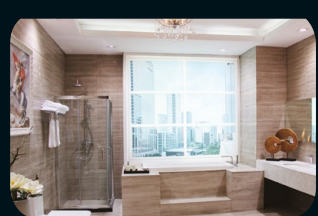
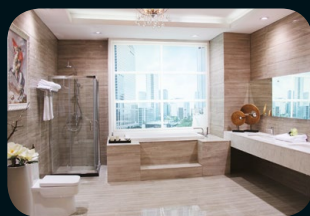
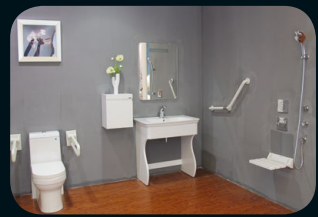


Realising our Mission.
Annual Report 2014



Group Key Data

kEUR	2014	2013
Selected income statement data		
Sales revenues	398,122	357,843
Cost of sales	-288,321	-258,827
Gross profit	109,801	99,016
Other operating income	2,174	1,667
Selling and distribution expenses	-26,627	-25,211
Research and development expenses	-6,580	-6,312
Administrative expenses	-16,995	-15,246
Other operating expenses	-353	-719
Operating profit	61,420	53,195
Finance income	2,552	2,302
Finance costs	-13,232	-13,720
Profit before income tax	50,740	41,777
Income tax	-17,063	-17,512
Profit for the period	33,677	24,265
Adjusted profit for the period ¹⁾	33,677	29,635
Selected balance sheet data		
Total assets	694,018	528,155
Total liabilities	259,058	167,992
Total equity	434,960	360,163
Selected cash flow data		
Cash flow from operating activities	41,156	36,144
Cash flow used in investing activities	-52,496	-37,350
Cash flow from financing activities	59,610	51,828
Cash and cash equivalents at the end of the period	194,074	128,008
Other selected financial data		
Gross profit margin ²⁾	27.6%	27.7%
EBIT ³⁾	61,420	53,195
EBIT margin ⁴⁾	15.4%	14.9%
Adjusted EBITDA ⁵⁾	70,958	62,431
Adjusted EBITDA margin ⁶⁾	17.8%	17.4%
Adjusted net profit margin ⁷⁾	8.5%	8.3%
Number of employees ⁸⁾	4,083	3,458
Number of stores	4,180	4,129

1) Adjusted profit for the period considers revocation of preferential income tax treatment (refer to "Note 26.1 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 net financial costs plus tax expenses

4) EBIT margin is EBIT divided by revenues times 100

5) Adjusted EBITDA is calculated as net income less net financial costs 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.

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Highlights of the Year 2014

January

→ LIXIL and DBJ Complete the Acquisition of 87.5 % of GROHE Group S.à r.l

February

→ Joyou Rolls Out "Serving China" -Customer Service Strategy



April

→ Joyou Promotes its Online Internet Sales Promotion Strategy

May

→ Joyou Supports Youth Rural Literary and Art Performance

June

→ Mr. Jilin CAI Honoured at the "15th Fujian Outstanding Entrepreneur Award"

July

→ Joyou Secured USD 300 million Long-Term Financing Facility

August

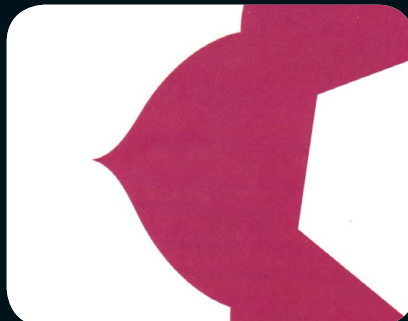
→ Production Capacity Expansions

September

→ Ms. Jianping (Dorothy) WU was Appointed as New CFO of Joyou Group as of 1 September 2014

October

→ Mr. John William MCLEAN Becomes New Management Board Member as Executive Director Operations (EDO) as of 1 October 2014.



December

→ Change in Indirect Shareholder Structure: LIXIL Acquires the Remaining 12.5 % of Shares in Grohe Group S.à r.l. from Cai GmbH

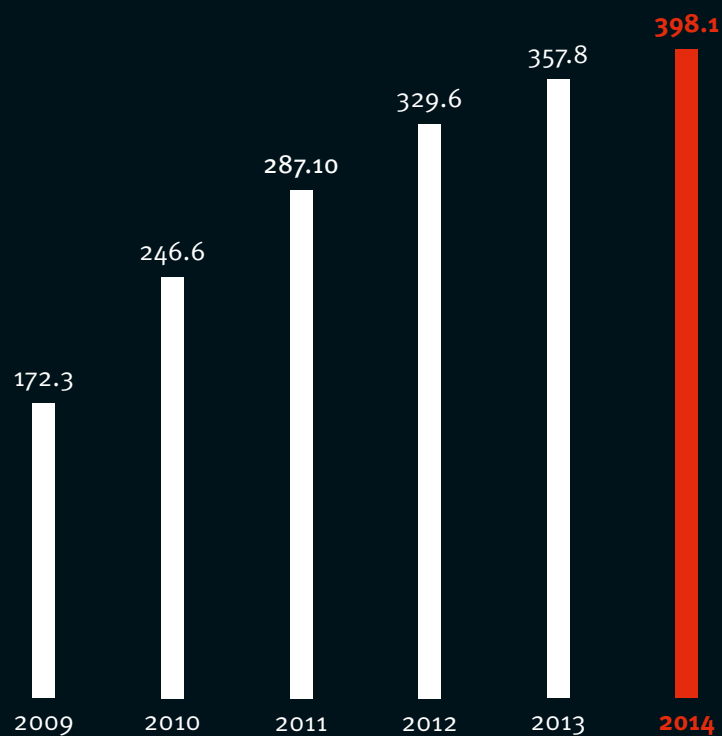
→ Joyou Wins Red Star Design Award

→ Joyou Wins Kapok Design Award

Facts

- Sales growth of 11.3 % to EUR 398.1 million
- EBIT increase by 15.5 % to EUR 61.4 million
- International sales increased by 79.5 % to EUR 30.0 million
- 4,083 employees

Sales revenues 2009 – 2014



Our Products

Joyou is a leading designer, manufacturer and marketer of bathroom fixtures and fittings. We offer a large variety of high-quality products, most of which are sold under the brand name “JOYOU”.



Bathroom Faucets

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



Kitchen Products

include kitchen faucets, basin faucets and kitchen basins.



Shower Products

mainly include shower faucets, showerheads and shower enclosures.



Ceramics and Bathtubs

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



Bathroom Cabinets

mainly include free-standing and wall-hung cabinets.



Bathroom Accessories

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



Other Faucets and Sanitary Hardware

mainly comprise small faucets, drainage covers, angle valves and crude products.



Copper and Semi-Finished Products

mainly include unfinished products such as copper tubing and accessories.



Grohe Products

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,

On behalf of the whole Joyou team, I can say that I am proud of what we have achieved in 2014.

That assessment is based on several key factors. First of all our group sales showed an impressive double digit growth in both EUR and RMB terms, which was the result of robust growth in international markets, combined with sustained growth in our main market, China. This success was a real achievement; particularly given the headwinds that the China domestic market faced, and also the sluggish recovery of international markets. As a result, we made good strategic progress in 2014 as we continued to pursue our fascinating mission “to be the leading branded provider of bathroom fixtures and fittings 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.

Our 2014 group sales increased by 11.3 % year-on-year in Euro terms to EUR 398.1 million, and in RMB terms group sales increased by 11.2 %. Further, EBIT – or earnings before financial result and taxes – grew at a stronger rate of 15.5 %, reaching EUR 61.4 million. This was largely due to the decreased operational expenses but was offset by a slight decrease in gross margin which was mainly due to increases in international sales, which is a lower gross margin business segment.

International sales grew by an impressive 79.5 %, which was primarily a result of the collaborative efforts with the Grohe Group in international markets, with sales increases coming from customers gained in 2013 and new ones gained in 2014. Furthermore, these sales are recurring sales with continued momentum.

National sales grew strongly by 7.9 %, 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 service orientated 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 closing of the acquisition by the LIXIL Corporation, the largest housing and building materials company in Japan, of our parent, Grohe Group S.à r.l., we anticipate, 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. To date, we have spent much time exploring potential synergies with our new partner and how they may be utilised. This has already led the first trial order delivered to LIXIL and Joyou has started to prepare itself for the potential manufacture of new products demanded by GROHE and LIXIL.

Further this participation has assisted Joyou to significantly reduce its cost of borrowing. In the third quarter, we secured a 300 million USD long-term loan facility, which we plan to invest to support our growth plans.

We see many growth opportunities for Joyou in the domestic and international sanitary-ware market. For 2015, we plan to invest in the expansion and upgrading of our production facilities. And over the coming years we intend to continue investing a significant portion of the available funds from our balance sheet and cash generated from operations 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 2015, Joyou expects continued growth of its consolidated revenues amounting to between 5 % and 10 % in RMB terms. We anticipate gross margin to slightly decline mainly due to rapidly increasing international sales, which have associated lower gross margins and this decline will also affect our operating profit margin compared to 2014. That being said, we expect gross and operating profits to increase. 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 and overall management, which includes 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 of Fujian Sanitary Ware and Valve Industry Association, Fujian and in 2005 he was elected as its Chairman.

In 2005, 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 well as human resources 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.



Ms. Jianping (Dorothy) WU

*Chief Financial Officer (CFO)
(from 1 September 2014)*

Since 1 September 2014, Ms. Jianping (Dorothy) WU has been the Chief Financial Officer (CFO) of Joyou and as such is responsible for all financial and fiscal management aspects of Joyou Group's operations and Investor Relations. She is also responsible for the accounting and financial reporting of Joyou Group. Ms. WU has longstanding financial management experience and extensive experience in Due Diligence & M&A.

Ms. WU received her MBA degree from the Business School of Xiamen University in 2000, and a bachelor's degree in Finance from Fujian Agriculture and Forestry University in 1991. Ms. WU took various leadership positions with increasing responsibilities in financial management at domestic and multi-national companies. Most recently, she was COO of Fujian Septwolves Industry Co., Ltd. (listed on the Shenzhen Stock Exchange). Before that, she was Advisor of Warburg Pincus Asia LLC. Between 2006 and 2011, she was China Finance/Administration Director, Norit Group. From 2001 to 2006, she served General Electric Company, and left as Pacific Finance Manager of Specialty Film & Sheet, GE Advanced Materials. Prior to GE, she worked in the accounting and finance department at Xiamen International Airport Group (from 1995 until 2000) and Xiamen Qiaoxing Industry Group (from 1991 to 1995).



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. Gerald MULVIN is also a member of the Management Board of Grohe AG. Previous to Grohe, Gerald was a partner at Bain & Company in London, where he worked on numerous client engagements.

**Mr. John William MCLEAN****Executive Director Operations (EDO)****(from 1 October 2014)**

Mr. John William MCLEAN is the Executive Director Operations (EDO) of Joyou and is responsible for manufacturing, logistics, procurement and research and design. He is responsible for developing plant productivity, quality and manufacturing programs to enhance Joyou Group's operational competitiveness. Mr. MCLEAN is also an employee of the Grohe Group where he is Managing Director of Grohe Siam.

Mr. MCLEAN received a Masters Degree in Engineering from the University of Saskatchewan, and an undergraduate Bachelors Degree in Engineering from the University of Guelph. Since 1986 Mr. MCLEAN has worked in various engineering positions with advancing importance in a manufacturing environment around the world. (1986 until 1990: Hylife Foods; 1990 until 2000: Case Corporation (CNH); 2000 until present; Grohe AG-Grohe Siam Ltd, Grohe Canada, Tempres Ltd).

Report of the Supervisory Board

The Supervisory Board of Joyou AG fulfilled its duties with due care as prescribed by law, the articles of incorporation, rules of procedure (Geschäftsordnung) and the German Corporate Governance Code in the financial year 2014.

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.

Changes in the Supervisory Board and Management Board

Supervisory Board

The Supervisory Board member Mr. Johnny CHEN resigned from his office as of 31 December 2014. His position was filled upon court appointment by Mr. Bijoy MADASSERY, who is President Asia of Grohe Group.

Otherwise, no changes occurred in the Supervisory Board of the Company in 2014.

Management Board

Ms. Jianping (Dorothy) WU was appointed to the Management Board as CFO as of 1 September 2014 by a resolution of the Supervisory Board dated on 13 August 2014. The ex-CFO of the Company, Mr. Zufang LI resigned from his office as of 31 August 2014.

As a fifth member of Joyou AG's Management Board, Mr. John William MCLEAN was appointed as new Executive Director Operations (EDO) as of 1 October 2014 by resolution of the Supervisory Board dated 25 September 2014.

In connection with the appointment of the two new Management Board members Jianping (Dorothy) WU and John William MCLEAN, the Supervisory Board agreed on a new allocation of responsibilities among the now five Management Board members and adopted a new Schedule of Responsibilities for the Management

Board (Geschäftsverteilungsplan für den Vorstand) on 2 December 2014.

Further, the Supervisory Board approved and executed new director's service agreements with the Chinese Management Board Members Jianshe CAI, Jilin CAI and Jianping (Dorothy) WU on 13 August 2014, which now also provide for variable compensation components which are based on multi-year assessments. The new service agreements for Messrs. Jianshe CAI and Jilin CAI apply as of 1 July 2014, the service Agreement for Ms. Jianping (Dorothy) WU applies as of 1 September 2014.

Committees

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

Supervisory Board Meetings and Attendance

The Supervisory Board discussed the business situation and the operational and strategic development of the Company and its areas of business in nine meetings, both face-to-face and by way of telephone conferences, in 2014. 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 2014.

Important Matters in 2014

In particular, during the year 2014, the following matters were discussed by the Supervisory Board:

In its meeting of 26 March 2014 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.

In its meeting on 14 May 2014 at the Joyou China Corporate Headquarters in Nan'an, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the first quarter and acknowledged the financial statements and the consolidated financial statements, as prepared by the Management Board for the financial quarter ended 31 March 2014. In particular development of the related party transaction report,

reduction of raw material inventory, the expansion of the Shuitou galvanisation facility, and other investment programmes were reviewed.

In its meeting in Frankfurt on 17 June 2014, 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 revenue opportunities for the Group. The Supervisory Board and Management Board also discussed the related party transaction report, accommodation block investments and the potential appointment of a new CFO.

In a telephone conference on 30 July 2014 the Supervisory Board discussed and approved a USD 300 million syndicated loan facility agreement with a consortium of Japanese banks consisting of Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank, Ltd.

In its meeting on 13 August 2014 at the Joyou China Corporate Headquarters in Nan'an, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the second quarter and acknowledged the financial statements and the consolidated financial statements, as prepared by the Management Board for the financial half year ended 30 June 2014. In particular, the development of revenues, margins, SG & A, and product pricing developments were discussed. Further the resignation of the CFO, Mr. Zufang LI was accepted, and his successor Ms. Jianping (Dorothy) WU was appointed effective 1 September 2014. The new service contracts for the management board members were approved. In addition, investment projects, in particular, the Ceramics project, were reviewed.

In a telephone conference held on 3 September 2014 the Supervisory Board reviewed and approved the draw-down of the Facility A mainly to refinance existing long-term debt.

In a telephone conference on 11 September 2014 the Supervisory Board reviewed and approved the first draw-down of the Facility B for the financing of investment projects.

In a telephone conference on 25 September 2014 the Supervisory Board appointed Mr. John William MCLEAN to the Management Board as the Executive Director Operations (EDO), with responsibilities that include production, logistics, procurement, and research and development effective 1 October 2014.

In a telephone conference on 31 October 2014 the Supervisory Board reviewed and approved the second draw-down of the Facility B for the financing of investment projects.

In its meeting on 12 November 2014 at the Joyou China Corporate Headquarters in Nan'an, the Supervisory Board and Management Board discussed Joyou's business and financial performance during the third quarter and acknowledged the financial statements and the consolidated financial statements, as prepared by the Management Board for the nine-month period ended 30 September 2014. The 2015 budget was presented by the Management Board and was approved.

Conflicts of Interest

Mr. David HAINES, Chief Executive Officer 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. Since 19 June 2014, Mr. HAINES also serves as an executive director at the board of LIXIL Corporation, one of Grohe Group S.à r.l.'s indirect majority shareholder and Joyou Group's indirect parent company. Mr. HAINES' appointment to the Supervisory Board of Joyou AG was made against the background of the shareholders' agreement (the "Shareholders' Agreement") between Grohe Holding GmbH and Messrs. Jianshe CAI and Jilin CAI, and the partnership between Joyou and Grohe established by this. After acquiring the majority of shares in Grohe, LIXIL acceded to the Shareholders' Agreement in September 2013 and the Shareholders' Agreement has subsequently been replaced by a Management Agreement dated 10 December 2014 between LIXIL, Grohe and Messrs. Cai. Joyou, Grohe and LIXIL do not consider each other as competitors but rather as partners. However, Grohe Group and LIXIL, like Joyou AG, are active in the business of sanitary-ware fittings, and could therefore be considered competitors of Joyou, which could result in a conflict of interest of Mr. HAINES. Beyond that, as part of their intensified cooperation, Joyou, Grohe and LIXIL 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 2014, no conflict of interest arose 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 wholly owned by Grohe Group S.à r.l.. Even though both Joyou AG and Joyou Grohe Holding AG belong to Grohe Group, in which Joyou Grohe Holding AG serves as a holding company, Dr. SIMON's functions at both companies may on certain occasions and to a certain extent create conflicts of interest. Dr. SIMON considers himself to be personally independent of both Grohe and of Joyou. 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, Dr. SIMON will abstain from voting in a respective resolution of the Supervisory Board of the Company. In the financial year 2014, 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 as endorsed for application within the European Union (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 2015. 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 were thus confirmed. The Supervisory Board is in agreement with the Combined Management Report and, in particular, with the assessment of the future development of the enterprise.

In relation to the annual financial statements of Joyou AG, the Management Board has not yet passed a resolution regarding the appropriation of the retained earnings for the year.

Acknowledgements

The Supervisory Board thanks the former Management Board and Supervisory Board members, Mr. Zufang LI and Mr. Johnny CHEN for their longstanding contributions to the Joyou Group and wishes them all the best for their future, both professionally and personally.

Last but not least, the Supervisory Board thanks the members of the Management Board and all employees for their personal contribution and cooperation in the financial year 2014.

Dr. Rainer SIMON

Chairman of the Supervisory Board
Hamburg, 26 March 2015

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
(until 31 December 2014)*

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. Johnny CHEN resigned from his position as member of the Supervisory Board as of 31 December 2014.



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 led 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.

Mr. Bijoy MADASSERY**Member of the Supervisory Board
(as of 30 January 2015)**

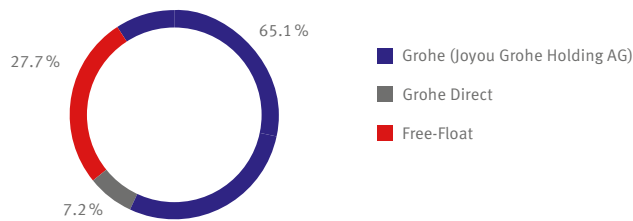
Upon an application of Joyou AG's Management Board, Mr. Bijoy MADASSERY was appointed to the Supervisory Board by the local court of Hamburg on 30 January 2015 as replacement for Mr. Johnny CHEN, who had resigned from his office as of 31 December 2014. The two remaining Supervisory Board members Dr. Rainer SIMON and David HAINES supported the appointment of Mr. MADASSERY to the Supervisory Board as he has longstanding experience in the sanitary ware and housing industry both within and outside of Grohe Group.

Mr. MADASSERY holds a first-class degree in Engineering, majoring in Electronics. He has over 20 years of international experience in Senior Management positions in Fortune 500 multinational organisations covering India, China, Korea and Japan. From 1998 to 2007, Mr. MADASSERY served Owens Corning in various managerial roles. He was also the Marketing Director for Asia Pacific at Owens Corning. Mr. MADASSERY joined GROHE in 2007 where he served as the Vice-President and Managing Director of Grohe India Private Ltd. In 2010, Mr. MADASSERY was appointed as the President of GROHE for Asia Pacific. Based in Singapore, Mr. MADASSERY is responsible for leading, developing and accelerating GROHE's premium sanitary fittings business across the region.

The Share



Joyou Shareholder Structure 2014



Note: Shareholder structure as of 31 December 2014; The name "Grohe" refers to Grohe Grohe Group S.à r.l.

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Frankfurt Stock Exchange

The Trend in the German Stock Market

The German stock market showed an overall volatile development in 2014. While the financial market environment in the first half of 2014 was marked by a generally positive mood, especially due to the on-going low interest rate policy, increasing uncertainty marked the second half of the year. The main reasons for this were the geopolitical uncertainties in Syria, Iraq and Ukraine as well as weaker economic prospects and the falling oil price. Altogether, the DAX reached an all time high in 2014 and at several points passed the significant 10,000-point-mark but also fell below the mark of 8,600 points in October 2014. However, after a period of growth at the end of 2014 the DAX ended the financial year 2014 with a plus of 2.7% compared to the previous year. At the same, other major international indices showed a better performance. In comparison, in the year 2014 the Dow Jones Industrial Average was up 7.5%, the S&P 500 by 9.4% and the NASDAQ Composite by 13.4%.

The SDAX, which is the relevant index for Joyou, also showed a slightly better trend compared with the DAX. It started at 6,788 points at the beginning of the year and reached its highest level on 9 June 2014 at 7,571 points before it fell to 6,181 points on 16 October 2014. Subsequently, however, the SDAX developed stronger and closed on 30 December 2014 at 7,186 points. In total, the SDAX recorded an increase for the year of 5.9%. At the same time, other German indices showed a somewhat different development: The Tec-DAX climbed 17.5% in 2014 and the MDAX showed an increase of only 2.2%.

Joyou Stock Performance

The Joyou share had a somewhat lacklustre performance in 2014. The share started at a price of EUR 12.80 on 2 January 2014 and showed a steady increase until the end of February, reaching its highest price on 27 February with EUR 13.85. However, the rest of the first half-year was marked by a downward development, while around the beginning of the second half of the year the share started to remain stable between a price range between EUR 10.92 and EUR 12.27. This development lasted until the end of the third quarter. Subsequently, the share price further declined and reached its lowest price of EUR 9.68 on 11 November 2014 before again showing a positive development and ending the financial year at a price of EUR 11.70. Compared to the end of 2013 this represents an overall decline of 8.7%, thereby underperforming the SDAX and DAX trends.

Investor Relations

During the financial year 2014, management and the Management Board held numerous meetings with current and potential investors and hosted several investor tours of the Company's facilities and attended conferences around the world. In the 2014 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 four institutions in 2014: Macquarie, equinet Bank, Solventis Gruppe, 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). After an acquisition which closed on 21 January 2014 by GraceB S.à r.l., a 100% subsidiary of GraceA k.k., a holding company jointly owned by LIXIL Corporation, a Japanese building materials conglomerate, and the Development Bank of Japan, GraceA k.k. became the Group's ultimate controlling entity.

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 five members. Mr. Jianshe CAI (Chairman and Chief Executive Officer), Mr. Jilin CAI (Deputy Chairman and Chief Operating Officer), Ms. Jianping (Dorothy) WU (Chief Financial Officer) since 1 September 2014, Mr. Gerald MULVIN (Corporate Development Officer) and Mr. John William MCLEAN since 1 October 2014. Joyou's former CFO, Mr. Zufang LI resigned as of 31 August 2014.

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 2014 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 2014:

- ➔ 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. 65 % of the shares in the Company. Further, potential conflicts of interest arising from the position of Mr. Jilin CAI as a non-executive board member of Grohe Group S.à r.l. which is the top holding company of Grohe Group and indirect majority shareholder of Joyou AG.
- ➔ Potential conflicts of interest arising from the position of Mr. Gerald MULVIN a member of the Management Board of Grohe AG and Joyou Grohe Holding AG, respectively.
- ➔ Potential conflicts of interest arising from the position of Mr. John William MCLEAN as an employee of Grohe AG and director of various subsidiaries of Grohe Group.



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

3 Supervisory Board

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

The Supervisory Board is composed in accordance with Secs. 95 and 96 of the German Stock Corporation Act (“Aktengesetz/AktG”) and consists of three members. The current members of the Supervisory Board are Dr. Rainer SIMON (Chairman), Mr. David HAINES and Mr. Bijoy MADASSERY. The former supervisory board member Mr. Johnny CHEN resigned as of 31 December 2014, upon an application by the Management Board, and was replaced by Mr. Bijoy MADASSERY by court decision dated 30 January 2015.

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 2014 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 2014.

- 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. Further, Mr. Haines is also a member of the board of directors of LIXIL Corporation, which is the indirect controlling shareholder of Grohe Group S.à r.l.
- Mr. Bijoy MADASSERY is also an employee of Grohe AG and director of various subsidiaries of Grohe 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.

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 2014 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 2014, 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 2014, 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 2014, Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, has been appointed as auditor by the Annual General Meeting on 18 June 2014. 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 2014, in accordance with the German generally accepted standards for the review of financial statements promulgated by Institut der Wirtschaftsprüfer (IDW). The Supervisory Board has agreed with the independent auditor that the Chairman of the Supervisory Board would be informed immediately of any grounds for disqualification or impartiality occurring during the audit or reviews, unless such grounds are eliminated immediately, and that the independent auditor would report immediately on any findings or occurrences during the audit which have a significant bearing on the duties of the Supervisory Board. It was also agreed that the independent auditor would inform the Supervisory Board or make a note in the audit report of any facts ascertained during their examination that conflict with the Declaration of Conformity issued by the Management Board and Supervisory Board pursuant to Sec. 161 of the German Stock Corporation Act.

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

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 2014

pages 23 – 68

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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 bathroom fixtures and fittings 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 sales, 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 eight 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 Co. Ltd. (“Joyou Ceramics”)
- Quanzhou Yongsheng Galvanisation Industrial Co. Ltd. (“Yongsheng Galvanisation”)
- Grohe (Xiamen) Investment Management Co., Ltd. (“Grohe Xiamen Management”)
- Quanzhou Gaoyu Sanitation Technology Co., Ltd. (“Gaoyu Sanitation”)
- Xiamen X-Time Trading Co. Ltd (“X-Time Trading”)

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, X-Time Trading 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, X-Time Trading and Grohe Xiamen Management.

Joyou AG and therefore the Joyou Group are led by the Management Board and Supervisory Board of Joyou AG.

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

In May 2014 Joyou Building Materials finalised the incorporation of a 100 % subsidiary which is named Xiamen X-Time Trading Co. Ltd. The company’s principal activity is intended to be the trading of Joyou’s high-end branded product lines.

2 Economic Report

2.1 Economic Development

2.1.1 Overall Economic Development

In the year 2014, China’s economy grew 7.4 %. It showed strong resilience in the first half of 2014, with growth momentum rebounding in the second quarter and expansion in the first nine months reaching 7.4 % year-on-year, that being 7.4 % in the first quarter, 7.5 % in the second quarter, and 7.3 % in the third quarter, and 7.3 % in the fourth quarter year-on-year. The full-year result was the worst since the 3.8 % recorded in 1990.

China’s retail sales, a key indicator of consumer spending, rose 12.0 % year-on-year in 2014 to RMB 26.2 trillion (USD 4.3 trillion), according to the National Bureau of Statistics.

Retail sales growth in rural areas outpaced that in urban China. Last year, sales in rural regions rose 12.9 % from a year ago, while sales in urban areas climbed 11.8 %.

Online sales showed robust growth, soaring 49.7 % year on year in 2014 to RMB 2.79 trillion.

The consumer price index, a main gauge of inflation, grew 2.0 % year-on-year in 2014, well below the 3.5 % full-year control target set by the Chinese government.

2.1.2 Development of the Chinese Sanitary-Ware Industry

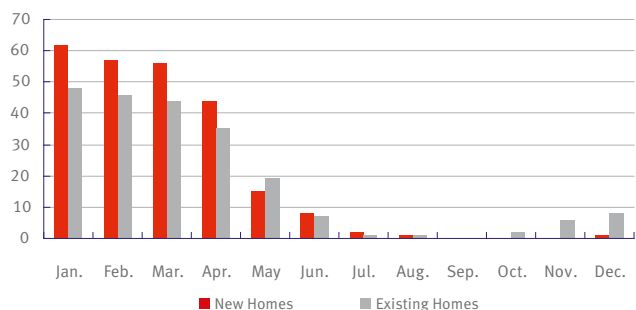
2.1.2.1 Market Development

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 urbanisation rate, consumer spending and GDP.

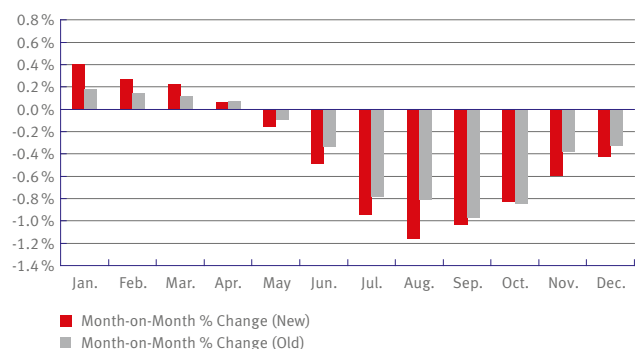
Housing prices, consumer prices and especially water prices have come in the focus of people’s daily life. As the most populous country, China is also one of the most water-scarce countries, owning only 6 % of the global water resources. Furthermore, China’s

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. Further, in late 2014 Chinese Premier Li Keqiang said China would accelerate water conservation projects to tackle its water shortage and bolster wider economic growth. China is set to launch 172 key water conservation projects in coming years, with those already under way worth around RMB 600 billion (USD 98 billion).

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 2014:



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 2014:



Note: Calculation is based on cumulative change across cities, divided by number of cities.



China's government loosened mortgage restrictions in its first direct move in 2014 to address the country's ailing housing market, which is becoming a significant drag on the economy amid other signs of weakness. Following some earlier steps, on 30 September the People's Bank of China and the China Banking Regulatory Commission formally announced a set of measures to support the Chinese housing market. Firstly, the minimum mortgage loan rate for first home buyers was cut from 90–95 % of the benchmark lending rate to 70 % (the benchmark rate at that time stood at 6 %).

Secondly, if a mortgage of a first home has been fully repaid, the mortgage associated with a second home purchase will be treated as a first mortgage, which means a substantially lower minimum down payment (30 % instead of 60–70 %) and mortgage loan rate (from 110 % of the benchmark rate for a second home, to the 70 % noted above). Thirdly, basically, the ban on mortgages for a third home that was in place in much of the country has been removed. When households with more than two houses apply for a mortgage for an additional home, banks are now allowed to make decisions based on prudential considerations, instead of having to decline the application.

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 2014. These include:

Energy Conservation – Limited natural resources is becoming a big problem for China's economic and social development.

The central government has realised this problem is a big obstacle for expanding domestic demands, promoting the economic growth and adjusting the economic structure. Therefore, the government and industry association have been encouraging the bathroom product enterprises to reduce the energy consumption and emissions, get rid of inefficient production lines with higher pollution, and they also want to lead the bathroom industry to develop new products with more water-efficient and less raw materials consumption.

Increasing Competition in Middle-Market

With the improvement of people's living standard, the proportion of middle-income population increased year by year. Bathroom products were also in the process of shifting from the low end to

the mid-high end. Some powerful domestic brands were very keen on entering into the mid-high market, while many foreign brands have been expanding in mid end market as well. Industry competition intensified, especially after the mid-year affects of the restrictive policies of real estate market and rising product costs, and component costs, some small and medium sized enterprises with poor management level or lack of technical innovation reduced their production or even shut down in 2014. 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.

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.

Faucets (Taps)

According to Building Services Research and Information Association (BSRIA) a UK-based consultancy, in their publication China Bathroom Study 2014, the total size of the market for taps and mixers was expected to be RMB 16.5 billion in 2014, which was a 6.0 % growth on 2013 figures (based on projections published Q3 2014). According to BSRIA, among the total sales, basin taps accounted for 39.3 % in value, bath taps accounted for 38.5 %, and kitchen taps accounted for 19.4 %. Mop basin taps, washing machine taps and bidet taps were grouped as others and accounted for 2.8 %.

Ceramic Sanitary ware

According to BSRIA's 2014 study the total size of the market for ceramic sanitary ware was expected to be RMB 19,297 billion in 2014, which was a 3.9 % growth on 2013 figures (based on projections published Q3 2014). Of ceramic sanitary-ware products, toilets accounted for 69.3 % in value in 2013, basins accounted for 29.8 %, urinals accounted for 0.8 %, and bidets accounted for 0.1 %. The share of each category is relatively stable over previous years.

Shower-Enclosures, Bathtubs, and Bathroom Cabinets

According to BSRIA's 2014 study the expected total sales value of shower-enclosures was RMB 17,467 million, increased by 10.0 % compared to 2013, while bathtubs was RMB 4,067 million, dropped by 20.0 %, and shower cabinets was RMB 11,783 million, an increase of 6.5 % (based on projections published Q3 2014), or a total expected market size of RMB 33,317 million. Of these, shower-enclosures accounted for 52.4 %, bathtubs 12.2 % and bathroom cabinets for 35.4 % of overall value.

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 2013*

Group	Brand	Country	Market share %
LIXIL Group	Joyou	China	11.5 ~ 12.0
Jomoo	Jomoo	China	11.0 ~ 12.0
Kohler	Kohler	USA	8.7 ~ 9.2
Toto	Toto	Japan	8.0 ~ 8.5
Fortune Brands	Moen	USA	5.0 ~ 5.5
Masco Corp.	Hansgrohe	Japan	5.0 ~ 5.5
LIXIL Corp.	Grohe	USA	4.5 ~ 5.0
LIXIL Corp.	American Standard	Spain	1.5 ~ 2.0
Roca	Roca		1 ~ 1.5
Others			41.3
Total			100

* Source BSRIA's "China Bathroom Study 2014"

According to the statistic put forward by BSRIA, Joyou's market share in 2013 for taps and mixers (faucets) was between 11.5 % and 12.0 % by value, in first place. For ceramic sanitary ware, between 1.0 % and 1.5 % in ninth place, shower enclosures between 0.3 % and 0.8 % in seventh place, and bathtubs between 0.5 % and 1.0 % in seventh place. At the date of publication there were no more up-to-date, comprehensive and reliable sources of information available.

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 2014, 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 2014 a number of key developments occurred for Joyou:

- LIXIL and DBJ Complete the Acquisition of 87.5 % of GROHE Group S.à r.l
- Joyou Secured USD 300 million Long-Term Financing Facility
- Ms. Jianping (Dorothy) WU Takes Over the Finance Post of Joyou Group as New CFO as of 1 September 2014
- Mr. John William MCLEAN Becomes New Management Board Member as Executive Director Operations (EDO) as of 1 October 2014.
- Change in Indirect Structure: LIXIL Acquires the Remaining 12.5 % of Shares in Grohe Group S.à r.l. from Cai GmbH
- Production Capacity Expansions
- Joyou Rolls Out “Serving China”-Customer Service Strategy
- Joyou Promotes its Online Internet Sales Promotion Strategy
- Joyou supports Youth Rural Literary and Art Performance
- Jilin CAI Honoured at the “15th Fujian Outstanding Entrepreneur Award”
- Joyou Wins Red Star Design Award
- Joyou Wins Kapok Design Award

2.2.1 LIXIL and DBJ Complete the Acquisition of 87.5 % of GROHE Group S.à r.l.

On 21 January 2014, LIXIL Corporation (“LIXIL”) and the Development Bank of Japan Inc. (“DBJ”), via their joint holding company GraceB S.à r.l. (“GraceB”), completed the acquisition of 87.5 % of the share capital of GROHE Group S.à r.l. (“GROHE”), Joyou AG’s controlling entity. Via GraceB and GROHE, LIXIL and DBJ together thereafter held 72.3 % of the shares in Joyou AG. 27.7 % of the shares remain in free float. With the completion of the acquisition, GROHE and Joyou AG became part of the LIXIL Group on 21 January 2014.

Since the close, there have been several initial meetings in China with various teams from the LIXIL Group exploring potential synergies for LIXIL, GROHE and Joyou and how they may be utilised. In June 2014, these discussions resulted in the first trial order being delivered to LIXIL Group.

2.2.2 Joyou Secured USD 300 million Long-Term Financing Facility

On 31 July 2014, Joyou Hong Kong entered into a USD 300 million facility agreement with three mandated lead arrangers, those being Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank Ltd. The single currency facility has two separate usable facilities of USD 150 million each. They have a contract period of five years with regular repayment instalments and a final repayment of 50 % on the termination date. The first facility, Facility A, of USD 150 million was used to settle Joyou Group’s existing loan agreements with Nomura and Standard Chartered. The second facility, Facility B, of USD 150 million is available to Joyou Group within the next two years to provide additional funding for certain investments for property, plant and equipment, as well as certain costs to be incurred to execute the growth plans of Joyou Group. Joyou Hong Kong is required to pay an interest-rate of LIBOR plus a margin of 2.5 % as well as a commitment fee of 0.5 % with respect to unused and un-cancelled amounts of Facility B. Furthermore, Joyou has paid arrangement, agency and security agent fees as well as certain transaction expenses. Beside a number of usual securities, Joyou Group will have to observe certain financial covenants. Finally, the facility agreement is subject to certain change of control clauses and will restrict Joyou AG’s ability to pay out dividends during the contract period of the agreement. Joyou had to pay charges amounting to kEUR 1,208 associated with early repayment of the Nomura and Standard Chartered facilities. However, overall, the Management Board believes that the reduced interest costs and extended maturity date will allow the company to develop in a more favourable and stable manner.

As at the reporting date, Joyou has drawn down in full the facility A with USD 150 million for settlement of the Nomura and Standard Charter facility, and USD 80 million of Facility B for investment in property, plant and equipment.

2.2.3 Ms. Jianping (Dorothy) WU Takes Over the Finance Post of Joyou Group as New CFO as of 1 September 2014

Ms. Jianping (Dorothy) WU was appointed as management board member and new Chief Financial Officer (CFO) of Joyou AG and Joyou Group by the Supervisory Board as of 1 September 2014. Ms. WU holds a Master degree of Business Administration (MBA) and draws upon more than 20 years of experience in various leadership positions with increasing responsibilities in financial management at domestic and multi-national companies including Xiamen International Airport Group, Fujian Septwolves, GE, Norit Group and Warburg Pincus since 1991. Her predecessor, Mr. Zufang Li, has therefore resigned from his position and Management Board member as of 31 August 2014.

2.2.4 Mr. John William MCLEAN Becomes New Management Board Member as Executive Director Operations (EDO) as of 1 October 2014

Mr. John William MCLEAN was appointed as fifth member of the Management Board of Joyou AG as of 1 October 2014. He has a Master of Science degree in Engineering gained from the University of Saskatchewan, Saskatoon, Canada. In his function as Executive Director Operations he will be responsible for operations including production and R&D (research and development). Mr. MCLEAN has worked for the Grohe Group for 14 years. He has held increasingly responsible roles from President of Tempress Ltd., a subsidiary of Grohe AG, to VP Operations Americas at Grohe Canada and most recently as Managing Director at Grohe Siam Ltd.

2.2.5 Change in Indirect Shareholder Structure: LIXIL Acquires the Remaining 12.5 % of Shares in Grohe Group S.à r.l. from Cai GmbH

On 10 December 2014, LIXIL Corporation (“LIXIL”) reached an agreement to acquire the remaining 12.5 per cent of the outstanding shares of GROHE Group S.à r.l. (“GROHE”), Joyou AG’s parent company, from Cai GmbH, which is wholly owned by Joyou AG’s Management Board members Mr. Jianshe CAI and Mr. Jilin CAI. Following the completion of this agreement and the approval of the regulatory bodies, it is intended that from 1 April 2015, Joyou will become a fully consolidated indirect subsidiary of LIXIL Group Corporation, the parent company of LIXIL. GROHE and Joyou remain independent within the LIXIL Group.

2.2.6 Production Capacity Expansions

In June, Joyou finished the construction of the first flow kiln in second phase of Meiyu ceramics facility which started initial commercial production in August. When it reaches full utilisation, this first of three kilns to be installed in the facility, will increase Joyou’s existing in-house production capacity of ceramic products by around 100 %. Simultaneously, Joyou broadened its range of toilets and washbasins and increased OEM private label supply, including Grohe and American Standard, a LIXIL brand.

Once completed, this second phase of the Meiyu ceramics facility will have a production floor space of some 120,000 square meters and the three kilns will each have a length of around 150 meters. The three-storey facility will have a total of three environmentally friendly, natural gas powered flow kilns stationed on the ground floor. It is designed to be a high-volume, multiple-product ceramics facility, with maximum flexibility to adapt to market conditions. The two further kilns are expected to be installed and go into operation in line with projected sales growth.

Further, in the second half of 2014 the first of the planned five galvanisation lines became operational in the second phase of the Shuitou galvanisation facility.

2.2.7 Joyou Rolls Out “Serving China”-Customer Service Strategy

On 20 February, at the Macalline Super-Mall in Suzhou, Joyou kicked off a series of events and activities, including a press conference, informing the Jiangsu market about the strategic service system, and its differentiating characteristics. Since 2013 Joyou has been focusing on customer service as a key strength, and thereby launched the “Serving China” service strategy, which encompasses a five-year customer service plan. Joyou is in the process of building 40 service teams with its independent distributors with 180 members per team, in Jiangsu, a province of nearly 80 million people, to provide services at stores in 20 districts of 14 counties, and will be rolled out across China.

Furthermore, the new service program “Happy Family” developed by Joyou with certain independent distributors covers free consulting services for all sale stages from the pre-sale stage, on-sale stage and post-sale stage, delivery and installation services as well as a life-long maintenance service packages. While the fulfilment of this service program rests with Joyou’s independent distributors, Joyou supports its distributors and provides cost contributions. In addition to that, quick consulting services will be available 24 hours a day, 7 days a week and service for speedy servicing of installations within 48 hours will be offered. For VIP customers, Joyou “Happy Family” service teams will provide door-to-door maintenance, cleaning and repair services for products installed within the past two years. Joyou “Happy Family” campaign, part of the wider ‘Serving China’ campaign, seeks to achieve full customer satisfaction as a strategic competence.

2.2.8 Joyou Promotes its Online Internet Sales Promotion Strategy

Online sales, like in the rest of the world are growing in China, and Joyou centralised online sales team have been devising new strategies to ensure that Joyou remains at the forefront of this fast growth sales channel in China. Joyou launched the promotion using TMall, which ranked one of the number one Chinese B2C retail websites in terms of transaction volume, serving over 180 million buyers. TMall is owned by Alibaba, a privately owned Hangzhou-based group of Internet-based e-commerce businesses including business-to-business online web portals, online retail and payment services. On the May Day Special Discount Program of Joyou offered a various array of incentives and marketing activities. In addition to the special-price products during the sales promotion, a lottery was drawn for big prizes such as international tourist excursion. The activities stressed Joyou’s efforts to grow its online sales and hence its role as leader of the Chinese sanitary-ware industry.



2.2.9 Joyou supports Youth Rural Literary and Art Performance

As part of its efforts in Corporate Social Responsibility, Joyou's co-organised and supported the locals arts with a series of events titled "Wonderful Youth: China Dream" with the Youth Literary and Art by Nan'an Municipal Youth League Committee, and Quanzhou Normal College. Event performances were held on the premises of the Joyou China Head Quarters on May 9, 2014. Secretary of Nan'an Municipal Youth League Committee, Mr. Qinglin FU, Youth League Committee Secretary of Quanzhou Normal College, Mr. Zhixiong FU, Director of Joyou HR Administration Centre, Mr. Xuncaï WENG, Administration Manager of HR Administration Centre, Mr. Fuyuan WU and Director of Quality Assurance Centre Mr. Jiangshan JI watched the performance jointly with the employees of the company. This event was held to jointly support the local arts culture in the city, and to give a welcome performance to Joyou's employees.

2.2.10 Jilin CAI Honoured at the "15th Fujian Outstanding Entrepreneur Award"

The Entrepreneur Day & Annual Meeting of Chinese Entrepreneurs 2014 was held in Fuzhou. Leaders from relevant ministries, association of enterprises at national, provincial and municipal levels, entrepreneurs as well as experts and scholars from all over China attended the "seeking reform-based breakthrough and innovation – Chinese entrepreneurs" themed conference. State councillor Mr. Wang Yong attended the meeting. In his speech he emphasised that enterprises and entrepreneurs should implement the essence of the 18th CPC Congress and the Third Plenary Session of the 18th Central Committee, keep responsibility and mission in mind, work on reform and innovation, seek growth, improvement and efficiency in stability, and make greater contribution to sustainable economic and social development.

2.2.11 Joyou Wins Red Star Design Award

Joyou's sliding type 'combined faucet and dryer' stood out from 6,000 competitive products through its novel form and unique function and was honoured at the Chinese Red Star Design Award (<http://en.redstaraward.org>) ceremony held in Beijing. The Chinese Red Star Design Award, established in 2006 and the ICSID (International Council of Societies of Industrial Design) certified in 2009, are hailed by some as the "Oscars" of the industrial design community and are regarded among the highest of awards for industrial design in China. As one of the most influential sanitary-ware brands, Joyou has a large team of designers who work in a creative, progressive, down-to-earth and responsible manner innovating design and creating wonderful experiences for consumers. The award recognises these contributions made by Joyou and reflects Joyou's creative research and development as well as its investments in design capabilities.

2.2.12 Joyou Wins Kapok Design Award

The CDA 2013 (Chinese Design Award, also known as Kapok Design Award) ceremony was held at the Poly World Trade Centre Exhibition Hall. With great anticipation the winners were announced in front of industry peers and journalists from around the globe as a design award went to Joyou's series of sleek, rotating faucets. With the support of Guangzhou Government, the Kapok Design Award was set up by Guangzhou Design Week in 2006. The Award is known by the design industry for its annual summary of products that transform "Made in China" to "Created in China". As an effective platform of the transition from design to industry, the Award plays a positive role in improving everyone's daily life, there's no doubt that it is one of the most influential awards in modern industrial products design of China.

2.3 Results of Operations, Financial Position and Net Assets

2.3.1 Summarising assessment by the Management Board

Overall in 2014 Joyou achieved the sales goals that it had set for itself, which was a group sales revenue growth of between 5% and 10% in RMB terms. A group sales revenue growth of 11.2% was achieved, which was not only above the range set but also above the revised sales goal set later in the year, that being a growth rate at the top end of the initial range. 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, 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. 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 2014 by 11.3% year-on-year to a total of kEUR 398,122 (2013: kEUR 357,843) in EUR terms. The ongoing growth in sales reflects a growth in core business and international sales. During the periods under review there was nearly no change in the EUR to RMB period average exchange rate, however there was a 9.7% depreciation of the period end EURO to the RMB exchange rate.

Operating profit (EBIT) for full year 2014 increased from kEUR 53,195 by kEUR 8,225 or 15.5% to kEUR 61,420, representing an EBIT margin of 15.4% (2013: 14.9%). Net profit increased in comparison to financial year 2013 from kEUR 24,265 by kEUR 9,412 or 38.8% to kEUR 33,677 in 2014. The increase is mainly due to increased sales. Adjusted net profit, which eliminates the effect

of the revocation of the preferential tax treatment arising in 2013, increased in comparison to financial year 2013 from kEUR 29,635 by kEUR 4,042 or 13.6% to kEUR 33,677 in 2014.

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 2014 and 31 December 2013.

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

	1 Jan. to 31 Dec. 2014		1 Jan. to 31 Dec. 2013		Variance	
	kEUR	%	kEUR	%	kEUR	%
Sales revenues	398,122	100.0	357,843	100.0	40,279	11.3
Cost of sales	-288,321	-72.4	-258,827	-72.3	-29,494	11.4
Gross profit	109,801	27.6	99,016	27.7	10,785	10.9
Other operating income	2,174	0.5	1,667	0.5	507	30.4
Selling and distribution expenses	-26,627	-6.7	-25,211	-7.0	-1,416	5.6
Research and development expenses	-6,580	-1.7	-6,312	-1.8	-268	4.2
Administrative expenses	-16,995	-4.3	-15,246	-4.3	-1,749	11.5
Other operating expenses	-353	-0.1	-719	-0.2	366	-50.9
EBIT	61,420	15.4	53,195	14.9	8,225	15.5
Finance income	2,552	0.6	2,302	0.6	250	10.9
Finance costs	-13,232	-3.3	-13,720	-3.8	488	-3.6
EBT	50,740	12.7	41,777	11.7	8,963	21.5
Taxes on profit	-17,063	-4.3	-17,512	-4.9	449	-2.6
Profit	33,677	8.5	24,265	6.8	9,412	38.8

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, Components and Copper Semi-finished products, as well as Grohe Products. Most of Joyou's revenues are generated through its own brand business and its OEM/ODM business.

Revenues increased from kEUR 357,843 in the year ended 31 December 2013 by kEUR 40,279, or 11.3%, to kEUR 398,122 in the year ended 31 December 2014. The increase was principally attributable to an increase in revenues from Shower Products by kEUR 8,718 (or 13.5%), Copper and Semi Finished Products by kEUR 8,274 (or 64.2%). For further information please refer to section "2.3.5 Segment Reporting" for a detailed analysis on all segments. International sales increased by 79.5% through the intensified collaborative relationship with Grohe Group.

2.3.2.2 Cost of Sales

Cost of sales comprises of the costs of purchasing copper, zinc, other parts, outsourced products, overheads/other, other metals, labour costs for personnel employed in production, 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. 2014		1 Jan. to 31 Dec. 2013		Variance	
	kEUR	%	kEUR	%	kEUR	%
Copper ¹⁾	93,637	32.5	96,867	37.4	-3,230	-3.3
Outsourced products ²⁾	66,420	23.0	57,007	22.0	9,413	16.5
Other parts ³⁾	49,817	17.3	40,912	15.8	8,905	21.8
Other metals	16,826	5.8	13,670	5.3	3,156	23.1
Overheads / Other ⁴⁾	26,027	9.0	21,886	8.5	4,141	18.9
Zinc	12,111	4.2	9,066	3.5	3,045	33.6
Labour costs ⁵⁾	18,212	6.3	13,982	5.4	4,230	30.3
Depreciation	5,271	1.8	5,437	2.1	-166	-3.1
Cost of sales	288,321	100.0	258,827	100.0	29,494	11.4

- 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 258,827 in the year ended 31 December 2013 by kEUR 29,494 or 11.4%, to kEUR 288,321 in the year ended 31 December 2014. The increase in cost of sales in the year ended 31 December 2014 resulted mainly from an increase in sales. Within costs of sales the major items that increased are zinc, labour costs and other metals, and there was a decrease in Copper. Zinc increased from kEUR 9,066 in the year ended 31 December 2013, by kEUR 3,045 or 33.6% to kEUR 12,111 in the year ended 31 December 2014. This increase was mainly as a result of increased sales of zinc components to Group companies. Labour costs increased from kEUR 13,982 in 2013, by kEUR 4,230 or 30.3% to kEUR 18,212 in 2014 mainly due to increased production facilities and capacity expansions and wage level increases. Other metals increased from kEUR 13,670 in the year ended 31 December 2013 by kEUR 3,156 or 23.1%, to kEUR 16,826 in the year ended 31 December 2014. Expenses for copper, our main raw material, amounts to kEUR 93,637 in the year ended 31 December 2014 and decreased from kEUR 96,867 in the year ended 31 December 2013 by kEUR 3,230. The decrease of 3.3% is mainly attributable to changes in the product mix.

2.3.2.3 Gross Margin

For the year ended 31 December 2014, the gross margin amounted to 27.6 %, which is almost unchanged in comparison to 27.7 % for the year ended 31 December 2013.

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 exhibition expenses (expenses incurred in connection with the participation at trade fairs), rental expenses, provisions for some future obligations, travel expenses and labour costs for employees engaged in the sales and marketing department.

Selling and distribution expenses increased from kEUR 25,211 in the year ended 31 December 2013 by kEUR 1,416, or 5.6 %, to kEUR 26,627 in the year ended 31 December 2014. The major changes relate to an increase in transportation costs due to increases in international sales and was offset in part by a decrease in advertising expenses compared to 2013. Selling and distribution expenses in proportion to sales decreased from 7.0 % in 2013 to 6.7 % in 2014.

2.3.2.5 Research and Development Expenses

Research and development expenses 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 6,312 in the year ended 31 December 2013 by kEUR 268, or 4.2 %, to kEUR 6,580 in the year ended 31 December 2014. As research and development is one of the key success drivers for Joyou, it has sustained its level of investment in this area. As a percentage of sales, the rounded figure remained almost unchanged at 1.7 % in the year ended 31 December 2014 in comparison to 1.8 % in the year ended 31 December 2013.

2.3.2.6 Administrative Expenses

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

Administrative expenses increased from kEUR 15,246 in the year ended 31 December 2013 by kEUR 1,749, or 11.5 %, to kEUR 16,995 in the year ended 31 December 2014. The increase in administrative expenses is principally attributable to an increase in the cost of salaried staff due to an increase in employee numbers as well as increased other costs. Compared to 2013, administrative expenses as a percentage of sales decreased slightly from 4.3 % to 4.2 % in 2014.

2.3.2.7 Other Operating Income and Expenses

Other operating income which mainly comprises of, among other things, rental income, reversal of bad debt provisions, management fees and government grants, increased from kEUR 1,667 in the year ended 31 December 2013 by kEUR 507, or 30.4 %, to kEUR 2,174 in the year ended 31 December 2014, mainly due to reversal of impairments.

Other operating expenses, which mainly comprises of, among other things, expenses which are reimbursed, donations, and depreciation and related costs associated with investment properties, decreased from kEUR 719 in the year ended 31 December 2013 by kEUR 366 or 50.9 % to kEUR 353, mainly due to decreases in donations and in reimbursed fees.

2.3.2.8 Finance Result

Finance result comprises of finance income less finance expenses. Finance income comprises interest income and foreign exchange gains. Finance costs comprise of interest and facility fees on bank loans, exchange losses and bank charges.

Finance income increased from kEUR 2,302 in the year ended 31 December 2013 by kEUR 250 or 10.9 % to kEUR 2,552 in the year ended 31 December 2014. The increase was mainly related to an increase of kEUR 251 in exchange gains due to exchange rate changes over the periods under review.

Finance costs decreased from kEUR 13,720 in the year ended 31 December 2013 by kEUR 488 or 3.6 % to kEUR 13,232 in the year ended 31 December 2014. The decrease is mainly attributable to lower charges arising from facility fees and lower bank charges in 2014 compared to 2013, however this was partly offset by an increase in exchange rate losses and interest on bank and other loans.

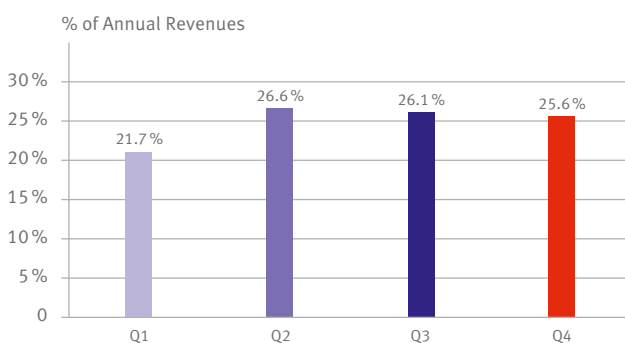
2.3.2.9 Taxes on Profit

Taxes on profit showed a slight decrease of kEUR 449, or 2.6 %, from kEUR 17,512 in the year ended 31 December 2013 to kEUR 17,063 in the year ended 31 December 2014. Whilst the charge is relatively constant by comparison to the prior year, the current year excludes the effects of the revocation of the preferential tax treatment which arose in 2013. This effect was, however, offset in part by the increase in taxable profits.

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 quarter, and fourth quarters. This is mainly due to the Lunar 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 slowdown 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



Note: Figures are based on last 3 years of RMB sales

2.3.3 Financial Position

kEUR	1 Jan. to 31 Dec. 2014	1 Jan. to 31 Dec. 2013	Variance	
			kEUR	%
Cash flow from operating activities	41,156	36,144	5,012	13.9
Cash flow used in investing activities	-52,496	-37,350	-15,146	40.6
Cash flow from financing activities	59,610	51,828	7,782	15.0
Changes in cash and cash equivalents	48,269	50,622	-2,353	-4.6
Cash and cash equivalents at the beginning of the reporting period	128,008	79,620	48,388	60.8
Foreign exchange movements	17,796	-2,234	20,030	896.6
Cash and cash equivalents at the end of the reporting period	194,073	128,008	66,065	51.6

Cash flow from operating activities increased from kEUR 36,144 in the year ended 31 December 2013 by kEUR 5,012, or 13.9%, to kEUR 41,156 in the year ended 31 December 2014. This increase is caused mainly by the increase in the Group's profit before tax.

Cash flow used in investing activities increased from kEUR 37,350 in the year ended 31 December 2013 by kEUR 15,146, or 40.6%, to kEUR 52,496 in the year ended 31 December 2014. This increase was mainly attributable to additions in new plants including the Meiyu Ceramics Phase II and the Shuitou Galvanisation expansion.

Cash flow from financing activities increased from kEUR 51,828 in the year ended 31 December 2013 by kEUR 7,782 or 15.0% to kEUR 59,610 in the year ended 31 December 2014. This movement mainly resulted from Joyou refinancing its long-term debt in order to improve its interest rate and loan maturity profile. Following the settlement of the previously existing loans, Joyou drew down additional funds from the remaining facility available in order to finance the ongoing investment projects commented on above.

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 the companies. Restricted cash amounted to kEUR 3,180 as at 31 December 2014 and kEUR 12,673 as at 31 December 2013.

2.3.4 Net Assets

2.3.4.1 Assets

The asset and capital structure developed as follows: the balance sheet total increased from kEUR 528,155 by kEUR 165,863 or 31.4% to kEUR 694,018. This rise is principally attributable to an increase in property, plant and equipment, which was mainly due to new investments in facilities and production lines, cash and cash equivalents at balance sheet date. Trade receivables also increased, mainly due to foreign exchange changes and higher sales.

Besides this, during the periods under review there was nearly no change in the EUR to RMB period average exchange rate, however there was a 9.7% depreciation of the period end EUR to the RMB exchange rates. Due to this shift in foreign exchange rates, the currency translation reserve increased by kEUR 40,882.

Assets	31 Dec. 2014		31 Dec. 2013		Variance	
	kEUR	%	kEUR	%	kEUR	%
Inventories	79,336	11.4	73,576	13.9	5,760	7.8
Trade receivables	109,662	15.8	85,518	16.2	24,144	28.2
Receivables due from Grohe/LIXIL Group	6,319	0.9	5,571	1.1	748	13.4
Other receivables and prepayments	31,459	4.5	31,270	5.9	189	0.6
Amounts due from related parties other than Grohe/LIXIL Group	-	-	90	-	-90	-100.0
Cash and cash equivalents	194,074	28.0	128,008	24.2	66,066	51.6
Current assets	420,850	60.6	324,033	61.4	96,817	29.9
Intangible assets	516	0.1	358	0.1	158	44.1
Property, plant and equipment	239,450	34.5	172,589	32.7	66,861	38.7
Investment Property	3,230	0.5	3,058	0.6	172	5.6
Prepayments on land-use rights	28,065	4.0	25,962	4.9	2,103	8.1
Deferred tax assets	1,907	0.3	2,155	0.4	-248	-11.5
Non-current assets	273,168	39.4	204,122	38.6	69,046	33.8
Balance sheet total	694,018	100.0	528,155	100.0	165,863	31.4

2.3.4.2 Current Assets

Inventories comprises of raw materials and consumables, work-in progress, finished goods, outsourced products and Grohe merchandise products. It increased from kEUR 73,576 as at 31 December 2013 by kEUR 5,760, or 7.8%, to kEUR 79,336 as at 31 December 2014. The increase was mainly caused by the effect of movements in the EUR/RMB exchange rate. In RMB terms, inventories declined by 2.7%.

Trade receivables increased from kEUR 85,518 as at 31 December 2013 by kEUR 24,144, or 28.2%, to kEUR 109,662 as at 31 December 2014 or 15.7% in RMB terms. In RMB terms, trade receivable turnover days [365 days x (average trade receivables / revenues)] increased from 85 days in 2013, to 86 days in 2014. As a result of movements in exchange rates, in EUR terms trade receivable turnover days increased from 84 to 89 days respectively.

Other receivables and prepayments, comprising mainly of receivables from non-related companies, advances to suppliers and prepaid expenses, stayed almost unchanged and amounted to kEUR 31,459 as at 31 December 2014 in comparison to kEUR 31,270 as at 31 December 2013.

Amounts due from Grohe/LIXIL Group companies increased from kEUR 5,571 as at 31 December 2013 by kEUR 748, or 13.4%, to kEUR 6,319 as at 31 December 2014 due to higher sales volumes within the Group.

Cash and cash equivalents mainly comprise bank deposits, cash on hand as well as security deposits for letters of credit, notes payable and bank loans. The increase was principally attributable to the group refinancing as commented on above.

2.3.4.3 Non-Current Assets

Intangible assets comprises of software and patents and increased from kEUR 358 as at 31 December 2013 by kEUR 158 or 44.1%, to kEUR 516 as at 31 December 2014.

Property, plant and equipment mainly comprises of buildings, machinery and construction in progress (CIP). Property, plant and equipment increased from kEUR 172,589 as at 31 December 2013 by kEUR 66,861, or 38.7%, to kEUR 239,450 as at 31 December 2014. This increase was mainly attributable to the investments in the second phase of the Meiyu ceramics facility and the expansion of the Shuitou galvanisation facility.

Investment property refers to a building which was used to earn rental income and the capitalised land levelling costs relating to land use rights in Nan'an city held for investment purposes. The carrying amount of investment property slightly increased from kEUR 3,058 as at 31 December 2013 by kEUR 172 or 5.6% to kEUR 3,230 as at 31 December 2014.

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 25,962 as at 31 December 2013 and increased by kEUR 2,103 or 8.1%, to kEUR 28,065 as at 31 December 2014 due to the changes in the EUR/RMB foreign exchange rate by an amount of kEUR 2,746, which was partially offset by the amount expensed for the year of kEUR 652.

Deferred tax assets are based on temporary differences between the carrying amount of an asset and its tax base. Deferred tax assets decreased from kEUR 2,155 at 31 December 2013 by kEUR 248, or 11.5%, to kEUR 1,907 as at 31 December 2014. The decrease 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, which was partially offset by the effect of foreign exchange movements.

Equity and liabilities	31 Dec. 2014		31 Dec. 2013		Variance	
	kEUR	%	kEUR	%	kEUR	%
Short-term loans	29,417	4.2	20,743	3.9	8,674	41.8
Long-term liabilities due within one year	6,102	0.9	14,147	2.7	-8,045	-56.9
Trade payables	5,932	0.9	5,526	1.0	406	7.3
Notes payable	18,675	2.7	21,427	4.1	-2,752	-12.8
Other payables and accruals	11,558	1.7	14,147	2.7	-2,589	-18.3
Other provisions	297	-	-	-	297	-
Amounts due to related parties other than Grohe/LIXIL Group	-	-	17	-	-17	-
Amounts due to Grohe/LIXIL group companies	2,796	0.4	959	0.2	1,837	191.6
Income tax payable	5,097	0.7	3,432	0.6	1,665	48.5
Current liabilities	79,874	11.6	80,398	15.2	-524	-0.7
Long-term bank loan	176,681	25.5	86,658	16.4	90,023	103.9
Other provisions	1,045	0.2	936	0.2	109	11.6
Deferred tax liabilities	1,458	0.2	-	-	1,458	-
Non-current liabilities	179,184	25.8	87,594	16.6	91,590	104.6
Equity	434,960	62.7	360,163	68.2	74,797	20.8
Balance sheet total	694,018	100.0	528,155	100.0	165,863	31.4

2.3.4.4 Current Liabilities

Short-term loans comprises of secured bank loans only. They increased from kEUR 20,743 as at 31 December 2013 by kEUR 8,674 or 41.8% to kEUR 29,417 as at 31 December 2014. The short-term loans are spread across a number of local financial institutions, with differences in interest rates and maturity terms.

Long-term liabilities due within one year comprises of the short-term portion of the long-term loans. It decreased from kEUR 14,147 as at 31 December 2013 by kEUR 8,045 or 56.9% to kEUR 6,102 as at 31 December 2014. The reason for this decrease was the early repayment of the two long-term loans, which were repaid by the new long-term loan with longer repayment terms.

Trade payables and notes payable as a composite figure decreased from kEUR 26,953 as at 31 December 2013 by kEUR 2,346 or 8.7% to kEUR 24,607 as at 31 December 2014. Trade payables increased from kEUR 5,526 as at 31 December 2013 by kEUR 406 or 7.3% to kEUR 5,932 as at 31 December 2014 and comprises amounts payable to suppliers for the purchase of raw materials and components. Notes payable arise from the issuance of notes payable to suppliers. It decreased from kEUR 21,427 as at 31 December 2013 by kEUR 2,752 or 12.8% to kEUR 18,675 as at 31 December 2014. 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 comprises of advance payments received from customers, accrued payroll, accrued expenses and other tax payables (including business tax, stamp tax and property tax). The decrease from kEUR 14,147 as at 31 December 2013 by kEUR 2,589, or 18.3%, to kEUR 11,558 as at 31 December 2014 results primarily from the decrease in other tax payables and advances from customers.

Amounts due to Grohe/LIXIL Group increased from kEUR 959 as at 31 December 2013 by kEUR 1,837 or 191.6%, to kEUR 2,796 as at 31 December 2014, which was mainly due to an increase in purchases from Grohe/LIXIL Group companies.

Income tax payable amounts to kEUR 5,097 as at 31 December 2014 (2013: kEUR: 3,432) and relates to accrued income taxes for the financial year 2014.

2.3.4.5 Non-Current Liabilities

Long-term bank loans amounting to kEUR 86,658 as at 31 December 2013 increased by kEUR 90,023, or 103.9%, to kEUR 176,681 as at 31 December 2014. The increase is mainly attributable to the drawing down on the USD 300 million facility to the extent of USD 230 million, of which a major part was used for the repayment of two long-term loans. The amount due within one year of the long-term bank loan is disclosed under "Long-term liabilities due within one year" of current liabilities, and amounts to kEUR 6,102 (2013: kEUR 14,147).

Provisions include provisions for the future cost of decommissioning plants on a discounted basis on the construction of those plants, warranty provisions and a provision for a legal claim. The item increased from kEUR 936 as at 31 December 2013 by kEUR 109 or 11.6% to kEUR 1,045 as at 31 December 2014. The decommissioning provision relates to the cost of decommissioning production facilities when their land-use rights expire, and has been estimated using existing technology in China. Warranty provisions are accrued on potential warranty claims by customers under Joyou's warranty policy. Provisions for legal claims are accrued unchanged to the financial year 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 161.

2.3.4.6 Equity

Equity increased from kEUR 360,163 as at 31 December 2013 by kEUR 74,797 or 20.8% to kEUR 434,960 as at 31 December 2014, which was mainly attributable to an increase in retained earnings due to the profit for the financial year 2014 and the changes in the currency translation reserve. Due to the increase in total assets, the equity ratio decreased from 68.2% in 2013 to 62.7% in the financial year 2014.

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 2013 and 2014. 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
2014										
Revenue	138,937	48,388	73,225	48,126	17,403	14,535	27,780	21,160	8,568	398,122
Cost of sales	98,127	35,424	51,769	33,709	12,561	10,172	22,517	17,654	6,388	288,321
Gross profit	40,810	12,964	21,456	14,417	4,842	4,363	5,263	3,506	2,180	109,801
Segment assets	197,901	68,924	104,301	202,389	24,789	20,704	39,570	30,140	5,301	694,018
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

CORE BUSINESS

Bathroom Faucets

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

Revenues from the sale of bathroom faucets increased from kEUR 131,418 in 2013 by kEUR 7,519, or 5.7 %, to kEUR 138,937 in 2014. Measured in RMB, revenues from the sale of bathroom faucets increased by 5.6 % during this period.

The increase came from average sales price ("ASP") and volume increases.

The percentage of revenues from bathroom faucets to total revenues decreased from 36.7 % in 2013 to 34.9 % in 2014. This is in line with Joyou's overall strategy of moving away from the over-reliance on this single category item and a move towards providing products for a total bathroom solution.

Kitchen Products

Kitchen Products include kitchen faucets, basin faucets and kitchen basins. All faucets within this product category were manufactured by Joyou except for limited sales of kitchen faucets whose production was outsourced to external manufacturers and all kitchen sinks were sourced from external manufacturers.

Revenues from the sale of kitchen products increased from kEUR 43,408 in 2013 by kEUR 4,980, or 11.5 %, to kEUR 48,388 in 2014. Measured in RMB, revenues from the sale of kitchen products increased by 11.4 % during this period.

The increase came from volume increases and was offset by slight average sales price ("ASP") decreases.

The percentage of revenues from Kitchen Products to total sales increased from 12.1 % in 2013, to 12.2 % in 2014.

Shower Products

Shower Products mainly comprises of 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.

Revenues from the sale of shower products increased from kEUR 64,507 in 2013 by kEUR 8,718, or 13.5%, to kEUR 73,225 in 2014. Measured in RMB, revenues from the sale of shower products increased by 13.4% during this period.

There was an increase in both ASP and volumes in this category.

The percentage of revenues from shower products to total revenues increased from 18.0% in 2013 to 18.4% in 2014.

Ceramics and Bathtubs

Ceramics and Bathtubs mainly comprises of 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 41,216 in 2013 by kEUR 6,910, or 16.8%, to kEUR 48,126 in 2014. Measured in RMB, revenues from the sale of ceramics and bathtubs increased by 16.7% during this period.

The increase in sales mainly came from significant increases in volume, with a slight ASP decline. The overall increase was the result of marketing campaigns.

The percentage of revenues from ceramics and bathtubs to total revenues increased slightly from 11.5% in 2013 to 12.1% in 2014.

Bathroom Cabinets

Bathroom Cabinets mainly comprises of 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 16,027 in 2013 by kEUR 1,376, or 8.6%, to kEUR 17,403 in 2014. Measured in RMB, revenues from the sale of bathroom Cabinets increased by 8.5% during this period.

There was an increase in volumes and a decrease in ASPs across this category.

The percentage of revenues from bathroom cabinets to total revenues decreased from 4.5% in 2013 to 4.4% in 2014.

Bathroom Accessories

Bathroom Accessories mainly comprises of baskets, soap trays, robe hooks, corner shelves and toilet paper holders. The products in this segment are manufactured by Joyou or bought from external manufacturers.

Revenues from the sale of bathroom accessories increased from kEUR 11,643 in 2013 by kEUR 2,892, or 24.8%, to kEUR 14,535 in 2014. Measured in RMB, revenues from the sale of Bathroom Accessories increased by 24.7% during this period.

There was an increase in volumes and ASPs across this category.

The percentage of revenues from bathroom accessories to total revenues increased slightly from 3.3% in 2013 to 3.7% in 2014.

COMMODITY BUSINESS

Other Faucets and Sanitary Hardware

Other Faucets and Sanitary Hardware mainly comprises of 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 25,363 in 2013 by kEUR 2,417, or 9.5 %, to kEUR 27,780 in 2014. Measured in RMB, revenues from the sale of other faucets and sanitary hardware increased by 9.4 % during this period.

There was an increase in both volumes and ASPs across this category.

The percentage of revenues from other faucets and sanitary hardware to total revenues decreased slightly from 7.1 % in 2013 to 7.0 % in 2014.

Copper and Semi-finished Components

Copper and Semi-finished Components mainly comprises of 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 12,886 in 2013 by kEUR 8,274, or 64.2 %, to kEUR 21,160 in 2014. Measured in RMB, revenues from the sale of copper and semi-finished components increased by 64.1 % during this period mainly due to the growth of inter-group sales to Grohe companies.

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

The percentage of revenues from copper and semi-finished components to total revenues increased from 3.6 % in 2013 to 5.3 % in 2014.

GROHE PRODUCTS

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

Revenues from the sale of Grohe products decreased from kEUR 11,375 in 2013 by kEUR 2,807, or 24.7 %, to kEUR 8,568 in 2014. Measured in RMB, revenues from the sale of Grohe products decreased by 24.8 %, which is mainly based on decreased destocking of inventories.

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

The percentage of revenues from Grohe products to total revenues decreased from 3.2 % in 2013 to 2.2 % in 2014.

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. 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 2014, the Joyou Group held 355 patents for design, invention and utility model. The significant number 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 152 direct research and design staff as of the reporting date (2013: 164).

For the reporting period under review, research and development costs came to EUR 6.6 million in total, which was a continued increase in comparison to the previous year (2013 6.3 million; 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.

2.3.6.3 Production

2.3.6.3.1 Overview

Joyou currently manufactures faucets, valves and other bathroom accessories made of brass, along with ceramic ware, bathroom cabinets and shower enclosures, shower-heads 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 expansion of the Shuitou Galvanisation facility, additions in new plants including the Meiyu Ceramics Phase II, and increases in machinery (especially on existing production lines). 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 Joyou products to 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.

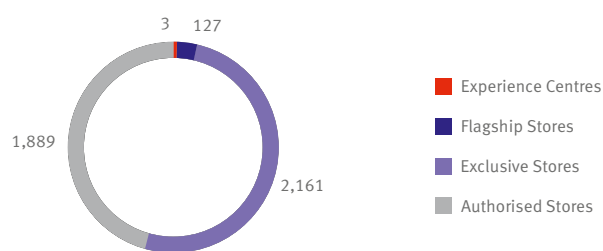
Joyou places a strong emphasis on having unified interior and exterior decorations at its retail store in order to improve consumer recognition of Joyou's brand and products. To this end, Joyou pays a subsidy to its regional distributors in the form of reimbursements for investments made for the decoration 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 and hence also in 2014, 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.

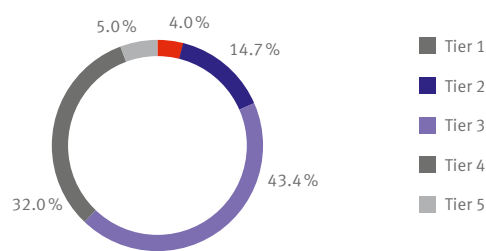
Joyou also conducts regular training courses for sales staff and installation technicians of their regional distributors and provides updates on its products to distributors, sales staff and installers of sanitary-ware products who it considers to be important intermediaries in the retail chain for sanitary-ware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

In total, Joyou operates a franchised network of 4,180 retail points of sale as of 31 December 2014 (4,129 stores as of 31 December 2013). In 2014, 3 Experience Centres, 127 Flagship Stores, 2,161 Exclusive Stores, and 1,889 Authorised Stores, managed by 51 unaffiliated regional distributors were established.

Joyou Branded Stores by Type 2014



Joyou Branded Stores by Tier of City 2014



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/ODM business, Joyou mainly 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. It does however actively contact 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.

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.

2.3.6.4.7 Distribution through Electronic Commerce

With the increasing importance of online sales, Joyou has developed a sales team with to develop Electronic Commerce (online sales or ecommerce). The dedicated team works mainly through online platform such as www.tmall.com, and www.taobao.com for order origination and delivers orders directly to consumers across China. A combination of marketing techniques are used to generate sales, and are linked with other promotional channels.

2.3.7 Employees

During the year under review, Joyou had an average of 4,083 employees (2013: 3,458; 2012: 3,379; 2011: 3,195 employees). In comparison to the previous year, there was a net increase in the number of employees of 625. The increase is mainly attributable to new employees hired for the new production facilities.

2.4 Financial and Non-Financial Performance Indicators

	1 Jan. to 31 Dec. 2014 kEUR	1 Jan. to 31 Dec. 2013 kEUR	Variance	
			kEUR	%
EBIT	61,420	53,195	8,225	15.5
Depreciation and amortisation	8,886	8,596	290	3.4
EBITDA	70,306	61,791	8,515	13.8
Expenses on land-use rights	652	640	12	1.9
Adjusted EBITDA	70,958	62,431	8,527	13.7
Adjusted EBITDA margin	17.82%	17.45%		
EBIT margin	15.43%	14.87%		
EBT	50,740	41,777	8,963	21.5

Earnings Before Interest and Taxes (EBIT) increased by kEUR 8,225 or 15.5% from kEUR 53,195 to kEUR 61,420. Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), increased by kEUR 8,515 or 13.8% from kEUR 61,791 to kEUR 70,306. Adjusted for expenses on lease-prepayments on land-use rights for the reporting period, the Adjusted EBITDA was kEUR 70,987 for the reporting period compared to kEUR 62,431 for the prior period, an increase of kEUR 8,527 or 13.7%. Earnings Before Taxes (EBT), increased by kEUR 8,963 or 21.5% from kEUR 41,777 to kEUR 50,740. Joyou's number of franchised stores increased from 4,129 by 51 or 1.2% to 4,180 with Joyou focussing on expanding and re-decorating existing, well-performing stores. Joyou employees increased from 3,458 by 625 or 18% to 4,083, with the increase mainly being attributable to new employees hired for the new production facilities. International sales increased by 79.5% to EUR 30.0 million mainly due to the successful collaborative business model with Group companies.

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

The following discussion compares the development in the business year 2014 with the figures from the comparative period 2013.

2.5.1 Net Assets

kEUR	2014	2013	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	2,427	2,089	338
Other receivables	21	69	-48
Prepayments	54	31	23
Cash and cash equivalents	35	362	-327
Current assets	2,537	2,551	-14
Balance sheet total	181,563	181,577	-14
Equity and liabilities			
Capital subscribed	23,967	23,967	-
Additional paid-in capital	156,953	156,953	-
Retained earnings	1	-	1
Equity	180,921	180,920	1
Trade payables	215	221	-6
Other provision	384	430	-46
Other payables and accruals	43	6	37
Current liabilities	642	657	-15
Balance sheet total	181,563	181,577	-14

The statement of financial position of Joyou AG shows a net equity of kEUR 180,921, which covers non-current assets of kEUR 179,026. The current liabilities amount to kEUR 642 and are compensated by current assets of kEUR 2,537.

The investment in affiliated companies amounts to kEUR 174,026 (2013: kEUR 174,026) and refers to the investment in the intermediary holding company of Joyou Hong Kong.

The loan due from affiliated companies amounts to kEUR 5,000 (2013: kEUR 5,000) and refers to a long-term loan granted to the same affiliated company.

Receivables due from affiliated companies of kEUR 2,427 (2013: kEUR 2,089) mainly relate to interest accrued on the aforementioned loan and Group management fee. Other receivables amount to kEUR 21 (2013: kEUR 69) and relate to prepayments 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 430 at 31 December 2013 by kEUR 46 to kEUR 384 at 31 December 2014. 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 2014.

2.5.2 Results of Operations

The following table sets out the income statement for the year ended 31 December 2014 with comparative figures for the prior year:

kEUR	1 Jan. to 31 Dec. 2014	1 Jan. to 31 Dec. 2013	Variance
Other operating income	326	591	-265
Interest income	783	329	454
Other operating expenses	-1,070	-1,230	160
EBT	39	-310	349
Income tax	-38	-	-38
Other taxes	-	147	-147
Profit/loss	1	-163	164

Other operating income of kEUR 326 (2013: kEUR 591) 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 on an inter-company loan granted in April 2010 to Joyou Hong Kong and guarantee fees on a guarantee given to banks on loan these banks granted to Joyou Hong Kong, totalling kEUR 783 (2013: kEUR 329). Other operating expenses, which amounts to kEUR 1,070 (2013: kEUR 1,230), relate to current business expenses, mainly on the annual shareholder meeting 2014, 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 944 (2013: kEUR 946).

In the prior year, other taxes related to VAT refunds for current and previous year, which are recorded upon payment received.

The net profit for the financial year 2014 amounts to kEUR 1 (2013: loss kEUR 163).

2.5.3 Financial Position

The cash available at year-end amounts to kEUR 35. Movements in liquid funds can be analysed as follows:

kEUR	2014	2013	Variance
Profit/ Loss for the period	1	-163	164
Decrease/increase in provisions and accruals	-46	64	-110
Cash flow	-45	-99	54
Increase/decrease in receivables from and payables to affiliated companies	-338	448	-786
Decrease/increase in other assets and prepaid expenses	25	165	-140
Decrease/increase in trade payables and other liabilities	31	-171	202
Cash flows from operating activities	-327	343	-670
Changes in cash and cash equivalents	-327	343	-670
Cash and cash equivalents at the start of the reporting period	362	19	343
Cash and cash equivalents at the end of the reporting period	35	362	-327

3 Report on Events after the Reporting Period

There have been no events material to the financial position or financial performance of Joyou AG or the Joyou Group that have occurred 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. Despite setbacks, an uneven global recovery continues. The IMF said poorer prospects in China, Russia, the Euro area and Japan will hold world GDP growth to just 3.5% in 2015 and 3.7% in 2016. The forecasts were lower than the 3.8% and 4.0% growth for 2015 and 2016 respectively given in the previous World Economic Outlook in October. The cut underscored the steady deterioration of the economic picture for many countries, due to sluggish investment, slowing trade and falling commodity prices.

Economic Development in China

According to the IMF the economy of China, the global number two's GDP, is expected to grow 6.8% in 2015, the IMF said and 6.3% in 2016. Whereas the State-owned lender, Bank of China Ltd., predicts the 2015 growth rate to be 7.2%,

According to Bank of China Ltd. (BOC), Consumer Price Index (CPI) growth will remain low due to the economic downturn, slowdown in domestic demand and over capacity. The bank estimated that CPI will grow 2.4% in 2015, up 0.4 percentage points from 2014.

On 22 November 2014, the central bank cut the one-year benchmark lending rate by 40 basis points to 5.6% and the one-year benchmark deposit rate by 25 bps to 2.75%. Other benchmark deposit and lending rates were lowered accordingly. And according to a report released by the lender, China "is very likely to cut the benchmark interest rates again in 2015" and "lower banks' reserve requirement ratio further once or twice". Many economists expect the central bank to continue using and innovating monetary policy tools as well as taking targeted measures to fine-tune the economy.

According to the BOC, growth of exports in 2015 is expected to improve slightly to 7% from a forecast 6% given in 2014.

4.1.2 Future Business Environment

Based on these general economic parameters, the Chinese sanitary-ware industry is expected to continue to grow in 2015 and beyond.

In November 2014 the BSRIA's China Bathroom Study 2014 was published. According to this study the mid-term until 2018, the taps and mixer market segment is expected to reach annual value growth rates of 5.6%. The growth rates for the other segments of the ceramics sanitary-ware market are predicted at around 4.8%, for shower enclosures around 9.0% and bathroom cabinets around 7.5%. Further the UK based Business Research Group (BRG) in their June 2014 publication 'The Asian Bathroom Product Markets -2014 Update - China', on the same time scale, they put the value growth rates as ceramics sanitary-ware market 4.7%, but do not offer value based growth forecasts in other major segments. 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 construction investment CAGR will be 3.4% between 2014 and 2028. 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 2015, 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
- Strengthen Strategic Cooperation with Group Companies
 - 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 training of 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 around three times the capacity of the previous phase, and have an operational floor space of over 100,000 sqm. The first kiln of three, started commercial operation in August 2014 as planned, and the other two kilns will come on line when demand requires. This plant will benefit to a large extent from the gained economies of scale and production synergies with phase one, and hence the respective investment yield is expected to be higher than phase one. In 2015, the three-storey building to house the operations will be completed. The design of the facility will be modular to allow it to be expanded, whilst utilising the same building and land. Throughout 2015, there will be further investment requirements in the existing Meiyu phase one 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 first phase of this facility became operational in the second-half of 2014. This expansion coupled with other upgrades in the brass production Luncang facility will necessitate the building of a new accommodation block to house the expanding workforce at the Luncang facility.

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 2015 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. In the second half of 2014 the first of the planned five galvanisation lines became operational in the second phase of the facility.

Strategic Cooperation with Group Companies

Joyou believes that its partnership with the Group Companies 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 and 2014. 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 gained further Joyou branded sales and major private-label distributors around the world for its products, and expects this growth to continue throughout 2015.

Inter-Group Sales

Joyou will continue, with the assistance of Grohe's engineering teams, to 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 increase the number of Grohe certified components available for supply to the Grohe Group in 2015 (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 2015, 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 2015 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 R & D expenses to continue to result in domestic and international recognition 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 2015 and beyond. Internationally we believe that our cooperation with the Group companies 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 2015, 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, and we expect that our operating profit margin to be affected, however operating profit will show a healthy increase. In 2015, Joyou will increase its number of employees although at a lesser rate than in 2014, and its franchised store base will open in line with the previous two year's net opening rate. It also expects international sales to continue with its growth, although at a lower rate than the growth rate experienced in 2014.

We see many growth opportunities for Joyou in the domestic Chinese and international sanitary-ware market. For 2015, we intend investments on the expansion and upgrading of the Luncang brass-ware facility, the second Meiyu ceramics facility, the Luncang plastics facility and the expansion of the Shuitou 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 during 2014 thereby leading to a strong cash position at the end of 2014. For 2015, we expect a significant negative free cash flow and a reduction of the cash position following the significant increase in cash outflows from the aforementioned investment programme. These growth investments and the related finance

cost 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 internationally 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 profit, with a positive operating cash flow in 2015 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 in China 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. Further, according to the National Bureau of Statistics, for the first time more than half of China's population were living in cities at the end of 2011. Currently, over 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 2014 of 7.5 % was a decelerated growth rate from, 2013's 7.7 % 2012's 7.8 %, 2011's 9.3 % and 10.4 % in 2010. It was the slowest rate recorded since 1990, when the GDP expanded 3.8 % year-on-year. Furthermore, more new policies might be launched to eliminate the presumed housing bubble, especially in first-tier cities. This could continue to slow down demand for houses, which might have an impact on the bathroom market. The Consumer Price Index (CPI) may show a protracted period of low growth 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 and also Joyou's international business.

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 itself as a producer of high-quality, design-orientated 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" branded 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.

Mainly 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 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 certain 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

Some of the manufacturing processes employed by Joyou may be hazardous. For example, 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 licenses 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 Dayu facility 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 on loans taken from banks located in the PRC obtaining RMB denominated loans and on Joyou Hong Kong obtaining USD denominated loans. The ongoing growth of Joyou Group may 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.

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 and also Joyou's international business.

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. In 2014 Joyou did take out product liability insurance for international markets, however Joyou's increasing exposure to international markets could still 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 property damage in part (buildings only), and vehicles. 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 cooperation opportunities. 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 destabilisation 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 2014, 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 compensation system applying in the reporting year for the members of the management board comprises of fixed (non-performance-related) components and starting by 1 July 2014 for the first time on variable (performance related) components. The non-performance-related components are the fixed compensation and benefits-in-kind, while the performance-related components are the performance bonus, of which the supervisory board makes a new decision each year.

The supervisory board is responsible for determining individual management board remuneration. Criteria for the appropriateness of management board remuneration include the duties of the individual management board members, their personal performance, the business situation, the success and prospects of the Group and also the prevailing level of compensation at peer companies and the compensation structure applying in the Group. The performance-related components contain elements that are measured over several years. They therefore set long-term incentives and focus the compensation structure on the sustainable development of Joyou Group. As a general rule, up to 20 % of variable compensation can be based on individual performance, and extraordinary events are not taken into account.

None of the management board member contracts provide for a severance payment in the event of early termination without cause. Additionally a promise of payments in the event of early termination due to a change of control does not exist.

Fixed compensation

The fixed compensation for a member of the management board is set-out in the table below and paid out as non-performance-related basic compensation in monthly instalments as a salary. The management board members also receive benefits-in-kind, mainly comprising the use of a company car, telephone as well as insurance premiums. Individual members of the management board have to pay tax on these benefits-in-kind as compensation components. The benefits apply in principle to all management board members; the amount varies according to personal situation.

Performance related compensation

The performance-related compensation is based on an individual performance bonus. In accordance with the performance bonus rules introduced effective 1 July 2014, the performance bonus is dependent on China sales, international sales, EBITDA, Days Inventory Outstanding (DIO) and Days Sales Outstanding (DSO). The variable remuneration is paid out in cash to the management board members after achievement of the agreed to performances and confirmation of results.

Total management board compensation

For the first time, the compensation of members of the management board in the 2014 financial year is disclosed on the basis of the standardised model tables recommended in the German Corporate Governance Code in the version published on September 30, 2014. A key feature of these model tables is the separate statement of the benefits granted and the actual allocations. For the benefits, the target values (payable on 100 % target achievement) and the minimum and maximum values that can be achieved are also stated.

Total compensation for management board members active in the financial year 2014 in the reporting period amounted to kEUR 1,128 (2013: kEUR 711). The individual amounts paid to the members of the management board for the 2013 financial year can be found in the 2013 Annual Report. The members of the Management Board did not receive any compensation from the parent company Joyou AG in the financial year and all compensation was paid through the Chinese subsidiaries of the Joyou Group or by Grohe Group. All board members are generally paid by the Chinese entities, with exception of the board members Mr. Gerald MULVIN and Mr. John William MCLEAN, who did not receive any remuneration from any of the Joyou Group companies. In addition, Joyou is not paying any fees or reimbursements to Grohe for services provided by these two board members.

Until 30 June 2014 the remuneration for the members of the Management Board, who are paid by Joyou Group, comprises of fixed remuneration and benefits in kind. As stated above due to the amended remuneration system introduced by 1 July 2014, three members of the management board, Mr. Jianshe CAI, Mr. Jilin CAI and Ms. Jianping (Dorothy) WU, are now entitled to variable remuneration as well. The variable remuneration which become due for the period 1 July to 31 December is accrued in the financial statements, but not yet paid out. Of this amount, an entitlement of kEUR 243 (2013: kEUR nil) relating to variable remuneration has been waived by the directors. For the twelve month periods ended 31 December 2013 and for the first half-year 2014 no members of the Management Board received any variable remuneration or any other form of performance-related bonus.

Benefits granted

Name Position	Mr. Jianshe CAI Chairman of the Management Board since 28 August 2008				Mr. Jilin CAI Member of the Management Board since 28 August 2008			
	2013 initial value	2014 initial value	2014 minimum	2014 maximum	2013 initial value	2014 initial value	2014 minimum	2014 maximum
Benefits granted (all figures are in EUR)								
Fixed remuneration	293,510	338,462	338,462	338,462	264,159	304,616	304,616	304,616
Benefits-in-kind	27,636	26,881	26,881	26,881	28,956	28,203	28,203	28,203
Total	321,146	365,343	365,343	365,343	293,115	332,819	332,819	332,819
One year variable compensation	-	-	-	-	-	-	-	-
Multiple year variable compensation ¹⁾	-	127,724	0	380,770	0	114,951	0	342,693
Total	321,146	493,067	365,343	746,113	293,115	447,770	332,819	675,512
Defined contribution ²⁾	824	588	588	588	824	588	588	588
Total	321,970	493,655	365,931	746,701	293,939	448,358	333,407	676,100

Name (Position)	Mrs. Jianping (Dorothy) WU Member of the Management Board since 1 September 2014				Mr. Zufang LI Member of the Management Board from 28 December 2009 until 31 August 2014			
	2013 initial value	2014 initial value	2014 minimum	2014 maximum	2013 initial value	2014 initial value	2014 minimum	2014 maximum
Benefits granted (all figures are in EUR)								
Fixed remuneration	-	97,928	97,928	97,928	88,053	58,757	58,757	58,757
Benefits-in-kind	-	-	-	-	8,288	5,011	5,011	5,011
Total	-	97,928	97,928	97,928	96,341	63,768	63,768	63,768
One year variable compensation	-	-	-	-	-	-	-	-
Multiple year variable compensation ¹⁾	-	26,116	0	110,169	0	-	-	-
Total	-	124,044	97,928	208,097	96,341	63,768	63,768	63,768
Defined contribution ²⁾	-	3,928	3,928	3,928	824	392	392	392
Total	-	127,972	101,856	212,025	97,165	64,160	64,160	64,160

1) If targets for variable compensation are achieved, the remuneration is calculated by 75% of the fixed salary multiplied by an individual performance bonus factor

2) Contribution to state-managed retirement benefit plan in China

Allocation

Name Position Allocation (all figures are in EUR)	Mr. Jianshe CAI Chairman of the Management Board since 28 August 2008		Mr. Jilin CAI Member of the Management Board since 28 August 2008	
	2013 initial value	2014 initial value	2013 initial value	2014 initial value
Fixed remuneration	293,510	293,783	264,159	264,405
Benefits-in-kind	27,636	26,881	28,956	28,203
Total	321,146	320,664	293,115	292,608
One year variable compensation	-	-	-	-
Multiple year variable compensation	-	-	-	-
Total	321,146	320,664	293,115	292,608
Defined contribution	824	588	824	588
Total	321,970	321,252	293,939	293,196

Name (Position) Allocation (all figures are in EUR)	Mrs. Jianping (Dorothy) WU Member of the Management Board since 1 September 2014		Mr. Zufang LI Member of the Management Board from 28 December 2009 until 31 August 2014	
	2013 initial value	2014 initial value	2013 initial value	2014 initial value
Fixed remuneration	-	97,928	88,053	58,757
Benefits-in-kind	-	-	8,288	5,011
Total	-	97,928	96,341	63,768
One year variable compensation	-	-	-	-
Multiple year variable compensation	-	-	-	-
Total	-	97,928	96,341	63,768
Defined contribution	-	3,928	824	392
Total	-	101,856	97,165	64,160

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 2014 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	6,000	16,000	39,500
Remuneration of VAT	14,725	–	–	14,725
Expenses reimbursed	19,375	–	–	19,375
Total	111,600	51,000	26,000	188,600

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).

After the acquisition of the remaining 12.5 per cent of the shares in Grohe Group S.à r.l. from Cai GmbH by LIXIL Corporation, a Shareholders Agreement between, inter alia, Grohe Group S.à r.l., Joyou Grohe Holding AG and Messrs. Jianshe CAI and Jilin CAI, dated 22 March 2013 relating to, inter alia, corporate governance issues at Joyou AG, was, replaced by a Management Agreement between Cai GmbH, Messrs. Jianshe CAI and Jilin CAI, Grohe Group S.à r.l., Joyou Grohe Holding AG, GraceB S.à r.l. and LIXIL Corporation (the "Management Agreement"). The Management Agreement in essence mirrors the restrictions regarding voting rights as previously contained in the Shareholders Agreement. It 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 by Joyou Grohe Holding AG if Cai GmbH and Grohe Group S.à r.l. 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).

- Until 21 March 2023, 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 otherwise delist or down-list Joyou AG or use their influence on the Management Board or Supervisory Board to delist or down-list Joyou) or a squeeze-out of minority shareholders with the consent of Cai GmbH.
- 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 Management 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 which expires on 15 March 2015. 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. The Company intends propose to this year's Annual Meeting of Shareholders to recreate an authorised capital in the same amount for another period of five years.

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, 16 March 2015

Members of the Management Board

Jianshe CAI Jilin CAI Gerald MULVIN

Jianping (Dorothy) WU John William MCLEAN

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Consolidated Financial Statements

for the reporting period ended 31 December 2014

Consolidated Statement of Comprehensive Income

kEUR	Notes	2014	2013
Revenue	6.	398,122	357,843
Cost of sales	7.	-288,321	-258,827
Gross profit		109,801	99,016
Other operating income	6.	2,174	1,667
Selling and distribution expenses	8.	-26,627	-25,211
Research and development expenses	9.	-6,580	-6,312
Administrative expenses	10.	-16,995	-15,246
Other operating expenses	11.	-353	-719
Operating profit		61,420	53,195
Finance income	25.	2,552	2,302
Finance costs	25.	-13,232	-13,720
Profit before income tax		50,740	41,777
Income tax	26.	-17,063	-17,512
Profit for the period		33,677	24,265
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		40,953	-5,648
Other comprehensive income for the period		40,953	-5,648
Total comprehensive income for the period		74,630	18,617
Profit attributable to:			
Owners of the parent		33,926	24,020
Non-controlling interests		-249	245
Total comprehensive income attributable to:			
Owners of the parent		74,808	18,379
Non-controlling interests		-178	238
Earnings per share		EUR	EUR
Basic and diluted	27.	1.42	1.00

Consolidated Statement of Financial Position

kEUR	Notes	31 Dec. 2014	31 Dec. 2013
ASSETS			
Current assets			
Inventories	19.	79,336	73,576
Trade receivables	20.	109,662	85,518
Other receivables and prepayments	20.	31,459	31,270
Amounts due from Grohe/LIXIL Group	29.	6,319	5,571
Amounts due from related parties other than Grohe/LIXIL Group	29.	–	90
Cash and cash equivalents	21.	194,074	128,008
		420,850	324,033
Non-current assets			
Property, plant and equipment	13.	239,450	172,589
Investment property	14.	3,230	3,058
Intangible assets	15.	516	358
Lease prepayments for land-use rights	16.	28,065	25,962
Deferred tax assets	18.	1,907	2,155
		273,168	204,122
Total assets		694,018	528,155
LIABILITIES			
Current liabilities			
Short-term loans	17.	29,417	20,743
Long term liabilities due within one year	17.	6,102	14,147
Trade payables	23.	5,932	5,526
Notes payable	23.	18,675	21,427
Other payables and accruals	23.	11,558	14,147
Provisions	23.	297	–
Amounts due to related parties other than Grohe/LIXIL Group	29.	–	17
Amounts due to Grohe/LIXIL Group	29.	2,796	959
Income tax payable	26.	5,097	3,432
Total current liabilities		79,874	80,398
Non-current liabilities			
Long-term bank loans	17.	176,681	86,658
Provisions	23.	1,045	936
Deferred tax liability	18.	1,458	–
Total non-current liabilities		179,184	87,594
Total liabilities		259,058	167,992
CAPITAL AND RESERVES			
Equity attributable to owners of the parent:			
Share capital	22.	23,967	23,967
Capital reserves	22.	115,713	115,546
Statutory reserves	22.	13,309	11,703
Retained earnings	22.	215,160	182,840
Currency translation reserve	22.	66,331	25,449
Equity attributable to shareholders		434,480	359,505
Non-controlling interests	22.	480	658
Total equity		434,960	360,163
Total liabilities and equity		694,018	528,155

Consolidated Statement of Changes in Equity

kEUR	Share capital	Capital reserves	Other reserves	Retained earnings	Currency translation reserve	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
Balance as at 1 January 2013	23,967	115,710	10,710	159,650	31,090	341,127	420	341,547
Transfer to reserves	-	-	993	-993	-	-	-	-
Withdrawals from reserves	-	-164	-	164	-	-	-	-
Total comprehensive income*	-	-	-	24,020	-5,641	18,379	238	18,617
Balance as at 31 December 2013	23,967	115,546	11,703	182,840	25,449	359,505	658	360,163
Transfer to reserves	-	-	1,606	-1,606	-	-	-	-
Capital contribution	-	167	-	-	-	167	-	167
Total comprehensive income*	-	-	-	33,926	40,882	74,808	-178	74,630
Balance as at 31 December 2014	23,967	115,713	13,309	215,162	66,331	434,480	480	434,960

* 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	2014	2013
Operating activities			
Profit before tax		50,740	41,777
Adjustments for non-cash items	28.	19,182	18,605
Net changes in working capital	28.	-14,689	-9,750
Income tax paid		-14,077	-14,488
Cash flow from operating activities		41,156	36,144
Cash flow from investing activities			
Purchase of intangible assets	15.	-47	-29
Purchase of property, plant and equipment	13.	-53,450	-27,488
Proceeds from disposal of property, plant and equipment		304	-
Acquisition of subsidiary net of cash acquired		-	-12,135
Interest received		697	2,302
Cash flow used in investing activities		-52,496	-37,350
Cash flow from financing activities			
Increase/Decrease in short-term bank borrowings		5,935	-2,977
Repayment of long-term bank borrowings		-104,880	-7,338
Increase in long-term bank borrowings		167,955	74,038
Interest paid		-9,400	-11,895
Cash flow from financing activities		59,610	51,828
Net increase in cash and cash equivalents		48,269	50,622
Cash and cash equivalents at beginning of period	21.	128,008	79,620
Foreign exchange movements		17,797	-2,234
Cash and cash equivalents at end of period	21.	194,074	128,008

Notes to the Consolidated Financial Statements

for the reporting period ended 31 December 2014

General Notes

1 Nature of Operations and Structure

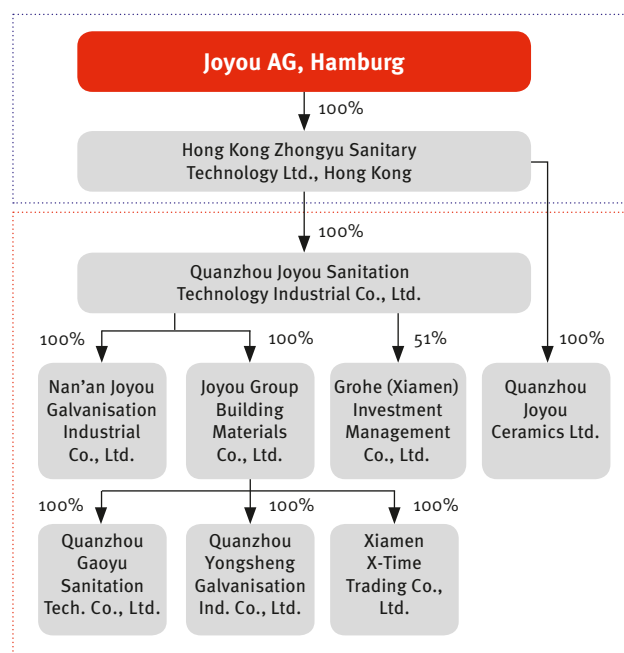
Joyou AG and its subsidiaries (“Joyou” or “the Group”) design, produce and sell products for bathrooms in China and internationally under its brand name “JOYOU” and are also engaged as a manufacturer of Original Equipment Manufacturing (“OEM”) / Original Design Manufacturing (“ODM”) products for international sanitary-ware companies, wholesalers and trading companies in the United States and Europe, as well as in certain emerging markets, 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, to the GROHE Group, the LIXIL Group and also sells its products internationally through Joyou International Trading Limited (“Joyou International”), a 100% owned subsidiary of the GROHE Group. It also sells, through a master distributor agreement, certain GROHE branded products within China.

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 store operators who have been engaged by unaffiliated regional distributors that Joyou has chosen for specific regions of China. Joyou also sells its own brand products to large-scale construction projects in China, such as commercial, civil and residential buildings.

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.

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 Group, Tokyo, Japan. Since the closing of the transaction, the ultimate parent company of Joyou AG now is GraceA k.k., a Japanese holding company, of which the LIXIL Group 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 %	Equity in kEUR	Net income in kEUR
Hong Kong Zhongyu Sanitary Technology Ltd.	Hong Kong, PRC	HKD	100	119,119	-12,786
Quanzhou Joyou Sanitation Technology Industrial Co., Ltd.	Nan'an, PRC	RMB	100	137,238	10,617
Joyou Group Building Materials Co., Ltd.	Nan'an, PRC	RMB	100	208,999	27,478
Nan'an Joyou Galvanization Industrial Co., Ltd.	Nan'an, PRC	RMB	100	2,873	-262
Quanzhou Joyou Ceramics Ltd.	Nan'an, PRC	RMB	100	100,917	3,886
Grohe (Xiamen) Investment Management Company Ltd.	Xiamen, PRC	RMB	51	962	-469
Quanzhou Gaoyu Sanitation Technology Limited Company	Nan'an, PRC	RMB	100	14,615	1,253
Quanzhou Yongsheng Galvanisation Industry Co., Ltd.	Nan'an, PRC	RMB	100	13,371	-14
Xiamen Xtime Trading Co. Ltd.*	Nan'an, PRC	RMB	100	-669	-617

* incorporated in 2014

In accordance with IFRS 10 the management confirmed their control definition and guidance: As in all but one of its subsidiaries, the group holds 100 % of the voting rights, the group is able to exert control over those entities. In the remaining case, the group exercises control by means of its ownership of 51 % of the voting rights and the remaining 49 % is also owned by members of the management board of Joyou AG, who do not oppose the exertion of control by the group.

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 6 A, 22761 Hamburg. 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 2014 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 endorsed 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 presented 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 2014 (including comparative information relating to the accounting year 2013) were approved and authorised for issue by the Management Board on 16 March 2015. It intended that the Supervisory Board will issue their approval in its meeting of 26 March 2015.

3 Accounting Policies

3.1 General

3.1.1 Overall Consideration

With the exception of the changes set out in note 3.1.2, the Consolidated Financial Statements have been prepared in accordance with the accounting policies adopted in the Consolidated Financial Statements for the year ended 31 December 2013. 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 3.1.3.

3.1.2 Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the 2014 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 2014 reporting period:

- IAS 27 – Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures
- Amendments to IAS 32 – Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosures of Interests in other entities
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities

With the exception of the first-time application of IFRS 12, which gives rise to changes in the presentation of reporting on investments in other entities, no material effect arose on the consolidated financial statements of the Joyou Group as a result of the first-time application of these standards, interpretations or changes or revisions to them.

3.1.3 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 2014 financial year, and were therefore not applied by the Joyou Group:

- IFRIC 21 – Levies
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 19 – Employee Contributions
- IFRS 9 – Financial Instruments
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 28 and IFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 11 : Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Annual Improvements to IFRSs 2011 – 2013 Cycle
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendments to IAS 1: Disclosure Initiative

The aforementioned IFRS Standards, amendments and Interpretations are to be applied in the Consolidated Financial Statements of the Joyou Group from the 2015 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 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 2014. Subsidiaries are all entities over which the Group exercises control. 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 2014	RMB	7.5358	8.1693
31 December 2013	RMB	8.3491	8.1769
1 January 2013	RMB	8.2207	

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.

Some of the operating segments are not yet managed separately because many of the production segments use shared resources, facilities and the technologies. Hence revenue and costs in most segments 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, and after deduction of 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 reported 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.

3.2.5.4. Rental Income

The Group earns rental income from operating leases of its investment property (see note 14). Rental income is recognised on a straight line basis over the term of the lease.

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 2014, 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 or cash-generating unit’s recoverable amount is the higher of its 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/LIXIL Group and amounts due from related parties other than Grohe/LIXIL 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/LIXIL Group and amounts due to related parties other than Grohe/LIXIL 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 19.

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 liabilities arising on outside base differences are provided to the extent that a distribution is to be made or is required from past accumulated profits.

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 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 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 is within 7 to 28 years. These are common life expectancies applied in the sanitary-ware industry in the PRC. At 31 December 2014, 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. The carrying amounts of the affected inventories are disclosed in note 19.

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 separated into risks arising from the different sales channels. Beside this the Group recognises a risk arising from a legal dispute with a sales agent, which is stated at best estimate made by the management of the expected financial risk and expected cash outflow. The carrying amounts of the affected provisions are disclosed in note 23.3.

4 Newly incorporated Group Companies

In May 2014 Joyou Building Materials finalised the incorporation of a 100% subsidiary which is named Xiamen Xtime Trading Co. Ltd. The company's principal activity is intended to be the trading of Joyou's premium X-Time brand products. Currently the company is registered without any issued share capital and it is intended that the issued share capital will amount to RMB 10 Mio.

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 December 2014										
Revenue	138,937	48,388	73,225	48,126	17,403	14,535	27,780	21,160	8,568	398,122
Cost of sales	98,127	35,424	51,769	33,709	12,561	10,172	22,517	17,654	6,388	288,321
Gross Profit	40,810	12,964	21,456	14,417	4,842	4,363	5,263	3,506	2,180	109,801
Segment assets	197,901	68,924	104,301	202,389	24,789	20,704	39,570	30,140	5,301	694,018
Twelve months ended 31 December 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

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	2014	2013 reallocated
Domestic	368,118	341,124
International*	30,004	16,719
Total	398,122	357,843

* International includes Direct Exports, sales of components to Grohe group companies, and international sales through Grohe and LIXIL group companies including Joyou International Trading (JIT).

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

During 2014, kEUR 17,202 (2013: kEUR 17,654) or 4 % (2013: 5 %) of the Groups' revenues depended on a single customer.

In contrast to their allocation in the consolidated financial statements for the year ended 31 December 2013, indirect exports have been reported as part of domestic sales as, in relation to these sales, Joyou's customers are located in the PRC and the decision to export the goods sold is not made under Joyou's authority. Accordingly, the prior year figures have been adjusted to comply with the revised allocation method.

"Domestic" means sales to customers located in the PRC, which includes sales of merchandise products acquired from the GROHE Group, and indirect export. Indirect export relates to sales to domestic customers that normally export the goods for resale. "International" means direct exports and sales through Joyou International and GROHE Group. Direct exports relate to sales to customers located outside the PRC, i. e. the rest of the world. Sales through Joyou International and GROHE Group mean sales made by Joyou International and GROHE Group.

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	2014	2013
Gross profit	109,801	99,016
Other operating income	2,174	1,667
Selling and distribution expenses	-26,627	-25,211
Research and development expenses	-6,580	-6,312
Administrative expenses	-16,995	-15,246
Other operating expenses	-353	-719
EBIT	61,420	53,195
Finance income	2,552	2,302
Finance costs	-13,232	-13,720
EBT	50,740	41,777
Taxes on profit	-17,063	-17,512
Profit for the period	33,677	24,265

Notes to the Statement of Comprehensive Income

6 Revenue and Income

kEUR	2014	2013
Revenue	398,122	357,843
Other operating income		
Management Fee	872	770
Reversal of impairments on trade receivables	606	–
Rental income	287	344
Government grant	205	131
Samples	32	22
Reimbursements	–	284
Other	172	116
	2,174	1,667
Finance income	2,552	2,302
Total income	402,848	361,812

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 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.

Reversal of impairment relates to impairments on trade receivables recorded in prior year, which were no longer needed mainly due to payments made by customers (see note 20).

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

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	2014	2013
Copper	93,637	96,867
Zinc	12,111	9,066
Other parts	49,817	40,912
Other metals	16,826	13,670
Subtotal materials	172,391	160,515
Outsourced products or merchandise	66,420	57,007
Labour costs	18,212	13,982
Depreciation	5,271	5,437
Overheads / other	26,027	21,886
Subtotal overheads	115,930	98,312
Total costs of sales	288,321	258,827

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	2014	2013
Advertising and exhibitions	10,697	10,946
Transportation	9,342	8,222
Labour costs	2,657	2,435
Travel and entertainment costs	1,533	1,492
Commission	963	741
Rent	389	407
Other	1,046	968
Total	26,627	25,211

9 Research and Development Expenses

Research and development expenses comprise all types of internal and external costs for research and development.

kEUR	2014	2013
Material costs	3,942	4,222
Testing and third party costs	1,269	816
Wages	1,153	1,077
Depreciation	216	197
Total	6,580	6,312

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	2014	2013
Labour costs (including welfare and training)	5,735	4,657
Travel and entertainment costs	1,557	1,465
Office costs	1,956	2,435
Capital market costs and consulting fees	1,520	1,539
Depreciation	1,850	1,795
Other taxes	954	896
Bad debt provision	3	255
Other	3,420	2,204
Total	16,995	15,246

11 Other Operating Expenses

kEUR	2014	2013
Expenses on investment property	147	146
Donation	55	228
Expenses on land-use rights awaiting construction	22	22
Consulting fees reimbursed	–	284
Other	129	39
Total	353	719

Consulting fees reimbursed relate to expenses that were incurred as a result of the acquisition of the Grohe Group by LIXIL and DBJ. In the prior year, all costs incurred in connection with this transaction and the previously planned IPO of the Grohe Group were 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 expenses are included in operating profit:

kEUR	2014	2013
Cost of inventories recognised as expense	288,321	258,827
Depreciation of property, plant and equipment	8,657	8,419
Depreciation on investment property	145	146
Staff costs	25,712	20,933
Amortization of intangible assets	84	31
Expensing on land-use rights	652	640
Rental payments expensed	423	499
Allowance for doubtful trade debts/– no longer required	-606	268
Allowance for doubtful non-trade debts	3	-12

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 January 2013	77,154	50,533	2,894	2,752	35,486	168,819
Currency translation adjustment	-1,268	-1,087	-47	-45	-869	-3,316
Acquisition 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 December 2013	80,364	66,214	2,994	2,803	50,498	202,873
Currency translation adjustment	9,405	8,849	330	301	7,455	26,340
Additions	109	6,511	133	76	46,774	53,603
Disposal	-10	-421	-54	-94	-	-579
Reclassifications	8,610	14,171	-	-	-22,781	-
Reclassifications to intangible assets	-	-	-	-	-149	-149
Balance as at 31 December 2014	98,478	95,324	3,403	3,086	81,797	282,088
Accumulated depreciation						
Balance as at 1 January 2013	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 December 2013	9,714	17,812	1,642	1,116	-	30,284
Currency translation adjustment	1,271	2,322	220	159	-	3,972
Charge for the year	2,647	4,986	562	462	-	8,657
Disposal	-	-227	-48	-	-	-275
Balance as at 31 December 2014	13,632	24,893	2,376	1,737	-	42,638
Net carrying amount						
as at 1 January 2013	70,283	37,004	1,706	1,954	35,486	146,433
as at 31 December 2013	70,650	48,402	1,352	1,687	50,498	172,589
as at 31 December 2014	84,846	70,431	1,027	1,349	81,797	239,450

The Group has a contractual commitment at the balance sheet date for the construction of new buildings of kEUR 22,098 (31 December 2013: kEUR 648) relating principally to the construction of the employee accommodation block.

Construction in progress includes an amount of kEUR 2,376 (2013: kEUR 1,007) in respect of interest capitalised on qualifying assets. For further information regarding capitalised interest please refer to note 25.

Tangible assets with a net book value of kEUR 24,304 (2013: kEUR: 707) have been pledged as security. The increase in comparison to prior year is mainly attributable to additional securities given to a bank on additional or new short-term loans granted.

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 January 2013	2,586	1,234	3,820
Currency translation adjustment	-39	-20	-59
Reclassifications from property plant and equipment	-	33	33
Balance as at 31 December 2013	2,547	1,247	3,794
Currency translation adjustment	275	134	409
Balance as at 31 December 2014	2,822	1,381	4,203
Accumulated depreciation			
Balance as at 1 January 2013	602	-	602
Currency translation adjustment	-12	-	-12
Charge for the year	117	29	146
Balance as at 31 December 2013	707	29	736
Currency translation adjustment	88	4	92
Charge for the year	116	29	145
Balance as at 31 December 2014	911	62	973
Net carrying amount			
as at 1 January 2013	1,984	1,234	3,218
as at 31 December 2013	1,840	1,218	3,058
as at 31 December 2014	1,911	1,319	3,230

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 2014 amounts to kEUR 287 (2013: kEUR 344) and is included in "other operating income". Direct operating expenses of kEUR 148 (2013: kEUR 146), mainly for depreciation and property-related taxes, were reported in other operating expenses.

The building was rented out under an operating lease agreement until the end of October 2014. The lease agreement has come to an end and the tenant has vacated the premises. The future use of the building is currently under review. Expected future minimum lease payments, which become due within one year, amount to kEUR 0 (2013: kEUR 172). 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.

In relation to the Ground Work disclosed under investment property expenses of kEUR 29 arising from depreciation are recorded as other operating expense (2013: kEUR 29) and are not covered by any rental 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 January 2013	179	486	665
Currency translation adjustment	-4	-1	-5
Additions	29	-	29
Disposals	0	-245	-245
Balance as at 31 December 2013	204	240	444
Currency translation adjustment	33	29	62
Additions	-	47	47
Reclassification from tangible assets	149	-	149
Balance as at 31 December 2014	386	316	702
Accumulated amortisation			
Balance as at 1 January 2013	57	9	66
Currency translation adjustment	-2	-	-2
Charge for the year	31	-	31
Disposals	-	-9	-9
Balance as at 31 December 2013	86	-	86
Currency translation adjustment	14	2	16
Charge for the year	56	28	84
Balance as at 31 December 2014	156	30	186
Net carrying amount			
as at 1 January 2013	122	477	599
as at 31 December 2013	118	240	358
as at 31 December 2014	230	286	516

In 2013 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 cash-flow occurred.

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 2014, the land-use rights have remaining lease periods of 37 to 44 years.

	kEUR
Balance as at 1 January 2013	27,027
Currency translation adjustment	-402
Acquisition through business combination	590
Expensed for the year	-640
Balance as at 31 December 2013	26,575
Currency translation adjustment	2,746
Expensed for the year	-652
Balance as at 31 December 2014	28,669
Balance as at 31 December 2014	
Thereof current	604
Thereof non-current	28,065
Balance as at 31 December 2013	
Thereof current	613
Thereof non-current	25,962

Lease Prepayments for Land-use Rights with a net book value of kEUR 11,308 (2013: kEUR 354) have been pledged as security. The increase in comparison to prior year is attributable to additional securities given to a bank on additional short-term loans granted.

17 Financial Assets and Liabilities

17.1 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	2014	2013
Trade receivables	20.	109,662	85,518
Other receivables	20.	2,815	3,017
Amounts due from Grohe/LIXIL Group	29.	6,319	5,571
Amounts due from related parties other than Grohe/LIXIL Group	29.	-	90
Cash and cash equivalents	21.	194,074	128,008
Total		312,870	222,204

Financial Liabilities measured at amortised cost

kEUR	Notes	2014	2013
Non-current			
Long-term loans	17.	176,681	86,658
Current			
Short term loan (bank loans)	17.	29,417	20,743
Long term liabilities due within one year	17.	6,102	14,147
Trade payables	23.	5,932	5,526
Notes payable	23.	18,675	21,427
Other payables and accruals	23.	10,103	10,195
Amounts due to related parties other than Grohe/LIXIL Group	29.	-	17
Amounts due to Grohe/LIXIL Group	29.	2,796	959
Total		249,706	159,672

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 32.

17.2 Short-term Loans

Short-term loans include the following financial liabilities:

kEUR	2014	2013
Secured bank loans	29,417	20,744
Total	29,417	20,744

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 pledges on land-use rights, property, plant and equipment and guarantees granted by related parties (see note 29.3.4) and third parties. Current interest rates are fixed and average 6.79% (2013: 8.54%).

17.3 Long-term Loans

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

kEUR	2014	2013
Mitsubishi loan	182,784	-
Nomura Loan	-	72,511
Standard Chartered Loan	-	28,294
Net liability of long term loan	182,784	100,805
Thereof current	6,102	14,147
Thereof non-current	176,681	86,658

The movements in each loan stated in the table above can be analysed as follows:

Mitsubishi Loan

kEUR	2014	2013
Balance as at 1 January	-	-
Draw downs	173,618	-
Transaction costs (net)	-6,032	-
Foreign exchange loss on conversion of financial statements	14,174	-
Exchange loss unrealized	1,024	-
Net liability of long term loan	182,784	-

Nomura Loan

kEUR	2014	2013
Balance as at 1 January	72,511	-
Currency translation adjustment	1,596	-
Draw downs	-	72,511
Exchange loss realized	1,395	-
Repayments	-75,502	-
Net liability of long term loan	-	72,511

Standard Chartered Loan

kEUR	2014	2013
Balance as at 1 January	28,294	35,581
Currency translation adjustment	622	-
Arrangement costs (expensed)	462	-452
Repayments	-29,378	-6,835
Net liability of long term loan	-	28,294

Mitsubishi Loan

On 31 July 2014, Joyou Hong Kong entered into a USD 300 million facility agreement with three mandated lead arrangers being Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank Ltd. ("Mitsubishi Loan") The single currency facility has two separate usable facilities of USD 150 million each. They have a contract period of five years with regular repayment instalments and a final repayment of 50% on the termination date. The first facility, Facility A, of USD 150 million was drawn in full in September 2014 and was used to settle Joyou Group's existing loan agreements with Nomura and Standard Chartered. The second facility, Facility B, of USD 150 million is available to Joyou Group for a period of two years to provide additional funding for certain investments in property, plant and equipment, working capital as well as certain costs to be incurred in order to execute the growth plans of the Joyou Group. As at 31 December 2014, a portion of USD 80 million had been drawn on Facility B and was used to finance investments in fixed assets, principally into phase II of the Meiyu ceramics plant and into phase II of the Yongsheng galvanization plant. The Group has, inter alia, granted security on shares in two subsidiaries, Joyou Group Buildings Material Ltd. and Quanzhou Joyou Sanitation Technology Industrial Co. Ltd., as well as guarantees by Joyou AG and Joyou Grohe Holding AG as pledges to secure the bank loan.

Under the new financing arrangement, Joyou Hong Kong is required to pay interest at the USD LIBOR rate plus a margin of 2.5%, as well as a commitment fee of 0.5% with respect to unused and uncancelled amounts of Facility B. Joyou is also required to pay facility, agency and security agent fees as well as certain transaction expenses. The facility fee incurred amounts in total to 2.5% of the underlying facilities, or USD 7.5 million. Beside this, expenses,

mainly advisory fees, were paid at an amount of kEUR 910 which are directly attributable to the new financing. Both the facility fee and the ancillary transaction costs are being charged to profit or loss as a financing cost using the effective interest rate method over the term of the finance. In addition to providing the customary security on the amounts borrowed, the Joyou Group is also required to comply with certain financial covenants. Finally, the facility agreement is subject to certain change of control clauses and may restrict Joyou AG's ability to pay out dividends during the contract period of the agreement.

Nomura Loan

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 as well as for general corporate purposes. The loan less any fees was fully paid out to the borrower Joyou Hong Kong on 12 July 2013. The loan was subject to interest at USD LIBOR rate plus a margin of 4.25 % and with repayments 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 loan has been repaid as the balance sheet date.

Standard Chartered Loan

As at 1 January 2013 the Group disclosed a long-term loan granted to the Group by Standard Chartered Bank (Hong Kong) Limited. The loan was originally granted with a nominal value of approx. EUR 37 million to finance phase two of the ceramics facility. The loan was due in five equal semi-annual instalments starting from the 12th month after the first drawdown of the loan and would have expired in three years with an annual interest rate of 7.9 %. The long-term loan is measured using the effective interest method. The loan was repaid in September 2014. In addition to the repayment Joyou paid an early redemption fee of kEUR 1,208, which has been charged to profit or loss in 2014. Beside this all transaction costs, which were not amortized as at the repayment date, have been charged to profit or loss in 2014 in the amount of kEUR 462.

18 Deferred Tax Assets and Liabilities

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

kEUR	1 Jan. 2014	Foreign exchange adjustments	Recognised as part of business combination	Recognised in profit and loss	31 Dec. 2014
Trade and other receivables	1,651	162	–	-202	1,611
Provisions	281	31	–	70	382
Inventories	546	39	–	-237	348
Lease prepayments for land-use rights	157	17	–	4	178
Bank loan	-113	-2	–	115	–
Research and development	599	83	–	224	906
Outside base differences	–	-108	–	-1,340	-1,448
Property, plant and equipment	-966	-140	–	-423	-1,529
Total	2,155	82	–	-1,789	449
Recognised as					
Deferred tax asset	2,155				1,907
Deferred tax liability	–				1,458
Total	2,155				449

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
Lease prepayments on 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
Recognized as					
Deferred tax assets	1,704				2,155
Deferred tax liability	–				–
Total	1,704				2,155

Deferred taxes recognised in profit and loss include a charge of kEUR 1,340 arising from outside base differences for expected withholding taxes on dividends to be paid to Joyou Hong Kong. As it is not intended to charge costs or interest to Joyou's Chinese Mainland entities receiving the funds for the Group's investment and other business purposes, dividend income is required at the level of Joyou Hong Kong in order to support the costs and interest arising from the new financing arrangement.

With respect to tax losses carried forward and potential deferred tax assets resulting there from we refer to note 26. 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 in 2013 financial year relates to the purchase price allocation made following the acquisition of Quanzhou Yongsheng Galvanisation Industry Co. Ltd.

19 Inventories

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

kEUR	2014	2013
Raw materials and consumables	19,543	20,166
Finished goods	30,971	25,072
Merchandise products	5,301	7,524
Work in progress	23,521	20,814
Total	79,336	73,576

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 2014, a total of kEUR 288,321 (31 December 2013: kEUR 258,827) of inventories was included in profit and loss within cost of sales as an expense. This includes an amount credited of kEUR 570 (31 December 2013: kEUR 1,234) resulting from the reversal of write downs of inventories. The reversal was made due to sales opportunities arising on those inventories.

20 Trade Receivables and Other Receivables and Prepayments

Trade Receivables

kEUR	2014	2013
Trade receivables	111,411	87,968
Allowance for trade receivables	-1,749	-2,450
Total	109,662	85,518

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	2014	2013
Thereof not past due		
Within 30 days	39,714	29,448
31–90 days	59,972	46,616
	99,686	76,064
Thereof past due		
91–180 days	9,831	10,066
181–360 days	145	697
1–2 years	–	460
2–3 years	–	295
Over 3 years	–	386
	9,976	11,904
Total	109,662	87,968

Other Receivables and Prepayments

kEUR	2014	2013
Other receivables	2,815	3,017
Advances to suppliers	27,429	28,609
Lease prepayments on land-use rights	604	613
Value added tax refunds	1,888	389
Prepaid expenses	534	274
Allowance for other receivables and prepayments	-1,811	-1,632
Total	31,459	31,270

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 32.2.

Allowance for doubtful Receivables

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

kEUR	2014	2013
Provisions for trade receivables	1,749	2,450
Provisions for other receivables	1,811	1,632
Total	3,560	4,082

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	2014	2013
Provision for trade receivables		
Balance as at 1 January	2,450	2,223
Currency translation adjustment	190	-41
Amounts written-off	-285	-
Impairment loss (- = reversed)	-606	268
Balance as at 31 December	1,749	2,450

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	2014	2013
Provision for other receivables		
Balance as at 1 January	1,632	1,669
Currency translation adjustment	176	-25
Impairment loss (- = reversed)	3	-12
Balance as at 31 December	1,811	1,632

The increases and reversals in the provisions for doubtful receivables led to net income of kEUR 603 (period ended 31 December 2013: expense of kEUR 255).

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.

21 Cash and Cash Equivalents

Cash and cash equivalents include the following components:

kEUR	2014	2013
Cash on hand	20	13
Cash in banks	190,874	115,322
Security deposits for letters of credit	156	1,947
Security deposits for short term loans	158	6,728
Security deposits for notes payable	2,866	3,998
Total	194,074	128,008

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 2014 amounts to kEUR 3,180 (31 December 2013: kEUR 12,673). The restrictions on bank deposits are normally removed on settlement of the underlying letters of credit, loans and notes.

Of the Group's cash and cash equivalents an amount of kEUR 166,503 (31 December 2013: kEUR 98,029) is 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.

22 Capital and Reserves

22.1 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	2014	2013
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 December	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 2014, no capital increases were resolved from this authorised capital. The authorised capital as at 31 December 2014 amounts to EUR 11,983,746.

22.2 Capital Reserves

The amounts in the capital reserve are as follows:

	kEUR
Balance as at 1 January 2013	115,710
Withdrawals from reserves	-164
Balance as at 31 December 2013	115,546
Capital contribution	167
Balance as at 31 December 2014	115,713

In 2013 a withdrawal from reserves of kEUR 164 was made against retained earnings to cover the parent company's current year losses. The capital contribution in 2014 relates to a non-cash capital increase in the form of an item of machinery provided by the Grohe group at nil consideration.

22.3 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 2014, the statutory reserve of Joyou AG amounts to Nil (31 December 2013: 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 13,309 at 31 December 2014 (31 December 2013: kEUR 11,703).

22.4 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.

22.5 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.

22.6 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 2014, Grohe (Xiamen) Investment Management Co., Ltd. showed a net result of kEUR – 469 (2013: net result of kEUR 511).

23 Trade Payables, Other Payables, Notes payable and Provisions

23.1 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	2014	2013
Trade payables	5,932	5,526
KEUR	2014	2013
Accrued expenses	3,945	3,798
Accrued payroll	2,694	2,124
Other payable	1,196	2,249
Advances from customers	1,159	2,103
Security deposits	2,249	2,024
Other tax payables	315	1,849
Total	11,558	14,147

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.

23.2 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. For further information on the amounts deposited please refer to note 21.

23.3 Provisions

Movements in provisions during the year are as follows:

kEUR	2014	2013
Carrying amount as at 1 January	936	634
Currency translation adjustment	101	-10
Addition due to acquisition	-	90
Accumulation of interest	34	32
Additional provisions	271	190
Carrying amount as at 31 December	1,342	936

With the exception of the provision for warranty costs, 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 January	273	517	145	935
Currency translation adjustment	29	56	16	101
Accumulation of interest	-	34	-	34
Additional provisions	271	-	-	271
Carrying amount as at 31 December	573	607	161	1,341
Thereof current	297	-	-	297
Thereof non-current	276	607	161	1,044

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 arising from national sales are usually settled between one month and up to two years. Claims arising from international sales are usually settled within twelve months after delivery.

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 disclosed in 2014 financial year represents a provision for a legal claim brought against the Group in 2013 financial year by a third party claiming the violation of a contract by the Group. The provision charge was recognised in profit and loss in 2013 within administrative expenses. Management expects to settle the law suit not before the end of 2015.

Other Disclosures

24 Employee Remuneration

24.1 Employee Benefits Expense

Expenses recognised for employee benefits are analysed below:

kEUR	2014	2013
Wages and salaries	25,329	20,572
Social security costs	383	361
Total	25,712	20,933

The employee payroll costs can be allocated as follows:

kEUR	2014	2013
Cost of sales	18,212	13,982
Selling and distribution expenses	2,657	2,435
Research and development expenses	1,153	1,077
Administrative expenses	3,307	3,078
Total	25,329	20,572

The employee social insurance costs are all recorded in administrative expenses which are kEUR 383 for the reporting period (2013: kEUR 361).

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

	2014	2013
Management and administration	389	341
Research and development	152	164
Sales	319	288
Production	3,223	2,665
Total	4,083	3,458

24.2 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 2014 financial year, which are included in the social security costs stated in the table in note 24.1, amounted to kEUR 383 (2013: kEUR 361). The Group does not operate any other retirement benefit plans.

25 Finance Income and Finance Costs

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

kEUR	2014	2013
Interest income	697	698
Exchange gain	1,855	1,604
Total	2,552	2,302

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

kEUR	2014	2013
Interest on bank and other loans	8,693	6,900
Exchange losses	4,527	1,336
Facility fee on long term loan	1,565	3,759
Bank charges (current)	792	1,394
Interest portion on provision	31	33
Interest on prior year tax payments	–	1,305
Total finance costs	15,608	14,727
Less: Interest expenses capitalised	-2,376	-1,007
Total finance costs	13,232	13,720

The facility fees of kEUR 3,759 expensed in the prior period arose from the expensing of facility fees incurred in connection with the financing facility provided by Nomura Bank, which did not meet the criteria for treatment under the effective interest rate method (we refer to note 17.3). The facility fees of kEUR 1,565 charged in 2014 include an amount of kEUR 357 relating to the expensing of transaction costs, which arise on the new USD 300 million financing arrangement. These transaction costs are being expensed under the effective interest method over the term of the finance. The remaining kEUR 1,208 relates to the early repayment of the Nomura Loan in September 2014.

Exchange losses contain an amount of kEUR 1,395, which relate to changes in the USD/RMB exchange rate between the beginning of the year and the date of the repayment of the loan granted by Nomura.

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 26.1.

The borrowing costs have been capitalised using rates of 3.86 % and 7.90 % per annum (2013: 6.82 % and 7.90 %), which correspond to the sources of finance attributable to the respective qualifying assets.

26 Taxation

26.1 Major Components of Income Tax Expense

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

kEUR	2014	2013
Current income tax	15,152	12,667
Income tax prior years	122	5,326
Deferred income tax induced by change in tax rates	–	-471
Deferred income tax induced by temporary differences	449	-10
Outside base differences	1,340	–
Total	17,063	17,512

The deferred tax expense of kEUR 1,340 in respect of outside base differences arises as a result of withholding taxes payable on the amount of the dividend required to be paid from the Chinese Mainland entities to Joyou Hong Kong. As neither costs nor interest are to be recharged from Joyou Hong Kong to the Chinese Mainland entities of the Joyou Group receiving the funds for the Group's investment and other business purposes, dividend income is required at the level of Joyou Hong Kong in order to support the costs and interest arising from the new financing arrangement.

The income tax prior year item relates to the revocation of preferential income tax treatment in China for Quanzhou Joyou Sanitation Technology Industrial Co. Ltd. as a high-tech enterprise 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. 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 in 2013 and thus led to a lower net profit and lower earnings per share in the prior year 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.

26.2 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	2014	2013
Accounting profit before income tax	50,740	41,777
Tax at respective companies' domestic income tax rate	13,773	10,901
Outside base differences	1,340	–
Taxable losses written down or not capitalized	1,186	963
Non-deductible expenses	642	793
Taxes for previous years	122	5,326
Effect of change in tax rates	–	-471
Total income tax	17,063	17,512

As at 31 December 2014, Joyou has not recognised deferred tax assets on tax losses in Hong Kong amounting to kEUR 18,191 (previous year: kEUR 5,405) as their usage is deemed to be improbable. It is expected that the German tax losses amounting to kEUR 7,449 (previous year: kEUR 7,566) expired in accordance with Sec. 8c of the German Corporate Tax Act in July 2011 due to changes in the group's shareholder structure as explained in more detail in note 1.

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 its 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 2014, 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).

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 2014 financial year.

26.3 Income Tax Payable

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

kEUR	2014	2013
Liability as at 1 January	3,432	–
Currency translation adjustment	471	-73
Enterprise income tax provision for the year	15,271	17,993
Income tax paid	-14,077	-14,488
Liability as at 31 December	5,097	3,432

27 Earnings per Share and Dividends**27.1 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 2013 and 31 December 2014 amounted to 23,967,492 shares.

There are no potentially dilutive shares in existence, such that diluted earnings per share do not differ from basic earnings per share.

27.2 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. In relation to dividends paid by PRC subsidiaries a withholding tax of 10 % on the gross dividends is payable on distribution. With the exception of the deferred taxation from outside base differences on anticipated dividends to compensate losses incurred in Joyou Hong Kong that are not covered by equity, deferred taxation has not been provided for in the Consolidated Financial Statements in respect of outside base differences attributable to accumulated profits of the PRC subsidiaries, as the Group member companies will only be paying dividend from their future earnings.

28 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	2014	2013
Adjustments for non-cash items:		
Amortisation of intangible assets	84	31
Expenses on land-use rights	652	640
Changes in provisions	305	220
Allowance for doubtful trade, other receivables	-603	256
Impairments on inventories	-570	-1,234
Expenses on disposal of fixed assets	-	77
Other non-cash related items	-32	-33
Foreign exchange loss from conversion of long term loans	1,717	-
Depreciation of property, plant and equipment	8,657	8,420
Depreciation of investment property	145	146
Interest income	-697	-2,302
Interest cost	9,524	12,384
Total adjustments	19,182	18,605

kEUR	2014	2013
Net changes in working capital		
(Increase)/decrease in:		
Inventories	2,581	9,250
Trade receivables	-12,867	-7,775
Other receivables and prepayments	2,634	-1,616
Amounts due from Grohe/LIXIL Group	-136	-2,298
Amounts due from related parties other than Grohe/LIXIL Group companies	92	245
Increase/(decrease) in:		
Trade payables and notes payable	-4,825	-10,756
Other payables and accruals	-3,750	3,466
Amounts due to Grohe/LIXIL Group companies	1,599	-264
Amounts due to related parties other than Grohe/LIXIL Group companies	-17	-2
Total changes in working capital	-14,689	-9,750

29 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.

29.1 Related Party Information

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

As at 31 December 2014 the persons and entities to be considered to be related parties have changed significantly to those disclosed in the consolidated financial statements of Joyou AG for the twelve-month period ended 31 December 2013. In addition to those disclosed in that report, as of the closing of the acquisition of GROHE Group S. à r. l. by GraceA k.k., on 21 January 2014, the Development Bank of Japan, Inc. (DBJ), the LIXIL Corporation, and their respective subsidiaries and affiliated entities also became related parties of the Joyou Group. For a full listing of LIXIL's group companies, reference is made to the Annual Report 2013 of LIXIL available on LIXIL's website at www.lixil-group.co.jp/e in the investor relations section. For a full listing of DBJ's group companies, reference is made to the Annual Report & CSR Report 2013 of DBJ available on DBJ's website at www.dbj.jp/en/ in the investor relations section.

Related parties to the Company include all entities and related parties forming Grohe/LIXIL 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 2014 and 31 December 2014. Beside all companies of the Grohe/LIXIL Group the following persons and entities are considered to be related parties of Joyou Group:

Related Party	Type of business	Business activity	Relation to Joyou
Nan'an Zhongyu Hardware Industrial Co., Ltd.	No material actual business activity	Manufacturing water faucets, valves, sanitary hardware and galvanization	46.42% of the shares are held by Mr. Zhiqiang WANG
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. Jianping (Dorothy) WU	Member of the Management Board
Mr. John William McLean	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

In prior year the amount due from Mr. Jianshe CAI related to interest accrued. 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	2014	2013
Grohe/LIXIL Group	2,796	959
Mr. Jianshe CAI	–	17
Total	2,796	976
Reconciliation		
Amounts due to Grohe/LIXIL Group	2,796	959
Amounts due to related parties other than Grohe/LIXIL Group	–	17
Total	2,796	976

29.2 Transactions and Amounts due from/to Related Parties

29.2.1 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 2014 Grohe (Xiamen) Investment Management Company Ltd. had nearly no transactions with Joyou Group companies.

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

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

kEUR	2014	2013
Grohe/LIXIL Group	6,319	5,571
Mr. Jianshe CAI	–	90
Total	6,319	5,661
Reconciliation		
Amounts due from Grohe/LIXIL Group	6,319	5,571
Amounts due from related parties other than Grohe/LIXIL Group	–	90
Total	6,319	5,661

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.

During the financial year 2014 Joyou realised sales on deliveries to Grohe companies in a total amount of kEUR 27,969 (including the resale of Grohe Products at an amount of kEUR 1,942) and purchased inventory from Grohe Group companies in a total amount of kEUR 3,579.

During the financial year 2014, Grohe (Xiamen) Investment Management Company Ltd. and Joyou Group Building Materials Co. Ltd. realised services income with Grohe Group companies of kEUR 872 and kEUR 568 respectively resulting from management of Grohe China operations.

As of 31 December 2014, trade receivables in a total amount of kEUR 6,319 are outstanding. As Grohe companies as well as LIXIL companies are related parties and customers of Joyou Group, these trade receivables are stated under the amounts due from Grohe/LIXIL Group, which will be settled in accordance with the related trade terms. For these trade receivables no securities are granted.

As of 31 December 2014, trade payables in a total amount of kEUR 2,796 are outstanding. As Grohe companies are related parties and suppliers of Joyou Group, these trade payables are stated under the liabilities due to Grohe/LIXIL Group. These trade payables become due within 60 days after delivery and will be settled in cash. For these trade payables no securities are granted.

Joyou Grohe Holding AG is joint guarantor for Joyou Hong Kong's long term USD 300 million facility agreement with three mandated lead arrangers being Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank Ltd. The guarantor has not received any compensation for the guarantee.

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

29.3 Transactions with Key Management Personnel

The following individuals served as key management personnel of Joyou AG during the 2014 financial year:

29.3.1 Management Board Members

- Mr. Jianshe CAI, businessman, Fujian Province, PRC, Chairman
- Mr. Jilin CAI, businessman, Fujian Province, PRC
- Mr. Gerald MULVIN, businessman, Düsseldorf, Germany
- Ms. Jianping (Dorothy) WU, businesswoman, Fujian Province, PRC (since 1 September 2014)
- Mr. John William MCLEAN, businessman, Hong Kong, PRC (since 1 October 2014)
- Mr. Zufang LI, businessman, Fujian Province, PRC (until 31 August 2014)

29.3.2 Supervisory Board Members

- Dr. Rainer SIMON, businessman, Isernhagen, Germany, Chairman
- Mr. David HAINES, businessman, Düsseldorf, Germany
- Mr. Johnny CHEN, financial consultant, Shanghai, PRC (until 31 December 2014)
- Mr. Bijoy MADASSERY, businessman, Singapore (from January 2015)

29.3.3 Key Management Remuneration

29.3.3.1 Management Board compensation

The remuneration system in operation during the reporting year for the members of the management board comprises of fixed (non-performance-related) components and from 1 July 2014 for the first time variable (performance related) components. The non-performance-related components are the fixed salaries and benefits-in-kind, while the performance-related components are the performance bonuses, the qualifying criteria for which are assessed and determined annually by the supervisory board. Up until 30 June 2014, the short-term remuneration of the members of the Management Board paid by the Joyou Group comprised solely of fixed remuneration and benefits in kind. Due to the amendment of the remuneration system with effect from 1 July 2014, three members of the management board, Mr. Jianshe CAI, Mr. Jilin CAI and Ms. Jianping (Dorothy) WU are now also entitled to variable remuneration. The variable remuneration payable for the period from 1 July to 31 December 2014 has been accrued in the financial statements, but not yet paid out. For the year ended 31 December 2013 and for the first six months of 2014, no members of the Management Board were entitled to any variable remuneration or any other form of performance-related bonus.

The total short-term compensation granted to the management board members during the financial year 2014 amounted to kEUR 1,129 (2013: kEUR 711). Of this amount, an entitlement of kEUR 243 (2013: kEUR nil) relating to variable remuneration has been waived by the directors. The members of the Management Board did not receive any compensation from the parent company Joyou AG in the financial year and all compensation was paid through the Chinese subsidiaries of the Joyou Group. All board members are generally paid by the Chinese entities, with exception of the board members Mr. Gerald MULVIN and Mr. John William MCLEAN, who did not receive any remuneration from any of the Joyou Group companies, but are remunerated by the Grohe Group. In addition, Joyou does not pay any fees or reimbursements to Grohe for services provided by these two board members.

In addition to the aforementioned short-term benefits, the management board was entitled to post-employment benefits of kEUR 5 during the year (2013: kEUR nil), relating to contributions to defined contribution pension schemes. The Management Board was not granted any remuneration relating to other long-term benefits, termination or 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.

29.3.3.2 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 2014 financial year the total compensation of the Supervisory Board amounted to kEUR 174 (2013: kEUR 186). 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 short-term 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.

29.3.4 Credit Guarantees

Related parties have provided guarantees for certain bank loans of Joyou Building Materials, Joyou Sanitation and Joyou Galvanization in a total amount of EUR 169 Mio. The guarantees are allocated on the following loans:

Date of guarantee provided	Lender	Bank loan granted to	Name of related parties as guarantors	Ceiling amount kEUR	Bank loan outstanding as at	Due date of loan
					31 Dec. 2014 kEUR	
07.01.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	730	01.01.2015
14.02.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	756	09.02.2015
25.03.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	597	17.03.2015
21.07.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	730	11.07.2015
24.07.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	663	14.07.2015
11.08.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	663	10.08.2015
11.08.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	780	10.08.2015
11.10.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	1,924	09.10.2015
11.10.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	1,778	09.10.2015
24.10.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	663	23.10.2015
24.10.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	663	23.10.2015
24.10.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	663	23.10.2015
19.11.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	796	16.11.2015
19.11.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	796	16.11.2015
19.11.2014	ICBCA Nan'an Luncang Branch	Joyou Sanitation	Jianshe Cai, Jilin Cai	79,620	796	16.11.2015
31.07.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	663	30.07.2015
31.07.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	796	30.07.2015
07.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	942	06.08.2015
07.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	958	06.08.2015
22.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	796	21.08.2015
22.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	929	21.08.2015
25.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	929	24.08.2015
25.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	929	24.08.2015
25.08.2014	ICBCA Nan'an Luncang Branch	Joyou Building Materials	Jianshe Cai, Jilin Cai	29,194	847	24.08.2015
08.07.2014	China CITIC Bank	Joyou Building Materials	Jianshe Cai, Jilin Cai Quanzhou Joyou Ceramics Co., Ltd.	59,715	3,981	07.07.2015
12.12.2014	Rural commercial bank of Nan'an	Joyou Galvanisation	Jianshe Cai	663	663	11.12.2015
Total (ceiling amount only per guarantee given)				169,192	25,436	

None of the guarantees were provided against consideration.

30 Operating leases

Since 2013, the Group has leased offices under operating lease agreements. The future minimum lease payments are as follows:

kEUR	2014	2013
Due within one year	418	834
Due within 1 – 5 years	615	678
Total	1,033	1,512

31 Commitments and Contingencies

31.1 Commitments

As at 31 December 2014, Joyou Group has contractual commitments from the construction of new buildings of kEUR 22,097 (2013: kEUR 648).

31.2 Contingent Liabilities

As at 31 December 2013 and 31 December 2014 Joyou Group has no contingent liabilities to be disclosed.

32 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 17. 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.

32.1 Market Risk

32.1.1 Foreign Currency Sensitivity

Most of the Group's recurring business transactions are carried out in Chinese RMB. Exposures to currency exchange rates arise mainly from the two facilities from long-term financing with three mandated lead arrangers being Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank Ltd., which are both denominated in U.S. dollars (USD). Beside this, a smaller exposure relates to the Group's overseas sales and purchases, which are primarily denominated in U.S. dollars (USD).

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

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 granted by Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Bank Ltd. 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	2014	2013
Short-term exposure USD		
Financial assets	11,173	7,983
Financial liabilities	-8,692	-
Long-term exposure USD		
Financial liabilities	-176,681	-73,674
Total exposure	-174,201	-65,691
Short-term exposure GBP		
Financial assets	227	1
Financial liabilities	-123	-
Total exposure	105	1
Short-term exposure AUD		
Financial assets	136	124
Financial liabilities	-23	-
Total exposure	113	124
Short-term exposure HKD		
Financial assets	13	-
Financial liabilities	-13	-
Total exposure	-	-
Short-term exposure SGD		
Financial assets	42	-
Financial liabilities	-42	-
Total exposure	-	-
Short-term exposure EUR		
Financial assets	1,210	384
Financial liabilities	-2,048	-221
Total exposure	-838	163

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

It assumes a +/-1% change of the RMB/foreign currency exchange rate for the year ended 31 December 2014 (31 December 2013: +/-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, GBP, AUD and EUR by 1%, respectively, then this would have had the following impact:

kEUR	Profit for the year					Equity				
	USD	GBP	AUD	EUR	Total	USD	GBP	AUD	EUR	Total
31 December 2014	1,780	-1	-1	6	1,784	1,780	-1	-1	6	1,784
31 December 2013	493	-	-1	-1	490	493	-	-1	-1	491

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

kEUR	Profit for the year					Equity				
	USD	GBP	AUD	EUR	Total	USD	AUD	GBP	EUR	Total
31 December 2014	-1,780	1	1	-6	-1,784	-1,780	1	1	-6	-1,784
31 December 2013	-493	-	1	1	-490	-493	1	-	1	-491

Until July 2013 exposures to foreign exchange rates arose principally from the volume of overseas transactions. Since July 2013 the Group has entered into long-term USD bank loans, which were increased in 2014 from 100 Mio. USD to 230 Mio. USD. Due to the size of the financing in comparison to the Group's overseas transactions it is the Group's main source of exposure to foreign exchange rates.

32.1.2 Interest Rate Sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on financing. As at 31 December 2014, the Group is exposed to changes in market interest rates as domestic bank borrowings being renewed at interest rates different to those currently in place and long term bank loans are subject to LIBOR interest rate. 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 in China (market rates) and Europe (LIBOR rate). The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

kEUR	Profit for the year		Equity	
	+1 %	-1 %	+1 %	-1 %
as at 31 Dec. 2014	-1,461	1,461	-1,461	1,461
as at 31 Dec. 2013	-934	934	-934	934

The long term loan is subject to certain non-financial and financial covenants. In the event that Joyou Group does not meet the covenants the lender is allowed to cancel the whole commitment and declare parts or the whole amount on the loan including any outstanding interest and expenses to become due and payable immediately. Within financial year 2014 Joyou Group has always fulfilled the covenants.

32.2 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	2014	2013
Trade receivables	20.	109,662	85,518
Other receivables and prepayments	20.	2,815	3,017
Amounts due from Grohe/LIXIL Group	29.	6,319	5,571
Amounts due from related parties other than Grohe/LIXIL Group		-	90
Cash and cash equivalents	21.	194,074	128,008
Total		312,870	222,204

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. As part of its sales terms, the group usually grants a credit period of 90 days. Financial assets past due but not impaired after doubtful debt provisions can be shown as follows:

kEUR	2014	2013
Thereof past due, but not impaired		
91–180 days	9,831	9,566
181–360 days	145	352
Total	9,976	9,918

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 20.

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.

32.3 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 2014, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

kEUR	Current		Non-current		Total
	within 6 months	6–12 months	1–5 years	later than 5 years	
Long-term bank loans	–	7,722	183,221	–	190,942
Short-term bank loans	6,064	23,353	–	–	29,417
Trade payables	5,932	–	–	–	5,932
Other payables	11,558	–	–	–	11,558
Notes payable	18,675	–	–	–	18,675
Amounts due to Grohe/LIXIL Group	2,796	–	–	–	2,796
Amounts due to related parties other than Grohe/LIXIL Group	–	–	–	–	–
Total	45,025	31,074	183,221	–	259,320

This compares to the maturity of the Group's financial liabilities as at 31 December 2013 as follows:

kEUR	Current		Non-current		Total
	within 6 months	6–12 months	1–5 years	later than 5 years	
Bank loans	27,958	7,159	86,884	–	122,001
Trade payables	5,526	–	–	–	5,526
Other payables	14,147	–	–	–	14,147
Notes payable	21,427	–	–	–	21,427
Amounts due to Grohe/LIXIL Group	959	–	–	–	959
Amounts due to related parties other than Grohe/LIXIL Group	17	–	–	–	17
Total	70,034	7,159	86,884	–	164,077

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.

32.4 Capital Management Policies and Procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as 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.

In order to optimize its balance sheet structure and also to comply with the covenants of its external funding, Joyou AG intends to limit its interest-bearing current and non-current liabilities on average to between three and three and a half 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	2014	2013
Total equity	434,960	360,163
Cash and cash equivalents	-194,074	-128,008
Total	240,886	232,155
Total equity	434,960	360,163
Bank Loans	212,200	121,548
Total	647,160	481,711
Capital-to-overall financing ratio (in %)	0.37	0.48

The Group is also required in the context of its financing covenants to ensure that consolidated net worth excluding intangible assets, deferred tax assets and foreign currency reserve does not fall below 75 % of the corresponding value as at the end of the previous financial year.

33 Events after the Reporting Period

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

34 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 163 (2013: kEUR 155) on audit services of the financial statements as well as kEUR 76 (2013: kEUR 79) on other assurance services.

35 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, 16 March 2015

Joyou AG
Management Board

Jianshe CAI Jilin CAI Gerald MULVIN

Jianping (Dorothy) WU John William MCLEAN

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 2014. 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 2014 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, 16 March 2015

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Joachim Riese
Wirtschaftsprüfer
(German Public Auditor)

Angelika Dobsław
Wirtschaftsprüferin
(German Public Auditor)

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, 16 March 2015

Joyou AG
Management Board

Jianshe CAI Jilin CAI Gerald MULVIN

Jianping (Dorothy) WU John William MCLEAN

Financial Calendar 2015

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

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