	10,455	11,213	258,827
Gross Profit	39,616	12,096	18,886	12,651	5,121	3,547	4,506	2,431	162	99,016
Segment assets	**168,644**	**55,704**	**82,780**	**128,911**	**20,567**	**14,941**	**32,548**	**16,536**	**7,524**	**528,155**
2012										
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
Segment assets	**141,551**	**40,943**	**63,118**	**131,395**	**16,264**	**12,075**	**25,428**	**6,564**	**13,919**	**451,256**

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 decreased from kEUR 132,458 in 2012 by kEUR 1,040, or 0.8 %, to kEUR 131,418 in 2013. Measured in RMB, revenues from the sale of Bathroom Faucets decreased by 0.4 % during this period.

The percentage of revenues from Bathroom Faucets to total revenues decreased from 40.2 % in 2012 to 36.7 % in 2013. 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.

The increase came from average sales price ("ASP") increases which was offset by a category volume decrease.

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 38,313 in 2012 by kEUR 5,095, or 13.3 %, to kEUR 43,408 in 2013. Measured in RMB, revenues from the sale of Kitchen Products increased by 13.7 % during this period.

There was an increase in both ASP and volumes in this category, with the substantial growth coming mainly from volume increases.

The percentage of revenues from Kitchen Products increased from 11.6 % in 2012, to 12.1 % in 2013.

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 59,064 in 2012 by kEUR 5,443, or 9.2 %, to kEUR 64,507 in 2013. Measured in RMB, revenues from the sale of Shower Products increased by 9.6 % during this period.

There was an increase in both ASP and volumes in this category, with the a slightly higher proportion of the growth coming from volume increases .

The percentage of revenues from Shower Products to total revenues increased slightly from 17.9 % in 2012 to 18.0 % in 2013.

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 37,355 in 2012 by kEUR 3,861, or 10.3 %, to kEUR 41,216 in 2013. Measured in RMB, revenues from the sale of Ceramics and Bathtubs increased by 10.8 % during this period.

The increase in sales mainly came from significant increases in ASP growth, with a volume decline. The volume, however, of self manufactured ceramics and bathtubs showed explosive growth, while outsourced ceramics and bathtubs showed a dramatic decline as the Meiyu ceramics facility's yield rate increased.

The percentage of revenues from Ceramics and Bathtubs to total revenues increased slightly from 11.3 % in 2012 to 11.5 % in 2013.

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 15,219 in 2012 by kEUR 808, or 5.3 %, to kEUR 16,027 in 2013. Measured in RMB, revenues from the sale of Bathroom Cabinets increased by 5.7 % during this period.

There was a strong increase in ASP within the category, and with slight decline in volume.

The percentage of revenues from Bathroom Cabinets to total revenues decreased from 4.6 % in 2012 to 4.5 % in 2013.

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 11,299 in 2012 by kEUR 344, or 3.0 %, to kEUR 11,643 in 2013. Measured in RMB, revenues from the sale of Bathroom Accessories increased by 3.4 % during this period.

There was a slight increase in volumes, which was offset by a decrease in ASP.

The percentage of revenues from Bathroom Accessories to total revenues declined slightly from 3.4 % in 2012 to 3.3 % in 2013.

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 23,795 in 2012 by kEUR 1,568, or 6.6 %, to kEUR 25,363 in 2013. Measured in RMB, revenues from the sale of Other Faucets and Sanitary Hardware increased by 7.0 % during this period.

The percentage of revenues from Other Faucets and Sanitary Hardware to total revenues decreased slightly from 7.2 % in 2012 to 7.1 % in 2013.

There was an increase in both volumes and ASPs, with the volume increase adding more to the category growth.

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

Revenues from the sale of Copper and Semi-finished Components increased from kEUR 6,142 in 2012 by kEUR 6,744, or 109.8 %, to kEUR 12,886 in 2013. Measured in RMB, revenues from the sale of Copper and Semi-finished Components increased by 110.6 % during this period mainly due to the growth of inter-group sales to Grohe companies.

The percentage of revenues from Copper and Semi-finished Components to total revenues increased from 1.9 % in 2012 to 3.6 % in 2013.

There was a substantial increase in volumes, which was offset by a decrease in ASPs.

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 increased from kEUR 5,969 in 2012 by kEUR 5,406, or 90.6 %, to kEUR 11,375 in 2013. Measured in RMB, revenues from the sale of Grohe Products increased by 91.3 %, which is partly based on destocking of inventories and partly based on increased customer sales.

The percentage of revenues from Grohe Products to total revenues increased from 1.8 % in 2012 to 3.2 % in 2013.

There were substantial increases in ASPs and volumes in this category.

2.3.6 Other Factors that Impacted on Results

2.3.6.1 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 which it believes will give it strategic advantages for national and international markets. Currently 185 designs have been awarded the national lead-free product certificate. 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, and trap-ways that reduce water used per flush.

Joyou designs most faucets, cabinets, baths 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 2013, the Joyou Group held 350 (2012: 316; 2011: 231; 2010: 96; 2009: 69) patents for design, invention and utility model, and 10 patents are in the process of application. The significant increase of patents in the last few years is attributed to the strong capability of its design team. Furthermore, Joyou's products have won prestigious design awards. Joyou Group employees 164 direct research and design staff as of the reporting date (2012: 168).

For the reporting period under review, research and development costs came to EUR 6.3 million in total, which was a continued increase in comparison to the previous year (2012 6.0 million: 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.

2.3.6.2 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.

2.3.6.2.1 Supply of Raw Materials

For the periods under review, approximately 62% 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 other 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.

2.3.6.2.2 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 faucets, ceramic sanitary-ware products, showerheads, bathroom cabinets 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.

2.3.6.2.3 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, 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.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2.3.6.3 Production

2.3.6.3.1 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, 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.

2.3.6.3.2 Production Facilities and Equipment

Joyou operates four production 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 Shuitou facility is currently used for the galvanisation of zinc, plastic and copper based components.

The principle investments during the financial year were the acquisition of the Shuitou Galvanisation facility, increases in machinery (especially on existing production lines), and buildings (especially in a new dormitory). 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.

2.3.6.4 Distribution

2.3.6.4.1 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 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.

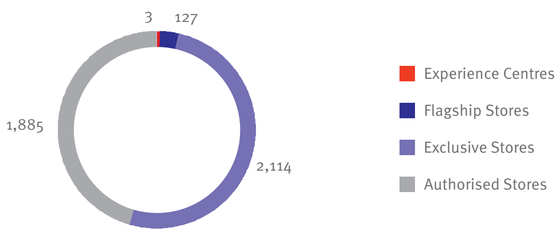
Joyou places a strong emphasis on having unified interior and exterior decorations at its retail store in order to improve consumer recognition of Joyou's brand and products. To this end, Joyou pays a subsidy to its regional distributors in the form of reimbursements for investments made for the decoration 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 regional 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. Up to 2013 the annual distributor meeting was held in or around the corporate headquarters in Nan'an, with attendees often in the thousands. During 2013, due to logistics and the regionalisation strategy, this event began to be held at the regional level, with events being held in the distributor's responsible region, and were linked to smaller events around the corporate headquarters. Joyou also began conducting training events aimed at specific professions within the distributor's team, such as franchisee managers, planning managers.

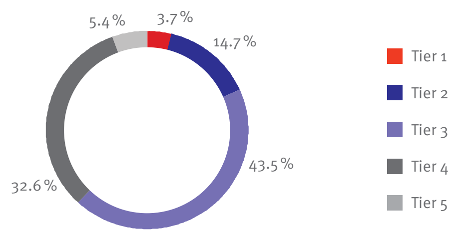
Joyou also conducts regular training courses for sales staff and installation technicians of their regional distributors and provides updates on its products to distributors, sales staff and installers of sanitary-ware products who it considers to be important intermediaries in the retail chain for sanitary-ware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

In total, Joyou operates a franchised network of 4,129 retail points of sale as of 31 December 2013 (4,092 stores as of 31 December 2012). In 2013, 3 Experience Centres, 127 Flagship Stores, 2,114 Exclusive Stores, and 1,885 Authorised Stores, managed by 51 unaffiliated regional distributors were established.

Joyou Branded Stores by Type 2013



Joyou Branded Stores by Tier of City 2013



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

2.3.6.4.2 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. It also conducts this sales distribution through Grohe Group as described in section 2.3.6.4.5 "Distribution through Joyou International Trading", later in this report.

2.3.6.4.3 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.

2.3.6.4.4 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 and sales into such projects are conducted by the distributor alone, or with the assistance of one of Joyou's regional project sales teams.

2.3.6.4.5 Distribution through Joyou International Trading

Joyou first signed a branded international distribution agreement with Grohe Group in March 2010, whereby the Grohe Group 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 primarily 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 several major accounts. In this relationship, Joyou usually bills directly to Joyou International or other Grohe Group companies as the sales partner. Sales of OEM products though Joyou International are done on a non-exclusive basis.

2.3.6.4.6 Sales to the Grohe Group

With increasing cooperation between Joyou and its parent, the Grohe Group, Joyou is becoming an increasing supplier of ODM components to the Grohe Group. For this, the Grohe Group, mainly through its Asian purchasing team, places orders for components such as levers, spout, machined components and bodies, which are then satisfied by Joyou and shipped to various international divisions within the Grohe Group after Joyou has met the Grohe Group's component quality certification. Sales of ODM products to Grohe Group are done on a non-exclusive basis.

2.3.7 Employees

During the year under review, Joyou had an average of 3,458 employees (2012: 3,379; 2011: 3,195 employees). In comparison to the previous year, there was a net increase in the number of employees of 79. While the number of employees in production increased by 186, the number of employees in management and administration, including R & D, decreased by 63 and with an reduction in sales by 44 of employees.

2.4. Financial and Non-Financial Performance Indicators

	1 Jan. to 31 Dec. 2013	1 Jan. to 31 Dec. 2012	Variance	
	kEUR	kEUR	kEUR	%
EBIT	53,195	50,849	2,346	4.6
Depreciation and amortisation	8,596	6,250	2,346	37.5
EBITDA	**61,791**	**57,099**	**4,692**	**8.2**
Expenses on land-use rights	640	642	-2	-0.3
Adjusted EBITDA	62,431	57,741	4,690	8.1
Adjusted EBITDA margin	17.4 %	17.5 %		
EBIT margin	14.9 %	15.4 %		
EBT	**41,777**	**49,576**	**-7,799**	**-15.7**

EBIT, i. e. earnings before interest and taxes, increased by kEUR 2,346 or 4.6 % from kEUR 50,849 to kEUR 53,195. Following significant investments in prior years and the resulting increase in depreciation and amortisation, EBITDA, i. e. earnings before interest, taxes, depreciation and amortisation, increased by kEUR 4,692 from kEUR 57,099 to kEUR 61,791. Adjusted for expenses on lease-prepayments on land-use rights for the reporting period, the adjusted EBITDA was kEUR 62,431 for the reporting period compared to kEUR 57,741 for the prior period. Due to higher finance costs following additional financing taken in the reporting period as well as interest on tax payments for prior periods, the EBT, i. e. earnings before taxes, decreased by kEUR 7,799 or 15.7 % from kEUR 49,576 to kEUR 41,777. Currently, the Joyou Group does not use any significant non-financial performance indicators for steering its operations.

2.5 Results of Operations, Financial Position and Net Assets of the single entity, holding company Joyou AG

The following discussion compares the development in the business year 2013 with the figures from the comparative period 2012.

2.5.1 Financial Position

kEUR	2013	2012	Variance
Assets			
Investments in affiliated company	174,026	174,026	–
Loan due from affiliated companies	5,000	5,000	–
Non-current assets	**179,026**	**179,026**	–
Receivables due from affiliated companies	2,089	2,537	-448
Other receivables	69	234	-165
Prepayments	31	31	–
Cash and cash equivalents	362	19	343
Current assets	**2,551**	**2,821**	**-270**
Balance sheet total	**181,577**	**181,847**	**-270**
Equity and liabilities			
Capital subscribed	23,967	23,967	–
Additional paid-in capital	156,953	157,117	-164
Retained earnings	–	–	–
Equity	**180,920**	**181,084**	**-164**
Trade payables	221	355	-134
Other provision	430	366	64
Other payables and accruals	6	42	-36
Current liabilities	**657**	**763**	**-106**
Balance sheet total	**181,577**	**181,847**	**-270**

The statement of financial position of Joyou AG shows a net equity of kEUR 181,920, which covers non-current assets of kEUR 179,026. The current liabilities amount to kEUR 657 and are compensated by current assets of kEUR 2,551.

The investment in affiliated companies amounts to kEUR 174,026 (2012: kEUR174,026) and refers to the investment in the intermediary holding company of Joyou Hong Kong.

The loan due from affiliated companies amounts to kEUR5,000 (2012: kEUR5,000) and refers to a long—term loan granted to the same affiliated company.

Receivables due from affiliated companies of kEUR 2,089 (2012: kEUR 2,537) mainly relate to interest accrued on the aforementioned loan and Group management fee. Other receivables amount to kEUR69 (2012: kEUR 234) 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 decreased from kEUR 366 at 31 December 2012 by kEUR 64 to kEUR 430 at 31 December 2013. 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 2013.

2.5.2 Income Statement

The following analysis relates mainly to 2013 figures:

kEUR	1 Jan. to 31 Dec. 2013	1 Jan. to 31 Dec. 2012	Variance
Other operating income	591	432	159
Interest income	329	315	14
Personnel expenses	–	-56	56
Other operating expenses	-1.230	-1.067	-163
EBT	**-310**	**-376**	**66**
Other taxes	147	–	147
Profit/loss	**-163**	**-376**	**213**

Other operating income of kEUR 591 (2012: kEUR 432) relates mainly to revenues from Group management fees and reimbursements from payments by the Grohe Group to compensate all costs incurred in connection with the previously intended IPO of the Grohe Group or its sale to a new investor.

As a holding company, Joyou AG received interest of kEUR 329 (2012: kEUR 315) on an inter-company loan granted in April 2010 to Joyou Hong Kong. Other operating expenses, which amounts to kEUR 1,230 (2012: kEUR 1,067), relate to current business expenses, mainly on the annual shareholder meeting 2013, expenses for the preparation and review of quarterly reports and annual financial statements, and fees for lawyers and other advisers. After deducting those expenses, which are reimbursed in connection with the share transfer at Grohe Group, the operating expenses, amount to kEUR 946 (2012: kEUR 1,039).

Other taxes relate to VAT refunds for current and previous year, which are recorded upon payment received.

The net loss for the financial year 2013 amounts to kEUR 163 (2012: kEUR 376). The withdrawal from the additional paid-in capital was netted against the loss for the year, which led to retained earnings of zero as at 31 December 2013.

2.5.3 Cash Flow Statement

The cash available at year-end amounts to kEUR 362. Movements in liquid funds can be analysed as follows:

kEUR	2013	2012	Variance
Loss for the period	-163	-376	213
Decrease/increase in provisions and accruals	64	-88	152
Cash flow	**-99**	**-464**	**365**
Increase/decrease in receivables from and payables to affiliated companies	448	165	283
Decrease/increase in other assets and prepaid expenses	165	-161	326
Decrease/increase in trade payables and other liabilities	-171	347	-518
Cash flows from operating activities	**343**	**-113**	**456**
Changes in cash and cash equivalents	343	-113	456
Cash and cash equivalents at the start of the reporting period	19	132	-113
Cash and cash equivalents at the end of the reporting period	**362**	**19**	**343**

3 Report on Events after the Reporting Period

With the closing of the acquisition on 21 January 2014, the Grohe Group and hence Joyou AG and its affiliated companies became part of the LIXIL Corporation, Tokyo, Japan. As published in the BSRIA's China Bathroom Study 2013, the LIXIL Corporation sells taps and mixers, sanitary ware and bath tubs of its American Standard brand on the domestic Chinese market. While the market position of the Joyou Group and the LIXIL Corporation for sanitary ware and bath tubs was comparable according to BSRIA, Joyou has a significantly higher market share in the taps and mixers segment. Joyou AG will remain independent within the LIXIL Corporation. In particular there are no intentions for a delisting of Joyou AG. Joyou AG´s management team will remain in place. Consequently, the Management Board of Joyou does not expect limitations for the execution of its growth strategy on both the domestic Chinese sanitary-ware market and abroad.

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

4 Report on Forecast, Opportunities and Risks

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.

4.1 Forecast Report

4.1.1 Future Economic Environment

Global Economy
With an increasing portion of international sales via its strategic partner, the Grohe Group, the expected development of the global economy is becoming more important for the Joyou Group. In its "World Economic Outlook", the International Monetary Fund (IMF) predicted global economic growth of 3.7 % in 2014. The world's largest economy, the USA, is expected to grow by 2.8 % in 2014, an improvement on the previous estimate of 2.6 %. The IMF expects the euro area as a whole to grow by 1 %, and stated that the euro area was recovering from recession. However, it added the pickup would be weaker in economies that have been facing "financial stress", namely Greece, Spain, Cyprus, Italy and Portugal. It cut its projection for Russia to 2 % from 3 %. Growth in Brazil should come in around 2.3 %.

Economic Development in China
According to the IMF China is expected to grow 7.5 % in 2014. The IMF said that growth in China, the world's second-largest economy, had rebounded strongly in the second half of 2013 due to acceleration in investment. But the IMF said the growth will moderate because of actions by the government to slow growth in credit.

The China Academy of Sciences forecast 7.6 % for annual GDP growth in 2014. The GDP growth rate in the first half of the year is estimated to be 7.4 % and 7.7 % in the second half. Growth in primary industries (primarily raw materials) is expected to increase by 3.6 % year-on-year, secondary industries (manufacturing) by 7.6 %, and tertiary industries (services) by 8.5 %.

According to the China Academy of Sciences the CPI will grow to 3.1 %, consumption will register 13.7 % annual growth while investment will increase by approximately 20.0 %.

Imports and exports are expected to increase 8.2 % by the end of 2014 over the same period in 2013, and the trade surplus will expand to $280 billion at year-end from USD 195 billion in 2013.

4.1.2 Future Business Environment

Based on these general economic parameters, the Chinese sanitary-ware industry is expected to continue to grow in 2014 and beyond.

In November 2013 the BSRIA's China Bathroom Study 2013 was published. According to this study the mid-term until 2017, the taps and mixer market segment is expected to reach annual value growth rates of 5 %. The growth rates for the other segments of the ceramics sanitaryware market are predicted at around 5 %, for shower enclosures around 13 % and Bathroom Cabinets around 20 %. 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 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.

According to IHS Inc, a US-based consultancy, the global residential construction spending CAGR will be 4 % between 2013 and 2018, and non-residential structure construction spending CAGR will be 4.5 % between 2013 and 2018. Although the global economic outlook indicates slow growing European markets, growing markets in North America, and uncertain economic perspectives in many other foreign regions for 2014, Joyou believes that those foreign markets will provide reasonable business opportunities to support the Group's growth strategy. Joyou will continue exploring these opportunities outside Mainland China by its cooperation with the Grohe Group, especially via its subsidiary Joyou International Trading Ltd.

4.1.3 Future Development of Joyou Group

4.1.3.1 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 addition, Joyou expects significant opportunities on global markets for sanitary ware, which Joyou will jointly explore with the Grohe Group. In order to benefit from these growth opportunities, Joyou intends to:

- Further enhance its distribution network
- Expand Production Base
- Strategic Cooperation with Grohe Group
  - International Sales
  - Inter-Group Sales
- Brand and Market Share Development
- Expansion of Project Business
- Investment into Research and Design

Further enhance its distribution network

As a fundamental part of Joyou's business model, the Group will continue to enhance its distribution network in terms of market influence by refurbishment, expansion, and design upgrades to improve sales and cross and up-selling. We will continue to refurbish older stores in the newer Joyou design style, which focuses more on the bathroom solution sale, with the aim to increase the item sales per customer. This new, clean design is themed around showing many different design ideas in one showroom, with the complimenting product solutions. In malls or areas, where a store has performed well, Joyou will continue to work on expanding the square meterage of these stores, thereby increasing their influence and hence store returns. Further Joyou is continuing its investment in the sales personnel of its distributors and franchisees, teaching them sales skills to enable them to better cross-sell a bathroom solution, and up-sell to higher margin products in the product range. A further focus will be put on service, in order to align the company, distributors, and franchisees to better serve the customers and thereby strengthening the value of the "Joyou" brand. These developments are a key driver of Joyou's future development in the domestic Chinese sanitary-ware market as brand reputation becomes ever more important with the average Chinese customer becoming more affluent and sophisticated in their expectations.

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 over two times the capacity of the previous phase, and have an operational floor space of over 100,000 sqm. It is expected to start operations by the end 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. Land preparation work for phase three of the Meiyu ceramics facility has also been started. In 2014, the three-storey facility will be completed after being started in 2013. The first flow kiln will be installed, and have a capacity which in excess of the first phase. The design of the facility will be modular to allow it to be expanded, whilst utilising the same building and land. Throughout 2014, there will also be investment requirements in the existing Meiyu ceramics facility.

At the end of December 2011, Joyou initiated the set up its own production plant for plastics 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 in phases to eventually achieve a capacity of more than 7 million units per year. Major products of the new plant will be plastic showerheads, brackets 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 2014. The delay in start was due to technology selection issues that were needed to ensure that the new plant will have an international competitive edge. This expansion coupled with other upgrades in the brass production Luncang facility will necessitate the building on a new dormitory to house the expanding workforce.

As demands for reliable quality increase in the domestic China market, Joyou will be investing in equipment and processes to achieve these quality levels in the Luncang brass and zinc production lines.

Over 2014 we will be further expanding the group's galvanisation capacity at the Shuitou plant to meet needs for plastics, zinc and copper galvanisation in line with expansion plans.

Strategic Cooperation with Grohe Group

Joyou believes that its partnership with the Grohe Group will not only lead to increasing international sales volumes but also continue to create value moving forward in other areas such as inter-group component sales and product quality.

International Sales

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, and saw significant increases in all of these activities throughout 2013. Since the branded sales launch in 2012 in the UK, the international sales cooperation with Grohe has further resulted in further international sales to North and South America, Asia, the Middle East and Europe. During 2014, Joyou expects to gain further Joyou branded sales and major private-label distributors around the world for its products.

Inter-Group Sales

Joyou will continue, with the assistance of Grohe's engineering teams, to turn push for excellence in its drive to become a lower cost, quality certified manufacturer. This will allow Joyou to win more order to supply components and other semi-finished products to the Grohe Group, and hence reduce the Grohe Group's reliance on external manufacturers. The sourcing, production and quality know-how gained in this cooperation will also further improve the quality of Joyou's product range. Joyou expects to double the number of Grohe certified components available for supply to the Grohe Group in 2014 (note that such sales are classed under international sales in segment classification, because the ultimate customer is outside 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 in China. For 2014, the major focus will be to reinforce the brand pillars of quality, design and service in the consumer's mind, and to work with the professional channel partners for direct and referred sales. In the coming year, Joyou will also continue promoting the environmentally friendly aspects of its products, and their production in order to differentiate itself with increasingly eco-friendly buyers.

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 will continue its Project Expansion Strategy to build the foundations in this segment of the market, using the central projects office in Beijing, and smaller project sales team around China, and using this platform to build relationships with the top property developers. The focus will be on centrally gaining further recognition with the developers, and supplying the projects in unison with Joyou's distributors in China. Joyou will build on this investment and leverage its in-house manufactured bathroom solution advantage to further expand this segment in 2014 and beyond.

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 especially in the areas of water-saving products and lead-free brass-ware, which Joyou believes will give it significant advantage both in National and international markets. 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.

4.1.3.2 Summarising assessment of the Future Business Development

The economic development in China as well as mega-trends, namely urbanisation and consumerism, 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 2014 and beyond. Internationally we believe that our cooperation with the Grohe Group will lead to further increases in international business as new markets and segments are jointly developed.

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. For 2014, Joyou expects continued robust growth of its consolidated revenues amounting to between 5 % and 10 % in RMB terms. While the growth rate of the Chinese domestic revenues is expected to be slightly over the expected annual value growth rates for the taps and mixer market segment as forecasted by BSRIA, international sales are budgeted to contribute growth significantly in excess of the Group's average budgeted growth rate. We anticipate a moderate gross margin decline caused due to rapidly increased international sales, which have lower gross margins, and this decline will also affect our operating profit compared to 2013. As certain financing and tax items affecting our profitability in 2013 are not to recur in 2014, we expect substantial growth of our net profit for the period compared to 2013, and hence earnings per share (EPS).

We see many growth opportunities for Joyou in the domestic Chinese and international sanitary-ware market. For 2014, we intend investments on the expansion and upgrading of the Luncang brassware facility, the second Meiyu ceramics facility, the Luncang plastics facility and the expansion of the Yongsheng galvanisation plant, thereby increasing the existing book value of property, plant and equipment significantly. Over the next three years, we intend to continue investing a significant portion of the available funds into the expansion of existing facilities, the construction of new facilities and the working capital requirements associated herewith to meet the expected demand. The financing for these investments was secured at the end of 2012 and during 2013 thereby leading to a strong cash position at the end of 2013. For 2014, we expect a significant negative cash flow and a reduction of the cash position following the significant increase in cash outflows from the aforementioned investment programme.

To finance these intended investments, Joyou will explore further opportunities of financial instruments currently being used by the group. These growth investments and the related finance cost, however, will have an impact on Joyou's free cash flow for the near future. The mid-term dividend policy of Joyou AG will take the expected development of the financial situation of the Group into account focussing on the successful long-term development of the Group. Accordingly, Joyou strongly believes that future dividends shall only be paid out of future profits of its PRC subsidiaries once the required investments to successfully address the market development in Mainland China and its challenges have been appropriately addressed. Once this goal has been achieved, we strive to pay out dividends of at least 15 % of net profit provided that we have sufficient additional available funds to continue our growth strategy.

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.

4.1.4 Future Development of the single entity, German holding company 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, due to the circumstances discussed above, the single-entity, German holding company, Joyou AG, expects a small net loss, with a negative operating cash flow in 2014 and beyond.

4.2 Opportunities and Risk Report

4.2.1 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 Act. 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.

4.2.2 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.

4.2.3 Major Risks and Opportunities

Management assessed that the following risks and opportunities are essential:

4.2.3.1 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 54 % of the country's total population by the end of 2013. Currently, around 54 % or 729 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 lowered its GDP growth expectation for 2014. The growth achieved in 2013 of 7.7 % was a decelerated growth rate from 2012's 7.8 %, 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. Furthermore, more new policies might be launched to eliminate the presumed housing bubble, especially in first-tier cities. 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 of raw materials.

4.2.3.2 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 stores but to focus on increasing sales per existing store in China. Joyou depends on retaining existing or finding new distributors which are of good standing and reputation to operate this network of retail stores. There can be no assurance that Joyou will be able to upgrade as many retail stores 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 stores 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.

4.2.3.3 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 risks 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.

4.2.3.4 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 transactions 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.

4.2.3.5 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.

4.2.3.6 Insufficient Financing Capabilities

In order to finance Joyou's 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 or Joyou Hong Kong, 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, can be made. 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.

4.2.3.7 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 primarily on loans taken from banks located in the PRC and on Joyou Hong Kong obtaining RMB denominated loans. In addition, the Group obtained a significant USD denominated loan in 2013. The ongoing growth 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 the 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.

Joyou has a significant loan outstanding which is denominated in USD, and as such Joyou has exposure to exchange rate risk in this loan. To date Joyou has not employed any hedging instrument to protect against possible exchange rate fluctuation because it is management's view that the exchange rate is stable or favourable over the term of the loan. If there is a revaluation of USD/RMB exchange rate that goes outside management's expectations, then Joyou would need to repay more on the loan than expected.

4.2.3.8 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. For international markets also, Joyou also does not maintain product liability insurance. Joyou's increasing exposure to international markets could hence pose such a risk.

In addition, Joyou is subject to numerous other risks including natural disasters, potential business disruptions, such as disruption in the flow kiln at Joyou's Meiyu ceramics facility, or potential litigation. Joyou does not maintain any business liability, loss of data or disruption insurance coverage for its operations except for the provision for product defects. Any product defects, business disruptions, litigation or natural disasters might result in Joyou's incurring substantial costs and the diversion of its resources. The occurrence of uninsured damages could have material adverse effects on the business, financial condition and results of operations of Joyou. Furthermore Joyou's international expansion may incur additional liability for which Joyou is not sufficiently protected.

4.2.3.9 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 cooperations. 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.

4.2.3.10 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.

4.2.4 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.

4.2.5 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 2013, 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.

4.2.6 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 or Joyou AG. 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.

5 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 segregation of duties 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.

6 Remuneration System

6.1 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 2013 and 2012 respectively. Finally, there are no termination benefits that have been agreed upon. As at 31 December 2013, and 31 December 2012, 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	293,510	264,159	88,053	–	645,721
Benefits in kind	27,636	28,956	8,288	–	64,881
Total	**321,145**	**293,115**	**96,341**	**–**	**710,602**

6.2 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. 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 for attending meetings of the Supervisory Board in Europe, and a remuneration of EUR 4,000 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 for attending meetings of the Supervisory Board in Asia, and a remuneration of EUR 4,000 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 2013 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	25,994	–	–	25,994
Total	**118,219**	**55,000**	**27,500**	**200,719**

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

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

7.1 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.

7.2 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 Grohe Group S.à r.l., Joyou Grohe Holding AG and Messrs. Jianshe CAI and Jilin CAI, dated 22 March 2013 (the "Shareholders" Agreement") contains the following restrictions regarding voting rights:

- Grohe Group S.à r.l. and Joyou Grohe Holding AG are obliged to vote in favour of one nominee for Joyou AG's supervisory board proposed by Cai GmbH.
- 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 Cai GmbH and Joyou Grohe Holding AG mutually agree on such resolution, whereby certain resolutions are excluded from such requirement of mutual agreement (e.g. removal of supervisory board members, amendment of the articles of association, capital increases, exclusion of subscription rights, issuance of convertible bonds).
- Grohe Group S.à r.l. and Joyou Grohe Holding AG may only approve any resolution in the general meeting of Joyou AG regarding a delisting or down-listing of Joyou AG or a squeeze-out of minority shareholders with the consent of Cai GmbH. In case of a sale of Grohe Group S.à r.l. to a listed buyer, if Cai GmbH also sells its shares in Grohe Group S.à r.l. and receives listed shares in such buyer in return for their shares in Grohe Group S.à r.l., this consent requirement will cease to be effective after three years following such sale.
- Grohe Group S.à r.l. and Joyou Grohe Holding AG will not support any proposals from free-float shareholders as to the distribution of profits at the level of Joyou AG.

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

- Grohe Group S.à r.l. and Joyou Grohe Holding AG may transfer any of their shares in Joyou AG only to the extent that they in aggregate retain 50 % of the shares, plus one share, in Joyou AG following such transfer. Any further transfers of shares in Joyou AG by Grohe Group S.à r.l and Joyou Grohe Holding AG may only be made with Cai GmbH's consent, which shall not be unreasonably withheld, and which is not required if there is a compelling need for such transfer, for example in case of a restructuring.

7.3 Direct or Indirect Interests in the Capital Exceeding 10 %

Statutory voting rights notifications received by the Company from shareholders with substantial direct or indirect shareholdings in the Company can be found in the notes to the Company's individual financial statements.

7.4 Holders of Shares with Special Rights Conferring Control Powers

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

7.5 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.

7.6 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 or 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.

7.7 Management Board's Authorisations concerning the Possibility of Issuing or Buying Back Shares

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.

7.8 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.

7.9 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.

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** under Investor Relations › Corporate Governance › Declaration of Compliance.

Hamburg, 13 March 2014

Jianshe CAI Jilin CAI Zufang LI Gerald MULVIN

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Consolidated Statement of Comprehensive Income

kEUR	Notes	2013	2012
Revenue	6.	357,843	329,614
Cost of sales	7.	-258,827	-235,876
Gross profit		**99,016**	**93,738**
Other operating income	6.	1,667	908
Selling and distribution expenses	8.	-25,211	-23,418
Research and development expenses	9.	-6,312	-6,042
Administrative expenses	10.	-15,246	-13,632
Other operating expenses	11.	-719	-705
Operating profit		**53,195**	**50,849**
Finance income	26.	2,302	1,999
Finance costs	26.	-13,720	-3,272
Profit before income tax		**41,777**	**49,576**
Income tax	27.	-17,512	-9,781
Profit for the period		**24,265**	**39,795**
Exchange differences on translating foreign operations		-5,648	-2,598
Other comprehensive income for the period		-5,648	-2,598
Total comprehensive income for the period		**18,617**	**37,197**
Profit attributable to:			
Owners of the parent		24,020	39,673
Non-controlling interests		245	122
Total comprehensive income attributable to:			
Owners of the parent		18,379	37,039
Non-controlling interests		238	158
Earnings per share		**EUR**	**EUR**
Basic and diluted	28.	1.00	1.66

Consolidated Statement of Financial Position

kEUR	Notes	31 Dec. 2013	31 Dec. 2012
ASSETS			
Current assets			
Inventories	20.	73,576	80,971
Trade receivables	21.	85,518	78,653
Other receivables and prepayments	21.	31,270	29,110
Income tax receivables	27.	–	813
Amounts due from Grohe Group	30.	5,571	3,372
Amounts due from related parties other than Grohe Group	30.	90	91
Cash and cash equivalents	22.	128,008	79,620
		324,033	**272,630**
Non-current assets			
Property, plant and equipment	13.	172,589	146,433
Investment property	14.	3,058	3,218
Intangible assets	15.	358	599
Lease prepayments for land-use rights	16.	25,962	26,429
Other non-current assets	17.	–	243
Deferred tax assets	19.	2,155	1,704
		204,122	**178,626**
Total assets		**528,155**	**451,256**
LIABILITIES			
Current liabilities			
Short-term loans	18.	20,743	24,029
Long term liabilities due within one year	18.	14,147	7,116
Trade payables	24.	5,526	7,020
Notes payable	24.	21,427	30,885
Other payables and accruals	24.	14,147	10,304
Amounts due to related parties other than Grohe Group	30.	17	19
Amounts due to Grohe Group	30.	959	1,237
Income tax payable	27.	3,432	–
		80,398	**80,610**
Non-current liabilities			
Long-term bank loans	18.	86,658	28,465
Provisions	24.	936	634
		87,594	29,099
Total liabilities		**167,992**	**109,709**
CAPITAL AND RESERVES			
Equity attributable to owners of the parent:			
Share capital	23.	23,967	23,967
Capital reserves	23.	115,546	115,710
Statutory reserves	23.	11,703	10,710
Currency translation reserve	23.	25,449	31,090
Retained earnings	23.	182,840	159,650
Equity attributable to shareholders		359,505	341,127
Non-controlling interests	23.	658	420
Total equity		**360,163**	**341,547**
Total liabilities and equity		**528,155**	**451,256**

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
Balance as at 1 January 2012	**23,967**	**115,738**	**9,841**	**33,723**	**120,819**	**304,088**	**262**	**304,350**
Transfer to reserves	–	–	869	–	-869	–	–	–
Withdrawals from reserves	–	-28	–	–	28	–	–	–
Total comprehensive income*	–	–	–	-2,633	39,672	37,039	158	37,197
Balance as at 31 December 2012	**23,967**	**115,710**	**10,710**	**31,090**	**159,650**	**341,127**	**420**	**341,547**
Transfer to reserves	–	–	993	–	-993	–	–	–
Withdrawals from reserves	–	-164	–	–	164	–	–	–
Total comprehensive income*	–	–	–	-5,641	24,020	18,379	238	18,617
Balance as at 31 December 2013	**23,967**	**115,546**	**11,703**	**25,449**	**182,842**	**359,505**	**658**	**360,163**

* 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	2013	2012
Operating activities			
Profit before tax		41,777	49,576
Adjustments for non-cash items	29.	18,605	8,409
Net changes in working capital	29.	-9,750	-17,345
Income tax paid		-14,488	-12,257
Cash flow from operating activities		**36,144**	**28,383**
Cash flow from investing activities			
Purchase of intangible assets	15.	-29	-49
Purchase of property, plant and equipment	13.	-27,488	-40,230
Acquisition of subsidiary net of cash acquired	4.	-12,135	–
Interest received		2,302	1,999
Cash flow used in investing activities		**-37,350**	**-38,280**
Cash flow from financing activities			
Decrease in short-term bank borrowings		-2,977	-8,593
Increase in long-term bank borrowings		74,038	32,224
Decrease in long-term bank borrowings		-7,338	–
Interest paid		-11,895	-2,242
Cash flow from financing activities		**51,828**	**21,389**
Net increase in cash and cash equivalents		**50,622**	**11,492**
Cash and cash equivalents at beginning of period	22.	79,620	68,696
Foreign exchange movements		-2,234	-568
Cash and cash equivalents at end of period	22.	**128,008**	**79,620**

Notes to the Consolidated Financial Statements

for the reporting period ended 31 December 2013

General Notes

1 Nature of Operations and Structure

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

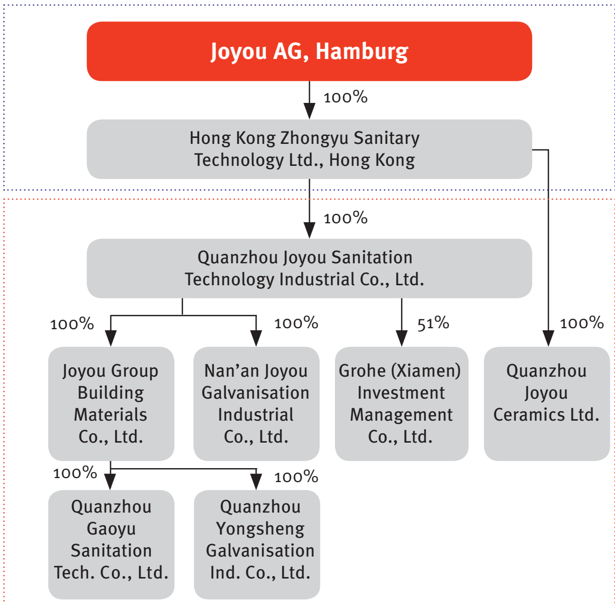
Joyou's operating facilities are based in Nan'an near Quanzhou in the Fujian Province in China. The Group has established an extensive distribution network in China. Its retail distribution network consists of stores being operated by unaffiliated shop owners who have been engaged by 51 unaffiliated 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 products internationally through Joyou International Trading Company Limited, a 100 % owned subsidiary of the Grohe Group, and the companies of the Grohe Group.

Since July 2011 Joyou's strategic distribution partner Grohe Group has owned a majority of the shares in Joyou AG. In April 2013 a new shareholder structure was introduced at Joyou AG, which has strengthened the global cooperation with the Grohe Group. Following the completion of the new shareholder structure, Grohe Group became the largest single shareholder holding directly 72.3 % of the shares in Joyou AG. As a result of the transaction the parent company of Joyou AG continued to be Joyou Grohe Holding AG and the next most senior parent to Joyou AG that produces consolidated financial statements available for public use became Grohe Group S.à r.l.

As at 31 December 2013, the ultimate parent company of Grohe Group S.à r.l. was Glacier Partners L.P., Cayman Islands, which is, in turn, controlled by 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.

On 26 September 2013, Joyou was informed that 87.5 % of the shares in Grohe Group were sold to GraceB S.à r.l., a special-purpose entity jointly owned by LIXIL Corporation and Development Bank of Japan. The transaction was completed on 21 January 2014. As of this date, the ultimate parent company of GraceB S.à r.l., and therefore also Joyou AG, is GraceA k.k., a Japanese holding company, of which the LIXIL Corporation and the Development Bank of Japan Inc. each hold a 50 % interest.

Joyou AG Structure



In addition to Joyou AG, the following companies are included in the Consolidated Financial Statements:

Name	Legal seat	Currency	Holding in %
Hong Kong Zhongyu Sanitary Technology Ltd.	Hong Kong, VRC	HKD	100
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Nan'an, VRC	RMB	100
Joyou Group Building Materials Co., Ltd.	Nan'an, VRC	RMB	100
Nan'an Joyou Galvanisation Industrial Co., Ltd.	Nan'an, VRC	RMB	100
Quanzhou Joyou Ceramics Ltd.	Nan'an, VRC	RMB	100
Grohe (Xiamen) Investment Management Company Ltd.	Xiamen, VRC	RMB	51
Quanzhou Gaoyu Sanitation Technology Limited Company	Nan'an, VRC	RMB	100
Quanzhou Yongsheng Galvanisation Industry Co., Ltd.*	Nan'an, VRC	RMB	100

* acquired in 2013

2 General Information and Statement of Compliance with IFRS

Joyou AG is the Group's legal parent company. The company is a publicly traded German limited liability stock corporation which is domiciled in Germany. The business address of Joyou AG is Gasstraße 18, Haus 6A, 22761 Hamburg. The office in Winterstraße 4-8, 22765 Hamburg was closed in September 2013. 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 ended 31 December 2013 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 IFRS Interpretations Committee (IFRS IC), in so far as these have been adopted by the European Union (EU) and are in effect at the closing date and in accordance with Sec. 315 a 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. Certain differences of +/- kEUR 1 may arise in the addition, cross-addition or referencing of figures from primary statements to the notes to the financial statements. Such differences arise solely from the rounding of the amounts in the financial statements to the nearest EUR 1,000.

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 2013 (including comparative information relating to the accounting year 2012) were approved and authorised for issue by the Management Board on 13 March 2014. They were approved by the Supervisory Board in its meeting of 26 March 2014.

3 Accounting Policies

3.1 General

3.1.1 Overall Consideration

With the exception of the changes set out in notes 3.1.2 and 3.1.3, 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. The significant accounting policies and measurement bases that have been applied in the preparation of these Consolidated Financial Statements are summarised below.

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

3.1.2 Changes in Presentation

To improve transparency of the annual report the Group enhanced the disclosure of administrative expenses as follows:

Administrative expenses previously included inter alia expenses for research and development. As research and development is a key driver of Joyou's future development, from the 2013 financial year onwards, those expenses are to be disclosed as a separate line item within the statement of comprehensive income. Accordingly, administrative expenses are reduced by the amount of research and development expenses. Prior year disclosures have also been restated to comply with this presentation policy. As a result, the research and development expenses of kEUR 6,042 charged as an expense in 2012 are now disclosed separately in the statement of comprehensive income, thereby reducing administrative expenses from kEUR 19,674 as stated in the 2012 financial statements to kEUR 13,632, as stated in the comparative figures of the statement of comprehensive income for 2013.

The change stated above relates only to reclassification within the statement of comprehensive income and has no impact on retained earnings or earnings per share either in the 2013 or 2012 financial year.

3.1.3 Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the 2013 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 2013 reporting period:

- IFRS 1 (Amendments) – Severe Hyperinflation and Removal of Fixed Dates for first time Adopters
- IAS 12 (Amendments) – Deferred tax: Recovery of Underlying Assets
- IAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income
- IAS 19 (Amendments) – Employee benefits
- IFRS 1 (Amendments) – Government Loans
- IFRS 13 – Fair Value Measurement
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
- IFRS 7 (Amendments) – Disclosures – Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to IFRSs 2009–2011 cycle

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 2013 financial year, and were therefore not applied by the Joyou Group:

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosures of Interests in other entities
- IAS 27 – Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures
- IAS 32 (Amendments) – Presentation – Offsetting Financial Assets and Financial Liabilities
- IAS 36 (Amendments) – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
- IFRS 9 – Financial Instruments and Subsequent Amendments (Amendments to IFRS 9 and IFRS 7)
- IAS 19 (Amendments) Defined Benefit Plans – Employee Contributions
- IFRS 14 – Regulatory Deferral Accounts
- IFRIC Interpretation 21 – Levies
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Annual Improvements to IFRSs 2011 – 2013 Cycle

The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the Joyou Group from the 2014 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 2013. 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 are disclosed in note 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 to those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss 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
31 December 2013	**RMB**	**8.3491**	**8.1769**
31 December 2012	RMB	8.2207	8.1461
1 January 2012	RMB	8.1588	

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

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

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

3.2.4 Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Management Board of Joyou AG, which makes strategic decisions. In identifying its nine operating segments, the Management Board generally follows the Group's product categories. These segments also represent reportable segments under IFRS 8.

The activities undertaken by the "Bathroom Faucets" segment includes the sale of basin faucets, bathtub faucets, bidet faucets, and sensor faucets 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 sale of kitchen faucets and kitchen basins. The "Shower Products" segment represents the sale of shower faucets, shower-heads and shower enclosures. The segment of "Ceramics and Bathtubs" mainly comprises 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 comprises baskets, soap trays, robe hooks, corner shelves and toilet paper holders. "Other Faucets and Sanitary Hardware" mainly comprise small faucets, drainage covers, angle valves, and crude products. In the segment of "Copper and Semi-Finished Products" unfinished products such as copper tubing and accessories are combined. Finally, the segment "Grohe Products" comprises sales 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 note 6.

3.2.5.1 Sales of Goods
Sales of goods comprise the sale of hardware items for bathrooms and kitchens. 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 that 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 profit or loss 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 profit or loss over the expected useful life of the relevant asset.

3.2.6 Other Operating Expenses

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

3.2.7 Borrowing Costs

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

3.2.8 Intangible Assets

Intangible assets include patents and software used in production or administration. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 3.2.12. Amortisation has been included within administrative expenses and cost of sales.

3.2.8.1 Software

Software is capitalised on the basis of cost incurred to acquire and bring it to the intended use condition. Direct expenditure, which can enhance or extend the performance of the software, and which can be measured reliably, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the software are recognised as an 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 acquired from third parties 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 all of 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 2013, 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 as the land-use rights do not transfer substantially the risks and rewards incidental to ownership of the land. 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 profit or loss.

3.2.11 Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation and are accounted for using the cost model. Investment properties are stated at cost, less accumulated depreciation and any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use. Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, over the useful lives mentioned under note 3.2.10.

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

Rental income and operating expenses from investment property are reported within “other operating income” and “other operating expenses”, respectively, and are recognised as described in note 3.2.5 and note 3.2.6.

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was 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, amounts due from Grohe Group and 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 profit loss 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 profit loss are included within "finance costs" or "finance income" unless interest on qualifying 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
Finished Goods and work in progress	Costs of direct materials and labour and a proportion of manufacture overheads based on normal operating capacity but excluding borrowing costs
Merchandise products	Purchase cost on a weighted average basis

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

The carrying values of inventories are disclosed under note 20.

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 substantially 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 substantially enacted by the end of the reporting period.

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

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. The respective amounts are disclosed in a separate line item "Cash and Cash Equivalents" in the statement of Financial Position.

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 restrictions on bank deposits are normally removed on settlement of the underlying letters of credit and notes.

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, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. Contributions to national pension schemes are 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 reported in profit or loss 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 costs 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 the 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. Account 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 against 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 support bonuses 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 bonuses for the individual distributor are calculated.

3.2.20.4 Impairments on inventories

Joyou performs 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 10 years, and property, plant and equipment and investment property has been revised to be within 7 to 28 years. These are common life expectancies applied in the sanitary-ware industry in the PRC. At 31 December 2013, management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in note 13, 14 and 15. 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 occupied 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 the 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 Acquisitions

Effective 7 June 2013, Joyou Building Materials Ltd., a 100 % subsidiary of the Joyou Group, acquired 100 % of the issued share capital and voting rights of Quanzhou Yongsheng Galvanisation Industry Co. Ltd., a company based in Nan'an City, Shuitou Galvanisation Industrial Park, Fujian Province, People's Republic of China. The company acquired operates as a Galvanisation Company for several of the Group's business segments. The objective of the acquisition is to further increase the galvanisation capacity of the Group as Joyou's current galvanisation capacities are insufficient to meet expected future demand due to its increase in production. In response to the environmental impact of the galvanisation process, the PRC government has ceased issuing new galvanisation licenses and seriously curtailed the expansion of current galvanisation lines. It was for this reason, that the 200,000 sq.m. Shuitou Galvanisation Industrial Park was established. It is a government controlled centralised galvanisation facility set up to tackle environmental issues related to the galvanisation process. The galvanisation plant of Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. was established in March 2010 in the Shuitou Galvanisation Industrial Park and specialises in galvanisation for international and domestic sanitary-ware brands.

Details of the business combination are as follows:

kEUR	7 June 2013
Fair value of consideration transferred	
Amount settled in cash	12,164

kEUR	7 June 2013
Recognised amounts of identifiable net assets	
Property, plant and equipment	9,995
Lease prepayments for land-use rights	590
Deferred tax assets	6
Total non-current assets	**10,591**
Inventory	1,728
Trade receivables and advances	732
Other assets	201
Cash	29
Total current assets	**2,690**
Other liabilities	-614
Trade payables and advances	-412
Total current liabilities	**-1,026**
Provision	-91
Total non-current liabilities	**-91**
Identifiable net assets	**12,165**

kEUR	7 June 2013
Consideration transferred settled in cash	12,164
Cash and cash equivalents acquired	-29
Net cash outflow on acquisition	**12,135**
Acquisition costs charged to expenses	5
Net cash paid relating to the acquisition	**12,140**

Consideration transferred

The acquisition was settled in cash amounting to kEUR 12,164. Acquisition-related costs amounting to kEUR 5 are not included as part of consideration transferred and have been recognised as an expense in profit or loss as part of other operating expenses.

Identifiable net assets

The fair values of the identifiable non-financial assets as at 7 June 2013 have been determined by a Chinese external appraiser based on internationally accepted valuation standards, while the fair values of the financial assets and the liabilities have been determined by the company. The fair value of the assets and liabilities can be analysed as follows:

kEUR	Book Value	Adjustment	Fair Value
Property plant and equipment	9,924	71	9,995
Lease prepayments for land-use rights	590	–	590
Deferred tax assets	–	6	6
Inventory	1,728	–	1,728
Trade receivables and advances	732	–	732
Other assets	201	–	201
Cash and cash equivalents	29	–	29
Other liabilities	-614	–	-614
Trade payables and advances	-411	-1	-412
Provision	–	-91	-91
Net assets	**12,180**	**-15**	**12,165**

The management has assessed the market and currency risks on all assets and liabilities acquired. All assets and liabilities are held in the People's Republic of China. Therefore no currency risks arise from the acquisition. With the exception of fixed assets and provisions, all assets and liabilities acquired are short term in nature and contain no significant market risk.

In respect of acquired receivables the gross contractual amounts receivable do not differ from their book value and they are expected to be collected in full.

Significant judgements and assumptions

Quanzhou Yongsheng Galvanisation Industry Co. Ltd. acquired the building currently used and the related land-use rights from the Shuitou Galvanisation Industrial Park making a lump-sum payment for both assets. The management of Quanzhou Yongsheng Galvanisation Industry Co. Ltd. was not able to determine the allocation of the lump-sum payment made between land-use rights and buildings as the relating land-use rights certificates had neither been granted to the Shuitou Galvanisation Industrial Park nor to Quanzhou Yongsheng Galvanisation Industry Co. Ltd. Consequently uncertainty remained on the size of the land acquired affecting the ability to allocate the purchase price accordingly. At the time of preparation of the consolidated financial statements the aforementioned conditions remained unchanged. Therefore, management determined the portion of the fair value for such land-use rights as a best approximation by using an average price per square meter of land paid by the Group in the past multiplied by the estimated size of the land.

Goodwill

The purchase price paid is equal to the fair value of the assets and liabilities acquired. As a result no goodwill arises from the acquisition.

Comparison of preliminary and final purchase price allocation

As the acquisition was completed late in the 2nd quarter of 2013, management had determined the fair values of the identifiable assets and liabilities after acquisition on a preliminary basis. In the fourth quarter of 2013, the Joyou Group engaged an appraiser and obtained the information necessary to finalise the purchase price allocation in February 2014. The values determined by the final purchase price allocation are set out in the above table and differ slightly from those disclosed in the Group's interim consolidated financial statements to 30 June 2013.

The changes in values between the preliminary and final purchase price allocations arise principally from the reclassification of lease prepayments for land-use rights to a separate balance sheet classification in order to bring the presentation in line with group policy.

Yongsheng Galvanisation's contribution to the Group's results

Quanzhou Yongsheng Galvanisation Industry Co. Ltd. contributed kEUR 2,401 and kEUR 92 to the Group's revenues and profits, respectively from the date of the acquisition to 31 December 2013. Had the acquisition occurred on 1 January 2013, the Group's revenue for the period to 31 December 2013 would have increased by kEUR 1,957 and the Group's net profit for the period would have increased by kEUR 86.

5 Segment Reporting

Management currently identifies the Group's nine product categories as operating segments as further described in note 3.2.4. The segment presentation is in accordance with the expanded cost accounting system and management's expectation of future business developments. These operating segments are monitored and strategic decisions are made on the basis of segmental gross margins.

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
Twelve months ended 31 Dec. 2013										
Revenue	131,418	43,408	64,507	41,216	16,027	11,643	25,363	12,886	11,375	357,843
Cost of sales	91,802	31,312	45,621	28,565	10,906	8,096	20,857	10,455	11,213	258,827
Gross Profit	39,616	12,096	18,886	12,651	5,121	3,547	4,506	2,431	162	99,016
Segment assets	**168,644**	**55,704**	**82,780**	**128,911**	**20,567**	**14,941**	**32,548**	**16,536**	**7,524**	**528,155**
Twelve months ended 31 Dec. 2012										
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
Segment assets	**141,550**	**40,943**	**63,118**	**131,395**	**16,264**	**12,075**	**25,428**	**6,564**	**13,919**	**451,256**

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	2013	2012
Domestic	316,655	297,621
International*	41,188	31,993
Total	**357,843**	**329,614**

* 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 2013, kEUR 17,654 (2012: kEUR 14,511) or 5 % (2012: 4 %) 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. International sales relate to sales to domestic customers that normally export the goods for resale as well as 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	2013	2012
Gross profit	**99,016**	**93,738**
Other operating income	1,667	908
Selling and distribution expenses	-25,211	-23,418
Research and development expenses	-6,312	-6,042
Administrative expenses	-15,246	-13,632
Other operating expenses	-719	-705
EBIT	**53,195**	**50,849**
Finance income	2,302	1,999
Finance costs	-13,720	-3,272
EBT	**41,777**	**49,576**
Taxes on profit	-17,512	-9,781
Profit for the period	**24,265**	**39,795**

Notes to the Statement of Comprehensive Income

6 Revenue and Income

kEUR	2013	2012
Revenue	**357,843**	**329,614**
Other operating income		
Rental income	344	345
Management Fee	770	337
Government grant	131	44
Reimbursements	284	31
Samples	22	–
Other	116	151
	1,667	**908**
Finance income		
Interest income	698	907
Exchange gain	1,604	1,092
	2,302	**1,999**
Total income	**361,812**	**332,521**

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 consolidated revenue. For further details on revenue refer to note 5.

The rental income derived from investment property is stated in note 14.

The Management Fee disclosed solely relates to the commissions received from the Chinese Grohe Group company resulting from the management of the operations on behalf of Grohe China.

Reimbursements result from payments by the Grohe Group to compensate all costs incurred in connection with the previously intended IPO of the Grohe Group or its sale to a new investor. The corresponding expenses are reported under other operating expenses.

7 Cost 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	2013	2012
Copper	96,867	88,503
Zinc	9,066	11,490
Other metals	13,670	17,927
Other parts	40,912	43,807
Subtotal materials	**160,515**	**161,727**
Labour costs	13,982	11,696
Depreciation and amortisation	5,437	3,779
Outsourced products	57,007	35,721
Overheads / other	21,886	22,953
Total	**258,827**	**235,876**

8 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.

kEUR	2013	2012
Transportation	8,222	8,493
Advertising and exhibitions	10,946	9,028
Labour costs	2,435	2,032
Travel and entertainment costs	1,492	1,532
Rent	407	553
Commission	741	–
Other	968	1,780
Total	**25,211**	**23,418**

9 Research and Development

In 2013 research and development costs are disclosed separately as these costs have a major impact on the result. In previous years research and development costs were disclosed as part of administrative expenses. The expenses comprise all types of internal and external costs for research and development.

kEUR	2013	2012
Material costs	4,222	4,405
Wages	1,077	962
Testing and third party costs	816	525
Depreciation	197	150
Total	**6,312**	**6,042**

10 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 and staff education charges:

kEUR	2013	2012
Labour costs (including welfare and training)	4,657	4,675
Travel and entertainment costs	1,465	1,754
Office costs	2,435	1,938
Listing costs and consulting fees	1,539	1,705
Depreciation	1,795	1,328
Other taxes	896	663
Bad debt provision	255	210
Other	2,204	1,359
Total	**15,246**	**13,632**

11 Other Operating Expenses

kEUR	2013	2012
Donations	228	352
Expenses on land-use rights awaiting construction	22	22
Expenses on investment property	146	170
Consulting fees reimbursed	284	–
Other	39	161
Total	**719**	**705**

Consulting fees reimbursed relate to expenses that were incurred as a result of the acquisition of the Grohe Group by LIXIL and DBJ. All costs incurred in connection with this transaction and the previously planned IPO of the Grohe Group are to be reimbursed by the Grohe Group to Joyou. The corresponding income is reported as part of other operating income.

12 Selected Expenses Affecting Operating Profit

The following operating expenses are included in operating profit:

kEUR	2013	2012
Cost of inventories recognised as expense	258,827	235,876
Depreciation of property, plant and equipment	8,419	6,105
Depreciation on investment property	146	117
Staff costs	20,933	18,791
Amortization of intangible assets	31	28
Expensing on land-use rights	640	642
Rental payments expensed	499	613
Allowance for doubtful trade debts/– no longer required	268	338
Allowance for doubtful non-trade debts/– no longer required	-12	-127

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

13 Property, Plant and Equipment

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

kEUR	Buildings	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
Cost						
Balance as at 1 Jan. 2012	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
Balance as at 31 Dec. 2012	**77,154**	**50,533**	**2,894**	**2,752**	**35,486**	**168,819**
Currency translation adjustment	-1,268	-1,087	-47	-45	-869	-3,316
Acquisitions through business combination	2,099	6,865	21	24	986	9,995
Additions	606	5,742	127	72	20,941	27,488
Disposal	-71	-8	-1	–	–	-80
Reclassifications	1,844	4,169	–	–	-6,013	–
Reclassifications to investment property	–	–	–	–	-33	-33
Balance as at 31 Dec. 2013	**80,364**	**66,214**	**2,994**	**2,803**	**50,498**	**202,873**
Accumulated depreciation						
Balance as at 1 Jan. 2012	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
Balance as at 31 Dec. 2012	**6,871**	**13,529**	**1,188**	**798**	**–**	**22,386**
Currency translation adjustment	-168	-302	-28	-19	–	-517
Charge for the year	3,011	4,588	483	337	–	8,419
Disposal	–	-3	-1	–	–	-4
Balance as at 31 Dec. 2013	**9,714**	**17,812**	**1,642**	**1,116**	**–**	**30,284**
Net carrying amount						
as at 1 Jan. 2012	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
as at 31 Dec. 2013	70,650	48,402	1,352	1,687	50,498	172,589

The Group has a contractual commitment at the reporting date for the construction of new plants of kEUR 648 (31 December 2012: kEUR 4,820).

Construction in progress includes an amount of kEUR 1,007 (2012: kEUR 438) in respect of interest capitalised on qualifying assets. For further information regarding capitalised interest please refer to note 26.

Tangible assets with a net book value of kEUR 707 (2012: kEUR: 0) have been pledged as security.

14 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
Cost			
Balance as at 1 Jan. 2012	2,606	–	2,606
Currency translation adjustment	-20	-11	-31
Reclassifications from property plant and equipment	–	1,245	1,245
Balance as at 31 Dec. 2012	2,586	1,234	3,820
Currency translation adjustment	-39	-20	-59
Reclassifications from property plant and equipment	–	33	33
Balance as at 31 Dec. 2013	**2,547**	**1,247**	**3,794**
Accumulated depreciation			
Balance as at 1 Jan. 2012	489	–	489
Currency translation adjustment	-4	–	-4
Charge for the year	117	–	117
Balance as at 31 Dec. 2012	602	–	602
Currency translation adjustment	-12	–	-12
Charge for the year	117	29	146
Balance as at 31 Dec. 2013	**707**	**29**	**736**
Net carrying amount			
as at 1 Jan. 2012	2,117	–	2,117
as at 31 Dec. 2012	1,984	1,234	3,218
as at 31 Dec. 2013	1,840	1,218	3,058

No professional valuation has been carried out on the above investment property. However, by reference to the current market values of comparable properties, 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 2013 amounts to kEUR 344 (2012: kEUR 345) and is included in "other operating income". Direct operating expenses of kEUR 146 (2012: kEUR 170), 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 2013 financial year. The lease agreement was extended verbally until the intended departure of the lessee expected in the middle of 2014. Expected future minimum lease payments, which become due within one year, amount to kEUR 172 (2012: kEUR 345). The subsequent usage of the property has not yet been determined by the company. If own use was to become probable, the respective property would be reclassified to the line item "property, plant and equipment" with no effect on the Group's consolidated statement of comprehensive income.

15 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
Cost			
Balance as at 1 Jan. 2012	131	245	376
Currency translation adjustment	-1	-5	-6
Additions	49	246	295
Balance as at 31 Dec. 2012	179	486	665
Currency translation adjustment	-4	-1	-5
Additions	29	–	29
Disposals	–	-245	-245
Balance as at 31 Dec. 2013	**204**	**240**	**444**
Accumulated amortisation			
Balance as at 1 Jan. 2012	38	–	38
Charge for the year	19	9	28
Balance as at 31 Dec. 2012	57	9	66
Currency translation adjustment	-2	–	-2
Charge for the year	31	–	31
Disposals	–	-9	-9
Balance as at 31 Dec. 2013	**86**	**–**	**86**
Net carrying amount			
as at 1 Jan. 2012	93	245	338
as at 31 Dec. 2012	122	477	599
as at 31 Dec. 2013	118	240	358

The disposal relates to a patent, which the company acquired in 2011 and which was never utilised by the company. Therefore the former owner of the patent and the company agreed to return the patent at book value to the former owner as the company did not expect the patent to provide additional future economic benefits for the Group. Since the company had not settled the liability arising from the acquisition of such patent no implications on cashflow occurred.

Intangible assets with a net book value of kEUR 354 (2012: kEUR 0) have been pledged as security.

16 Lease Prepayments for Land-use Rights

The Group has 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 maximum period of 50 years and are expensed over their lease period. As at 31 December 2013, the land-use rights have remaining lease periods of 29 to 45 years.

	kEUR
Balance as at 1 Jan. 2012	**27,867**
Currency translation adjustment	-198
Expensed for the year	-642
Balance as at 31 Dec. 2012	**27,027**
Currency translation adjustment	-402
Acquisition through business combination	590
Expensed for the year	-640
Balance as at 31 Dec. 2013	**26,575**
Balance as at 31 Dec. 2013	
Thereof current	613
Thereof non-current	25,962
Balance as at 31 Dec. 2012	
Thereof current	598
Thereof non-current	26,429

17 Other non-current assets

In the previous year the Group disclosed a deposit payment made in 2010 for the proposed acquisition of a new galvanisation plant. As the management expected not to finish the transaction in the coming twelve months, the deposit payment was disclosed as a non-current asset. However, the acquisition was completed with effect from 7 June 2013 and the prepayment was treated as part of the purchase price.

18 Financial Assets and Liabilities

18.1 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	2013	2012
Trade receivables	21.	85,518	78,653
Other receivables	21.	3,017	2,394
Amounts due from Grohe Group	30.	5,571	3,372
Amounts due from related parties other than Grohe Group	30.	90	91
Cash and cash equivalents	22.	128,008	79,620
Total		**222,204**	**164,130**

Financial Liabilities measured at amortised cost

kEUR	Notes	2013	2012
Non-current			
Long-term loans	18.	86,658	28,465
Current			
Short term loan (bank loans)	18.	20,743	24,029
Long term liabilities due within one year	18.	14,147	7,116
Trade payables	24.	5,526	7,020
Notes payable	24.	21,427	30,885
Other payables and accruals	24.	10,195	9,522
Amounts due to related parties other than Grohe Group	30.	17	19
Amounts due to Grohe Group	30.	959	1,237
Total		**159,672**	**108,293**

See note 3.2.13 for a description of the accounting policies for each category of financial instruments. The carrying amounts of the financial assets and liabilities approximate to their fair values.

A description of the Group's risk management objectives and policies for financial instruments is given in note 33.

18.2 Short-term Loans

Short-term loans include the following financial liabilities:

kEUR	2013	2012
Secured bank loans	**20,744**	**24,028**

The item contains financial liabilities of secured short term bank loans. 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 note 30.3.4). Current interest rates are fixed and average 8.54 % (2012: 7.56 %).

18.3 Long-term Loans

As at 31 December 2012 the Group disclosed a long-term loan granted to the Group by Standard Chartered Bank (Hong Kong) Limited in the 4th quarter of 2012. The loan is granted with a nominal value of approx. EUR 37 million 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 expires in three years with an annual interest rate of 7.9 %. The long-term loan is measured using the effective interest method.

On 7 June 2013 Joyou Hong Kong entered into a loan facility agreement with Nomura International (Hong Kong) Ltd. and a syndicate of banks at a principal amount of USD 100 million with the intention of using the funds to support the ongoing expansion of Joyou's production facilities including a plastics facility, phase two and three of the Meiyu ceramics plants, ongoing upgrades of the Luncang faucet production lines as well as for general corporate purposes. The loan less any fees stated below was fully paid out to the borrower Joyou Hong Kong on 12 July 2013. The loan is subject to interest at USD LIBOR rate plus a margin of 4.25 % and its repayment is due in instalments over a period of 36 months. In connection with the loan agreement, Joyou agreed to pay facility fees to Nomura and a syndicate of banks for granting the facility to Joyou, which amount in total to kUSD 5,000. These facility fees have been charged to profit or loss in 2013 in the amount of kEUR 3,759.

The movements in long-term loans can be analysed as follows:

kEUR	2013	2012
Standard Chartered Loan gross nominal value	28,746	36,493
Less: arrangement costs	-452	-912
Net liability of Standard Chartered Loan	**28,294**	**35,581**
Nomura Loan	72,511	–
Net liability of long term loans	**100,804**	**35,581**
Balance as at 31 Dec. 2013		
Thereof current	14,147	7,116
Thereof non-current	86,658	28,465

19 Deferred Tax Assets and Liabilities

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

kEUR	1 Jan. 2013	Foreign exchange adjustments	Recognised as part of business combination	Recognised in profit and loss	31 Dec. 2013
Trade and other receivables	1,249	-28	–	430	1,651
Provisions	205	-5	6	75	281
Inventories	807	-7	–	-254	546
Land-use rights	156	-2	–	3	157
Bank Loan	-228	1	–	114	-113
Research and development	313	-11	–	297	599
Property, plant and equipment	-798	16	–	-184	-966
Total	**1,704**	**-36**	**6**	**481**	**2,155**
Recognised as					
Deferred tax asset	1,704				2,155
Deferred tax liability	–				–
Total	**1,704**				**2,155**

kEUR	1 Jan. 2013	Foreign exchange adjust-ments	Recognised as part of business combi-nation	Recognised in profit and loss	31 Dec. 2013
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 rights	154	-2	–	4	156
Future benefits 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
Total	**2,251**	**-12**	**–**	**-535**	**1,704**
Recognized as					
Deferred tax assets	2,251				1,704
Deferred tax liability	–				–
Total	**2,251**				**1,704**

With respect to tax losses carried forward and potential deferred tax assets resulting therefrom we refer to note 27. Neither in the reporting period nor the comparative period have deferred tax assets or liabilities been recognised in equity. The amount recognized as part of a business combination relates to the purchase price allocation made following the acquisition of Quanzhou Yongsheng Galvanisation Industry Co. Ltd.; we refer to note 4.

20 Inventories

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

kEUR	2013	2012
Raw materials and consumables	20,166	17,992
Finished goods	25,072	32,828
Merchandise products	7,524	13,919
Work in progress	20,814	16,232
Total	**73,576**	**80,971**

Merchandise products solely relate to products purchased from the Grohe Group in accordance with the distribution agreement for Mainland China.

In the twelve months ended 31 December 2013, a total of kEUR 258,827 (31 December 2012: kEUR 235,876) of inventories was included in profit and loss within cost of sales as an expense.

Included within inventories is an amount of EUR 0 million (2012: EUR 4.1 million) which the Group does not anticipate to sell within 12 months after the reporting date.

21 Trade Receivables and Other Receivables and Prepayments

Trade Receivables

kEUR	2013	2012
Trade receivables	87,968	80,876
Allowance for trade receivables	-2,450	-2,223
Total	**85,518**	**78,653**

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	2013	2012
Thereof not past due		
Within 30 days	29,448	26,230
31–90 days	46,616	46,636
	76,064	**72,866**
Thereof past due		
91–180 days	10,066	6,334
181–360 days	697	434
1–2 years	460	678
2–3 years	295	99
Over 3 years	386	465
	11,904	**8,010**
Total	**87,968**	**80,876**

Other Receivables and Prepayments

kEUR	2013	2012
Other receivables	3,017	2,394
Advances to suppliers	28,609	27,424
Lease prepayments on land-use rights	613	598
Value added tax refunds	389	189
Prepaid expenses	274	174
Allowance for other receivables and prepayments	-1,632	-1,669
Total	**31,270**	**29,110**

Other receivables and prepayments are recognised at amortised cost and have been reviewed for indicators of impairment. All items within other receivables, which are overdue are fully impaired. Impairments made on other receivables are described in note 33.2.

Allowance for doubtful Receivables

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

kEUR	2013	2012
Provisions for trade receivables	2,450	2,223
Provisions for other receivables	1,632	1,669
Total	**4,082**	**3,892**

Trade receivables are adjusted for impairment on the basis of their age. Balances aged between one and three months are written down by 1 %, whilst those of age between three and six months are written down by 5 %. A 50 % allowance is made against balances with an age of between six months and one year, whilst all balances over one year old are provided against in full. The movements in the provision for trade receivables are as follows:

kEUR	2013	2012
Provision for trade receivables		
Balance as at 1 Jan.	2,223	1,902
Currency translation adjustment	-41	-17
Impairment loss (- = reversed)	268	338
Balance as at 31 Dec.	**2,450**	**2,223**

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	2013	2012
Provision for other receivables		
Balance as at 1 Jan.	1,669	1,810
Currency translation adjustment	-25	-14
Impairment loss (- = reversed)	-12	-127
Balance as at 31 Dec.	**1,632**	**1,669**

Provision for doubtful receivables amounted to a net expense of kEUR 255 (period ended 31 December 2012: kEUR 211).

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.

22 Cash and Cash Equivalents

Cash and cash equivalents include the following components:

kEUR	2013	2012
Cash on hand	13	20
Cash in banks	115,322	65,102
Security deposits for letters of credit	1,947	2,277
Security deposits for short term loans	6,728	2,433
Security deposits for notes payable	3,998	9,788
Total	**128,008**	**79,620**

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 2013 amounts to kEUR 12,673 (31 December 2012: kEUR 14,498). The restrictions on bank deposits are normally removed on settlement of the underlying letters of credit and notes.

Of the Group's cash and cash equivalents an amount of kEUR 98,029 (31 December 2012: kEUR 76,308) 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 of governmental bodies.

23 Capital and Reserves

23.1 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	2013	2012
Shares issued and fully paid		
Beginning and end of the year	23,967	23,967
Shares authorised		
Beginning and end of the year	11,983	11,983
Total shares issued and authorised at 31 Dec.	**35,950**	**35,950**

At the Shareholder Meeting on 15 March 2010, the previously authorised capital was abolished and a new authorised capital 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 2013, no capital increases were resolved from this authorised capital. The authorised capital as at 31 December 2013 amounts to EUR 11,983,746.

23.2 Capital Reserves

The amounts in the capital reserve are as follows:

	kEUR
Balance as at 1 Jan. 2012	**115,738**
Withdrawals from reserves	-28
Balance as at 31 Dec. 2012	**115,710**
Withdrawals from reserves	-164
Balance as at 31 Dec. 2013	**115,546**

In 2013 a withdrawal from reserves of kEUR 164 was made against retained earnings to cover the parent company's current year losses.

23.3 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 2013, the statutory reserve of Joyou AG amounts to Nil (31 December 2012: 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 11,703 at 31 December 2013 (31 December 2012: kEUR 10,710).

23.4 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.

23.5 Retained Earnings

Retained earnings comprises the cumulative profits 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.

23.6 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. In 2013, Grohe (Xiamen) Investment Management Co., Ltd. showed a net result of kEUR 511 (2012: net result of kEUR 252).

24 Trade Payables, Other Payables and accruals and Notes payable

24.1 Trade and Other Payables and accruals

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

kEUR	2013	2012
Trade payables	5,526	7,020

KEUR	2013	2012
Accruals expenses	3,798	2,845
Accrued payroll	2,124	1,467
Other payable	2,249	3,154
Advances from customers	2,103	683
Security deposits	2,024	2,056
Other tax payables	1,849	99
Total	**14,147**	**10,304**

Advances from Customers

Advances from customers relate to prepayments by clients for future deliveries of sanitary-ware products.

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.

24.2 Notes Payable

Notes payable relate to notes issued by the group's banks to suppliers, principally for the supply of copper that are settled by the banks who, in turn, receive payment from Joyou. The notes typically have a term of six months and do not bear interest but require that Joyou provides a deposit, which is used as part payment on maturity of the notes.

24.3 Provisions

Movements in provisions during the year are as follows:

kEUR	2013	2012
Carrying amount as at 1 Jan.	634	529
Currency translation adjustment	-10	-4
Addition due to acquisition	90	–
Accumulation of interest	32	31
Additional provisions	190	78
Carrying amount as at 31 Dec.	**936**	**634**

All provisions are considered non-current and relate to warranty costs, costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term and to legal claims.

The carrying amounts are analysed as follows:

kEUR	Warranty	Decommissioning	Legal Claims	Total
Carrying amount as at 1 Jan.	232	402	–	634
Currency translation adjustment	-4	-6	–	-10
Addition due to acquisition	–	90	–	90
Accumulation of interest	–	32	–	32
Additonal provisions	45	–	145	190
Carrying amount as at 31 Dec.	**273**	**518**	**145**	**936**

Warranty

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.

Decommissioning

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.

Legal claims

The amount represents a provision for a legal claim brought against the Group by a third party claiming the violation of a contract by the Group. The provision charge is recognised in profit and loss within administrative expenses. Regarding the anticipated time frame for the settlement of the claim, the balance at 31 December 2013 is expected to be settled by 31 December 2015. In the management's opinion after taking appropriate legal advice the outcome of this legal claim will not give rise to any significant loss beyond the amount provided at 31 December 2013. Nonetheless it cannot be concluded with absolute certainty that the actual amount to be paid in order to settle the claim will not exceed the provision.

Other Disclosures

25 Employee Remuneration

25.1 Employee Benefits Expense

Expenses recognised for employee benefits are analysed below:

kEUR	2013	2012
Wages and salaries	20,572	18,403
Social security costs	361	388
Total	**20,933**	**18,791**

The employee payroll costs can be allocated as follows:

kEUR	2013	2012
Cost of sales	13,982	11,696
Selling and distribution expenses	2,435	2,032
Research and development expenses	1,077	962
Administrative expenses	3,078	3,713
Total	**20,572**	**18,403**

The employee social insurance costs are all recorded in administrative expenses which are kEUR 361 for the reporting period (comparative period: kEUR 388).

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

	2013	2012
Management and administration	341	400
Research and development	164	168
Sales	288	332
Production	2,665	2,479
Total	**3,458**	**3,379**

25.2 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. The cost to the Group of such contributions for 2013 financial year, which are included in the social security costs stated in the table in note 25.1, amounted to kEUR 280 (2012: kEUR 302). The Group does not operate any other retirement benefit plans.

26 Finance Income and Finance Costs

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

kEUR	2013	2012
Interest income	698	907
Exchange gain	1,604	1,092
Total	**2,302**	**1,999**

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

kEUR	2013	2012
Interest on bank and other loans	6,900	2,470
Interest on prior year tax payments	1,305	–
Bank charges (current)	1,394	210
Facility fee on long term loan	3,759	–
Exchange losses	1,336	999
Interest portion on provision	33	31
Total finance expenses	**14,727**	**3,710**
Less: Interest expenses capitalised	-1,007	-438
Total finance costs	**13,720**	**3,272**

Interest on prior year tax payments relate to interest charged due to the reversal of the taxation status of Quanzhou Joyou Sanitation Technology Industrial Co. Ltd. as a High-Tech enterprise as discussed in more detailed in note 27.1.

Finance costs include a facility fee of kEUR 3,759, which was incurred in connection with the long term loan granted by Nomura Bank (we refer to note 18.3).

The borrowing costs have been capitalised using rates of 6.82 % and 7.90 % per annum (2012: 7.67 %), which correspond to the sources of finance attributable to the respective qualifying assets.

27 Taxation

27.1 Major Components of Income Tax Expense

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

kEUR	2013	2012
Current income tax	12,667	8,732
Income tax prior years	5,326	514
Deferred income tax induced by change in tax rates	-471	450
Deferred income tax induced by temporary differences	-10	85
Total	**17,512**	**9,781**

On 6 July 2013 Joyou AG's indirectly wholly owned PRC subsidiary, Quanzhou Joyou Sanitation Technology Industrial Co. Ltd. ("Joyou Sanitation"), was informed by the local tax bureau of Nan'an, Fujian Province, PRC, that its preferential income tax treatment in China as a high-tech enterprise will be revoked with retrospective effect for the years 2010 and 2011 based on an order of the higher tax authorities of the Fujian Province which also affect various companies in this province. The reason for this revocation is that because of its intensive growth from the years 2009 onwards resulting in a substantial increase in the number of production workers and its broadened product mix, which next to faucets now to a large degree also includes plastic sanitary-ware products such as shower heads, Joyou Sanitation no longer met the applicable requirements for high-tech enterprises. Because of the revocation, Joyou Sanitation's income for the periods 2010 and 2011 has been retrospectively taxed at the standard tax rate of 25 % instead of 15 % plus interest due for the period between the due date of corporate income taxes and the date of the payment. The total amount of taxes and interest converted into Euros at the average rate arising from the revocation amounts to kEUR 5,370. The corresponding expenses were charged to profit or loss and thus led to a lower net profit and lower earnings per share with profits from operations (EBIT) remaining unaffected. In addition the item income tax prior year includes additional taxes charged in relation to prior years as a result of a tax inspection of the Group's principal trading entities performed during the year.

27.2 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	2013	2012
Accounting profit before income tax	**41,777**	**49,576**
Tax at respective companies' domestic income tax rate	10,901	9,019
Effect of change in tax rates	-471	450
Taxable losses written down or not capitalized	963	66
Taxes for previous years	5,326	514
Non-deductible expenses	793	-268
Total income tax	**17,512**	**9,781**

As at 31 December 2013, Joyou has not recognised deferred tax assets on tax losses in Hong Kong amounting to kEUR 5,405 (previous year: kEUR 1,004) and tax losses in Germany amounting to kEUR 7,566 (previous year: kEUR 7,301) as their usage is deemed to be improbable. It is expected that the German tax losses will expire in accordance with Sec. 8c of the German Corporate Tax Act on 21 January 2014 due to changes in the group's shareholder structure as explained in more detail in note 1.

Deferred taxes on outside basis differences are recorded in accordance with the expected dividend payments as disclosed in note 23.5. For the year ending 31 December 2013 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 (Solidaritätszuschlag) thereon (in total 15.825 %). In addition, Joyou AG is subject to trade tax (Gewerbesteuer) with their income subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporation maintains permanent establishments. As at 31 December 2013, the effective trade tax rate for Hamburg is 16.45 % of the taxable trade 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 2013 (2012: 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 the status of Joyou Group Building Materials Co. Ltd. as a "High-Tech Enterprise" for three years to 31 December 2014. In the event that Joyou Group Building Materials Co. Ltd. fulfils certain criteria, it is taxed at a preferential tax rate of 15 %, compared with the normal corporate tax rate of 25 %. However based on current information the Group does not expect that Joyou Group Building Materials Co. Ltd. will meet the criteria enabling it to qualify for the preferential tax rate and hence the company has still applied the standard tax rate of 25 % for the 2013 financial year.

27.3 Income Tax Payable/Receivable

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

kEUR	2013	2012
Liability as at 1 Jan.	–	2,188
Currency translation adjustment	-73	10
Enterprise income tax provision for the year	17,993	9,246
Income tax paid	-14,488	-12,257
Liability as at 31 Dec.	**3,432**	**–**
Receivable as at 31 Dec.	**–**	**813**

28 Earnings per Share and Dividends

28.1 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 periods ended 31 December 2012 and 31 December 2013 amounted to 23,967,492 shares.

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

28.2 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.

29 Cash Flow Adjustments and Changes in Working Capital

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

kEUR	2013	2012
Adjustments for non-cash items:		
Amortisation of intangible assets	31	28
Expenses on land-use rights	640	642
Changes in provisions	220	69
Allowance for doubtful trade, other receivables	256	210
Impairments on inventories	-1,234	995
Losses on disposal of fixed assets	77	–
Other non-cash related items	-33	-31
Depreciation of property, plant and equipment	8,420	6,105
Depreciation of investment property	146	117
Interest income	-2,302	-1,999
Interest cost	12,384	2,273
Total adjustments	**18,605**	**8,409**

kEUR	2013	2012
Net changes in working capital		
(Increase)/decrease in:		
Inventories	9,250	888
Trade receivables	-7,775	-1,285
Other receivables and prepayments	-1,616	-1,043
Amounts due from Grohe Group (trading)	-2,298	-2,801
Amounts due from related parties other than Grohe Group	245	–
Increase/(decrease) in:		
Trade payables and notes payable	-10,756	-6,352
Other payables and accruals	3,466	-2,075
Amounts due to Grohe Group companies (trading)	-264	-4,252
Amounts due to related parties other than Grohe Group companies	-2	-425
Total changes in working capital	**-9,750**	**-17,345**

30 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 decisions of the Group or vice versa; or (ii) it is subject to common control or common significant influence.

30.1 Related Party Information

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

As at 31 December 2013 related parties are almost the same as those mentioned in the consolidated financial statements of the Group for the accounting period ended 31 December 2012, the only changes being that a new holding company named Cai GmbH was set up in 2013 for the transaction between the CAI family and the Grohe Group and the next most senior parent to Joyou AG that prepares consolidated financial statements available for public use became Grohe Group S.à r.l., Luxembourg, as described in more detail in note 1.

Related parties to the Company include all entities and related parties forming Grohe Group as well as related parties to Joyou Group. Related parties of the Joyou Group include members of the Management Board and Supervisory Board including their close family members and companies over which members of the Management Board or Supervisory Board of the Company or their family members can exercise considerable influence or hold a substantial amount of the voting rights. In addition, related parties include companies in which the Company holds an investment, which enables the Company to exercise considerable influence over the business policies of the company in which it holds such investment, as well as the major shareholders of the company, including their affiliates.

Set out below is an overview of the parties related to Joyou Group as well as a summary of the material transactions between Joyou Group and related parties concluded in the reporting period between 1 January 2013 and 31 December 2013. Beside all companies of the Grohe Group 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 acutal business activity	Manufacturing water faucets, valves, sanitary hardware and galvanization	46.42 % of the shares are held by Mr. Zhiqiang WANG
Nan'an Zhongyu Copper Co. Ltd.	No material actual business activity	Manufacturing copper of water faucets, copper sticks and zinc 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 %)
Cai GmbH	Holding company	Holding company	100 % of the shares are held by Mr. Jianshe Cai and Mr. Jilin Cai

Related Party	Relation to Joyou
Dr. Rainer SIMON	Chairman of the Supervisory Board
Mr. Johnny CHEN	Member of the Supervisory Board
Mr. David HAINES	Member of the Supervisory Board
Mr. Jianshe CAI	Chairman of the Management Board
Mr. Jilin CAI	Member of the Management Board
Mr. Zufang LI	Member of the Management Board
Mr. Gerald MULVIN	Member of the Management Board
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

30.2 Transactions and Amounts due from/to Related Parties

30.2.1 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 the financial year 2013 Grohe (Xiamen) Investment Management Company Ltd. had nearly no transactions with Joyou Group companies.

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

During the financial year 2013 Joyou purchased inventory from Grohe Group companies in a total amount of kEUR 2,645 and realised sales on deliveries to Grohe companies in a total amount of kEUR 22,392 (including the resale of Grohe Products at an amount of kEUR 7,222).

During the financial year 2013, Grohe (Xiamen) Investment Management Company Ltd. and Joyou Group Building Materials Co. Ltd. realised services income with Grohe Group companies of kEUR 568 and KEUR 202 respectively resulting from management of Grohe China operations.

As of 31 December 2013, trade receivables in a total amount of kEUR 5,571 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 2013, trade payables in a total amount of kEUR 959 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.

30.2.3 Amounts due from/to Related Parties

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

kEUR	2013	2012
Grohe Shanghai Sanitary Products Company Ltd.	763	1,171
Joyou International Trading	3,057	1,769
Grohe AG	363	76
Grohe Group S.à r.l.	284	–
Grohe Siam Ltd.	845	228
Grohe Canada	33	9
Grohe USA	52	9
Grohe Portugal	174	110
Grohe Group	**5,571**	**3,372**
Mr. Jianshe CAI	90	91
Total	**5,661**	**3,463**
Reconcilation		
Amounts due from Grohe Group	5,571	3,372
Amounts due from related parties other than Grohe Group	90	91
Total	**5,661**	**3,463**

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

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

kEUR	2013	2012
Grohe Pacific Pte Ltd.	–	1,237
Grohe Shanghai Sanitary Products Company Ltd.	959	–
Subtotal Grohe Group	**959**	**1,237**
Mr. Jianshe CAI	17	19
Total	**976**	**1,256**
Reconciliation		
Amounts due to Grohe Group	959	1,237
Amounts due to related parties other than Grohe Group	17	19
Total	**976**	**1,256**

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.

Amount due to Grohe Group

All items relate to trade payables due to Grohe Group and are non-interest bearing.

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.

30.3 Transactions with Key Management Personnel

The following individuals served as key management personnel of Joyou AG during the 2013 financial year:

30.3.1 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

30.3.2 Supervisory Board Members

- Dr. Rainer SIMON, businessman, Isernhagen, Germany, Chairman
- Mr. Johnny CHEN, financial consultant, Shanghai PRC
- Mr. David HAINES, businessman, Düsseldorf, Germany

30.3.3 Key Management Remuneration

30.3.3.1 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. For the twelve month periods ended 31 December 2012 and 31 December 2013, 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 711 (2012: kEUR 705) in the 2013 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. 6 of the Group Management Report.

30.3.3.2 Supervisory Board's compensation

The Chairman of the Supervisory Board receives basic compensation of EUR 60,000 per calendar year and the Deputy Chairman receives basic compensation of EUR 45,000 per calendar year. Each of the other Supervisory Board members receives basic compensation of EUR 10,000 per calendar year. If the work of a Supervisory Board member does not cover a full calendar year, compensation is paid on a time-proportionate basis (pro rata temporis). In addition to their base salary, members of the Supervisory Board whose place of residence is Europe shall be granted a remuneration of EUR 1,500 for attending meetings of the Supervisory Board in Europe, and a remuneration of EUR 4,000 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 for attending meetings of the Supervisory Board in Asia, and a remuneration of EUR 4,000 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. In the 2013 financial year the total compensation of the Supervisory Board amounted to kEUR 201 (2012: kEUR 197). More detailed information on the compensation paid to members of the Supervisory Board is presented in section 6 of the Group Management Report. Beside the before mentioned compensation the Supervisory Board did not receive any further compensation especially no post-employment benefits, other long-term benefits, termination benefits and share-based payments.

30.3.4 Credit Guarantees

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

- On 26 June 2013, Mr. Jianshe CAI, Mr. Jilin CAI and Quanzhou Joyou Ceramics Co., Ltd. ("Joyou Ceramics") provided a joint and several guarantee with a ceiling amount of RMB 750,000,000 to secure loans taken out by Joyou Building Materials during the period from 26 June 2013 to 25 June 2014 under a credit facility agreement concluded between Joyou Building Materials and China CITIC Bank Qingyuan Sub-branch with a credit facility of up to RMB 150,000,000. Under such credit facility, Joyou Building Materials took out three loans in the total amount of RMB 50,000,000 as follows: two loans, each in the amount of RMB 10,000,000 and with the term from 28 June 2013 to 27 June 2014, and one loan in the amount of RMB 30,000,000 with a term from 1 July 2013 to 30 June 2014. These loans are additionally secured by a mortgage on land use rights provided by Joyou Building Materials with a ceiling amount of RMB 8,880,000. The said loans have been repaid.

- On 16 October 2012, Mr. Jianshe CAI and Mr. Jilin CAI provided a joint and several guarantee with a ceiling amount of RMB 600,000,000 to secure loans taken out by Joyou Building Materials from China ICBC Bank Nan'an Sub-branch during the period from 16 October 2012 to 15 October 2015. Under such credit facility Joyou Building Materials took out five loans in the total amount of RMB 50,000,000 as follows: one in the amount of RMB 11,000,000 with a term from 2 August 2013 to 30 July 2014, one in the amount of RMB 7,320,000 with a term from 8 August 2013 to 6 August 2014, one in the amount of RMB 7,000,000 with a term from 12 August 2013 to 06 August 2014, one in the amount of RMB 13,000,000 with a term from 28 August 2013 to 22 August 2014 and one in the amount of RMB 11,680,000 with a term from 28 August 2013 to 25 August 2014. These loans are additionally secured by a joint and several guarantee from a non-affiliated party with a ceiling amount of RMB 500,00000 and a 3-year guarantee period starting from 19 July 2012.

- On 20 May 2013, Mr. Jianshe CAI, Mr. Jilin CAI, Ms. Liqin WANG and Ms. Jiaping ZHOU provided a joint and several guarantee with a ceiling amount of RMB 600,000,000 to secure loans taken out by Joyou Sanitation Technology during the period from 1 July 2012 to 19 May 2016 under a credit facility agreement concluded between Joyou Sanitation Technology and China ICBC Bank Nan'an Sub-branch. Under such credit facility Joyou Sanitation Technology took out seven loans in the total amount of RMB 83,380,000 in 2013 as follows: one in the amount of RMB 10,880,000 with a term of one year, one in the amount of RMB 13,600,000 with a term from 14 October 2013 to 10 October 2014, one in the amount of RMB 14,300,000 with a term from 15 October 2013 to 10 October 2014, one in the amount of RMB 15,000,000 with a term from 29 October 2013 to 24 October 2014, one in the amount of RMB 11,000,000 with a term from 6 November 2013 to 4 November 2014, one in the amount of RMB 7,000,000 with a term from 4 November 2013 to 5 November 2014 and one in the amount of RMB 11,600,000 with a term from 3 December 2013 to 1 December 2014, among which the loan in the amount of RMB 10,880,000 is split into two separate loans thereafter, i.e. one in the amount of RMB 5,000,000 with a term from 14 August 2013 to 13 August 2014 and one in the amount of RMB 5,880,000 with a term from 26 August 2013 to 25 August 2014, which are additionally secured by a joint and several guarantee provided by a non-affiliated party on 31 October 2012 with a ceiling amount of RMB 80,000,000 and a 3-year guarantee period starting from 27 September 2011.

None of the guarantees were provided against consideration.

31 Operating leases

Since 2012, the Group has leased offices under operating lease agreements. The future minimum lease payments are as follows:

kEUR	2013	2012
Due within one year	834	1,013
Due within 1 – 5 years	678	2,739
Due after 5 years	–	1,668
Total	**1,512**	**5,420**

In comparison to the previous year the operating lease payments reduced significantly as a long-term rental on a property contract in Xiamen (PRC) was terminated in the 2013 financial year prior to its maturity.

32 Commitments and Contingencies

32.1 Commitments

As at 31 December 2013, Joyou Group has contractual commitments from the construction of new plants of kEUR 648 (2012: kEUR 4,820).

32.2 Contingent Liabilities

As at 31 December 2012 and 31 December 2013 Joyou Group has no contingent liabilities to be disclosed.

33 Risks Management Objectives and Policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in note 18. The main types of risks are market risk, credit risk and liquidity risk.

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.

33.1 Market Risk

33.1.1 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). Beside the trading activities the long-term loan granted by Nomura Bank is denominated and repayable in USD as well.

The Group does not currently actively take measures to mitigate its exposure to foreign currency risk.

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.

Cash and cash equivalents are mainly held in RMB, EURO and USD currency. The bank loan from Nomura Bank is repayable in USD. Since Joyou does not hedge against fluctuations in the RMB/USD exchange rate, an increase in USD foreign exchange rate would increase Joyou's repayment instalments and therefore increase costs incurred in RMB and expressed in EUR in its financial statements.

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

kEUR	2013	2012
Exposure USD		
Financial assets	7,983	4,045
Financial liabilities	-73,674	-1,691
Total exposure	**-65,691**	**2,354**
Short-term exposure GBP		
Financial assets	1	104
Financial liabilities	–	-120
Total exposure	**1**	**-16**
Short-term exposure AUD		
Financial assets	124	620
Financial liabilities	–	-18
Total exposure	**124**	**602**
Short-term exposure SGD		
Financial assets	–	–
Financial liabilities	–	-21
Total exposure	**–**	**-21**
Short-term exposure EUR		
Financial assets	384	26
Financial liabilities	-221	–
Total exposure	**163**	**26**

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 2013 (31 December 2012: +/-1%). 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 EUR by 1%, respectively, then this would have had the following impact:

Effect on equity and profit for the year				
kEUR	USD	AUD	EUR	Total
as at 31 Dec. 2013	493	-1	-1	490
as at 31 Dec. 2012	-18	-5	–	-23

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

Effect on equity and profit for the year				
kEUR	USD	AUD	EUR	Total
as at 31 Dec. 2013	-493	1	1	-490
as at 31 Dec. 2012	18	5	–	23

Until July 2013 exposures to foreign exchange rates arose principally from the volume of overseas transactions. However, in July 2013 the Group entered into a long-term USD bank loan. Due to the size of the loan in comparison to the Group's overseas transactions it is the Group's main source of exposure to foreign exchange rates.

33.1.2 Interest Rate Sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on financing. As at 31 December 2013, 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 +/-1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the year		Equity	
kEUR	+1 %	-1 %	+1 %	-1 %
as at 31 Dec. 2013	-934	934	-934	934
as at 31 Dec. 2012	-447	447	-447	447

33.2 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	Notes	2013	2012
Trade receivables	21.	85,518	78,653
Other receivables and prepayments	21.	3,017	2,394
Amounts due from Grohe Group	30.	5,571	3,372
Amounts due from related parties other than Grohe Group	30.	90	91
Cash and cash equivalents	22.	128,008	79,620
Total		**222,204**	**164,130**

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	2013	2012
91–180 days	9,566	6,017
181–360 days	352	217
Total	**9,918**	**6,234**

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics except for Joyou's distributors. Trade receivables consist of a large number of distributors in various geographical areas of the PRC. Although they can be seen as a group of counter parties having similar characteristics, those distributors are independent of each other and share, therefore, no joint credit risk other than the normal business risk associated with the sanitary-ware market in the PRC. For details on impaired receivables and the factors considered in determining that they are impaired please refer to note 21.

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

33.3 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 share capital.

As at 31 December 2013, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		Non-current		
kEUR	within 6 months	6 – 12 months	1 – 5 years	later than 5 years	Total
Bank loans	27,958	7,159	86,884	–	122,000
Trade payables	5,526	–	–	–	5,526
Other payables	14,147	–	–	–	14,147
Notes payable	21,427	–	–	–	21,427
Amounts due to Grohe Group companies	959	–	–	–	959
Amounts due to related parties other than Grohe Group	17	–	–	–	17
Total	**70,034**	**7,159**	**86,884**	**–**	**164,076**

This compares to the maturity of the Group's financial liabilities as at 31 December 2012 as follows:

	Current		Non-current		
kEUR	within 6 months	6 – 12 months	1 – 5 years	later than 5 years	Total
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 Grohe Group companies	1,237	–	–	–	1,237
Amounts due to related parties other than Grohe Group	19	–	–	–	19
Total	**61,317**	**23,239**	**31,548**	**–**	**116,104**

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.

33.4 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	2013	2012
Total equity	360,163	341,547
Cash and cash equivalents	-128,008	-79,620
Total	**232,155**	**261,927**
Total equity	360,163	341,547
Bank Loans	121,548	59,610
Notes payable	21,427	30,885
Total	**503,138**	**432,042**
Capital-to-overall financing ratio (in %)	**0.46**	**0.61**

34 Events after the Reporting Period

The closing of the acquisition of the Grohe Group by LIXIL and DBJ was completed on 21 January 2014. Accordingly as of this date all member companies of the LIXIL Corporation and Development Bank of Japan are related parties of the Joyou Group.

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

35 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 155 (2012: kEUR 197) on audit services of the financial statements as well as kEUR 79 (2012: kEUR 86) on other assurance services.

36 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 under Investor Relations › Corporate Governance › Declaration of Compliance.

Hamburg, 13 March 2014
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 Joyou AG and the Group, together with a description of the principal opportunities and risks associated with the expected development of Joyou AG and the Group.

Hamburg, 13 March 2014

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 2013. 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 2013 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a para. 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 suitably presents the opportunities and risks of future development.

Düsseldorf, 14 March 2014

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Joachim Riese	Ralf Clemens
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Financial Calendar 2014

May 15	Interim Report January through March
June 18	Annual General Meeting, Frankfurt am Main
August 15	Interim Report January through June
November 14	Interim Report January through September, Analyst Meeting

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