



June 8, 2015

LIXIL Group Corporation  
Yoshiaki Fujimori  
Representative Executive Officer and President  
(First section of TSE/NSE, code 5938)

(Contact):  
Takashi Tsutsui  
Executive Officer and Vice President in charge of IR  
(Tel: +81-3-6268-8806)

**Preliminary Results of Investigation  
on Accounting Irregularities of JOYOU AG**

LIXIL Group Corporation (“LIXIL”) today announces preliminary results of the investigation to date into JOYOU AG (“JOYOU”) (Headquarters in Germany; listed on the Frankfurt Stock Exchange). In addition, LIXIL’s board of directors today resolved to establish a special investigation committee composed of an outside director and outside experts in order to monitor the further investigation being conducted by the executive officers and to supervise the related actions, such as remedial measures, to be taken by the executive officers.

Since April 27, 2015, LIXIL has made a series of announcements including “JOYOU AG Resolved to Apply for the Commencement of Insolvency Proceedings” dated May 22, 2015, which states that JOYOU is being investigated for the allegations of having conducted inappropriate accounting, and that JOYOU resolved to apply for commencement of insolvency proceedings in Germany. On June 3, 2015, LIXIL also announced an “Announcement of Estimated Amount of Losses from Insolvency of JOYOU AG and Revision of Forecast on Business Performance for the Year Ended March 2015”. On the same day, LIXIL set up an internal investigation committee, with the Representative Executive Officer and President being the chairman, which is in the process of determining the root causes for the current circumstances, with the assistance of outside legal counsel and forensic accounting experts.

The investigation to date has found the following:

## **1. Background**

In mid-April of this year, the Representative Executive Officer and President of LIXIL and the CEO and Chairman of the board of GROHE Group S.à r.l. (“GROHE”), a consolidated subsidiary of LIXIL, received a letter from a financial institution that has a branch office in China. According to the letter, Joyou Group Building Materials Co. Ltd, a wholly owned subsidiary of JOYOU incorporated in China, had defaulted on certain debts under the Commercial Acceptance Draft facilities granted by the financial institution and personally guaranteed by Jianshe Cai and Jilin Cai, both of whom were members on the management board of JOYOU and the Chairman and Chief Operating Officer of JOYOU, respectively. In response, JOYOU’s supervisory board, on April 27, 2015, determined to conduct a special audit into the financial situation of JOYOU with the assistance of accounting experts and legal counsel. Subsequently, on May 3, 2015, JOYOU announced that the preliminary investigation results showed that there were substantial deviations in revenue figures, the amount of indebtedness and the amount of available cash compared to the relevant amounts reported by JOYOU in its financial reports for 2014.

On May 21, 2015, JOYOU’s management board decided to apply for the commencement of insolvency proceedings due to existing over-indebtedness of JOYOU, and filed for the commencement of insolvency proceedings on May 22.

Separate from the special audit conducted by JOYOU’s supervisory board, pursuant to the instructions of its Representative Executive Officer and President, LIXIL established a special investigation team led by LIXIL’s CFO (Chief Financial Officer) and CLO (Chief Legal Officer) on April 24, 2015 to conduct an investigation, including an on-site from April 27 through May 22.

The principal purpose of the investigation by LIXIL’s special investigation team was to determine the facts of the accounting fraud performed mainly at Chinese subsidiaries of JOYOU and the amount of financial impact on the consolidated results of LIXIL.

The investigation was conducted in cooperation with the special audit conducted by JOYOU, and it adopted a wide range of methods, including review of documents such as agreements and memoranda evidencing JOYOU’s liabilities, collection and review of electronic data, interviews of banks, creditors, distributors and other related persons, and interviews of management and employees of JOYOU’s Chinese subsidiaries.

## **2. Outline of Findings by Special Investigation Team**

Through the initial investigation of the special investigation team, a significant amount of off-book debt obligations was identified. These off-books loans appear to have been arranged by the founders of JOYOU group. The amount of obligations, purpose and the use of funds are unclear at this time due in part to apparent destruction and deletion of historical data. However, these off-book loans are one of the major causes for the insolvency filing by JOYOU. Furthermore, the initial investigation identified accounting errors including overstated net sales and underreported expenses.

JOYOU is a company separately listed on the Frankfurt Stock Exchange and had obligations to report proper financial statements to all shareholders including LIXIL. Jianshe Cai and Jilin Cai in their executive capacities of JOYOU were responsible for preparing and publishing JOYOU's consolidated financial statements. These financial statements were also audited by an outside accounting firm. These financial statements, however, were falsified.

Details about the motives, methods and parties involved in the accounting fraud are still under investigation at this time. LIXIL officially established an internal investigation committee as of June 3, 2015, with the Representative Executive Officer and President being the chairman in order to continue to investigate the matter with support of outside professionals, to consider appropriate legal actions that LIXIL should take based on the findings, and to design and implement remedial measures to prevent future occurrences of similar situations. In order to fully investigate the facts and circumstances objectively, the internal investigation committee elected to seek the support of outside professionals, such as legal counsel and forensic accounting experts, who have had no prior connection to the transactions related to the acquisition of JOYOU. To further ensure that the facts and circumstances are reviewed without any bias, as stated at the beginning of this press release, LIXIL resolved at the meeting of board of directors held today to establish a special investigation committee composed of an outside director and outside experts in order to monitor the ongoing investigation and to supervise the related actions. The focus of the continuing investigation will take into consideration the fact that JOYOU and its subsidiaries are no longer in the scope of LIXIL's consolidated subsidiaries for the current fiscal year as a result of JOYOU's application for the commencement of insolvency proceedings. Following JOYOU's application for the commencement of insolvency proceedings, JOYOU is currently under control by the relevant court in Germany and a preliminary administrator appointed by the court. For details of the special investigation committee, please refer to the following paragraph.

### 3. Regarding Special Investigation Committee

In order to monitor the ongoing investigation being conducted by the internal investigation committee described above and to appropriately supervise related actions by the executive officers, LIXIL's board of directors established a special investigation committee ("JOYOU Issue Committee") as of today. The JOYOU Issue Committee will monitor and oversee the review of the facts relating to the acquisition of JOYOU and the management of the subsidiaries following the acquisition, the assessment of the root causes of the JOYOU issue, and the development and implementation of remedial measures to prevent future recurrences.

#### <Members of JOYOU Issue Committee >

Chairman	Tsutomu Kawaguchi (certified public accountant) (outside Director of LIXIL)
Member	Naoto Nakamura (attorney at law) (Nakamura, Tsunoda & Matsumoto)
Member	Toshifumi Takaoka (certified public accountant) (executive partner of KPMG FAS)

LIXIL will timely disclose a summary of the relevant investigation findings by the JOYOU Issue Committee.

LIXIL sincerely apologizes to shareholders and investors for causing this inconvenience and raising concerns.