ANNUAL REPORT 2014

HOFTEX GROUP
TEXTILE TECHNOLOGIES

Key figures of the Hoftex Group

		HGB [1] 2014	HGB 2013	HGB 2012	HGB 2011	HGB 2010
External sales	EUR million	185.1	190.4	203.4	224.1	196.4
Gross revenue	EUR million	177.2	189.0	202.0	231.8	191.1
Gross profit [2]	EUR million	82.0	83.6	86.5	89.5	84.8
Cash flows for operating activity	EUR million	19.6	15.9	21.9	6.1	11.9
Personnel		1,286	1,419	1,507	1,585	1,556
Capital expenditure on tangible fixed assets	EUR million	26.2	21.6	10.8	7.2	5.4
Depreciation and amortisation	EUR million	9.8	8.9	8.7	8.6	9.0
Result from ordinary activities [3]	EUR million	6.6	6.5	7.2	6.3	4.8
Extraordinary result	EUR million	-3.4	-6.0	0.0	0.0	0.0
Result current year	EUR million	3.5	0.2	6.4	5.5	3.8
Result per share	EUR	0.7	0.0	1.2	1.0	0.7
Cash flow	EUR million	16.3	6.7	11.4	11.9	11.9
EBITDA (adjusted)	EUR million	14.2	15.2	15.9	16.5	14.3
Net senior debt to EBITDA ratio	x-fold	0.9	1.1	0.9	1.5	1.7
Dynamic debt-equity ratio [4]	%	374	976	466	570	560
Balance sheet total	EUR million	174.7	160.0	157.2	159.9	154.2
of which tangible fixed assets	EUR million	83.8	73.0	63,7	61.8	63.7
balance-sheet equity	EUR million	82.7	76.2	77.9	71.8	66.2
economic equity [5]	EUR million	100.3	95.5	97.0	92.6	91.8
Equity ratio [6]	%	57.4	59.7	61.7	57.9	59.5

[1] HGB (*Handelsgesetzbuch* = German Commercial Code)

[2] Gross revenue less cost of materials

[3] After deducting other taxes

[4] Debt capital (excluding shareholder loan) less cash and cash equivalents

[5] Balance-sheet equity + extraordinary items + subordinated shareholder capital less proposed dividend payment

[6] Based on economic equity

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Group overview

Divisions	Yarns & Fabrics	Home Decoration	Nonwovens
Companies	Hoftex GmbH Hoftex Spinnerei GmbH *) Hoftex Färberei GmbH Hoftex Färberei Betriebs GmbH Hoftex Liberec s.r.o. *) Hoftex CoreTech GmbH Hoftex Max Süss GmbH Hoftex Weberei GmbH *) *) operations discontinued in 2014	Neutex Home Deco GmbH Neutex Betriebs GmbH SC Textor S.A.	Tenowo GmbH Tenowo Hof GmbH Tenowo Reichenbach GmbH Tenowo Mittweida GmbH Tenowo Inc. Tenowo Huzhou New Materials Co. Ltd.
Locations	Hof **) Selbitz Liberec (Czech Republic) **) Drebach Sehmatal-Cranzahl **) operations discontinued in 2014	Münchberg Targu Mures (Romania)	Hof Reichenbach Mittweida Lincolnton (USA) Huzhou (China)
Sales in EUR million [1]	58.9	18.2	107.9
Employees (annual average) 2014	422	298	527
Unit sales [2]	9.8 million kg 7.1 million RM	8.8 million m²	232.5 million m²

[1] External sales and intragroup sales
[2] External unit sales and intragroup unit sales

Other companies/significant shareholdings

Supreme Nonwoven Industries Pvt. Ltd., Mumbai (India)
Hoftex Immobilien I GmbH
Hoftex Immobilien II GmbH & Co. KG

Supervisory Board report

During the 2014 fiscal year, the Supervisory Board played an advisory and supervisory role for the Management Board in all key transactions and strategic decisions relating to the Company and the Group. With comprehensive written and oral reports, the Management Board regularly updated the Supervisory Board regarding the Group's business developments and financial position as well as its divisions, principal subsidiaries and key projects. The Supervisory Board also played a role in the Group's investment, financial and personnel planning through regular reporting on issues such as order receipts, staff development, sales, cash flow, earnings performance, variance analyses (forecasts vs. actual results) and the current cash position, as well as quarterly reports with balance sheets and income statements that were reviewed in detail by the Supervisory Board.

During its meetings, the Supervisory Board dutifully reviewed all measures and transactions requiring its approval and discussed them in detail with the Management Board. Where required, resolutions were passed by circulation.

In addition to regular reporting from the Management Board at Supervisory Board meetings, the Chairperson of the Supervisory Board was in regular contact with the Management Board and received updated information on all key transactions that were on-going.

During the year under review, the Supervisory Board met for four regular meetings and one extraordinary meeting.

With the exception of one meeting at which one Supervisory Board member was absent and excused, all members of the Supervisory Board attended each meeting. As in the previous year, no committees were formed. The Supervisory Board, with a membership of six (of which four are shareholder representatives elected by the General Meeting and two are employee representatives), is of a suitable size to deliberate and resolve all matters.

At its extraordinary meeting on 24 February 2014, the Supervisory Board passed a majority resolution to close the spinning and weaving mills at the Hof-Moschendorf site. In its report for fiscal 2013, the Supervisory Board provided a full discussion of the closure.

At the March meeting, discussions focused on a report from the Managing Director of the subsidiary Tenowo GmbH outlining progress of the nonwovens plant currently under construction in China and on the capacity expansion at the Reichenbach nonwovens facility.

At its meeting on 12 May 2014, discussions focused on reviewing and adopting the 2013 annual financial statements. The Supervisory Board also reviewed the agenda for the Annual General Meeting in July and heard a presentation concerning the status of the closure of the Hof-Moschendorf site and planned restructuring of the Hoftex business.

Among other issues discussed, the July meeting received an update on the two investment projects in the production of nonwovens for technical applications in Reichenbach and China. The Supervisory Board approved the proposed project using the Hof-Moschendorf plant to increase capacity for Nonwovens production.

At its meeting on 1 December 2014, the Supervisory Board received documentation outlining the Company's plans for the 2015 fiscal year. After reviewing them in detail and discussing their inherent opportunities and risks with the Management Board, the Supervisory Board approved the plans. The Supervisory Board also adopted the proposed investment budget for 2015. The Management Board presented a detailed report on the proposed expansion of the Nonwovens business, which is the focus of the investments at the Reichenbach and Mittweida sites. The participants also discussed the Group's medium-term strategic goals focusing on the growth-oriented Nonwovens market.

At this meeting, the Supervisory Board also reviewed the risk management report and found that the reporting and monitoring system set up by the Management Board as stipulated in Section 91 (2) of the German Stock Corporation Act (*Aktiengesetz*, or AktG) is adequate for the Company's requirements and is suitable in both its design and its implementation for the early detection of any developments that might jeopardise the Company's existence. As part of its audit of the consolidated financial statements, the auditors evaluated the effectiveness of the accounting-related internal control system.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2014. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2014 as well as the Group management report, the accounting system and the accounting-related internal control system and issued them with an unqualified audit certificate. Upon completion, all audit reports were immediately sent to the members of the Supervisory Board.

The Company's auditors were present at the 12 May 2014 annual report meeting, in which they engaged in full discussions of the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2014, as well as the Group management report, the Management Board's proposal for the appropriation of the net retained profits and the audit reports. The Supervisory Board duly noted and approved the audit findings. Following the Supervisory Board's careful review of the single-entity and consolidated financial statements, the Group management report and the proposal for the appropriation of profits, no objections were raised. The Supervisory Board approved and thus adopted the annual financial statements prepared by the Management Board. The consolidated financial statements and the Group management report were also adopted. The Supervisory Board endorsed the Management Board's proposal for the appropriation of net retained profits.

The Management Board submitted to the Supervisory Board its report concerning the Company's relationship with its affiliates in fiscal 2014 as stipulated by Section 312 AktG (dependency report) and the auditor's report on the same. The auditor issued the report with the following unqualified certificate: "Based on our duly performed audit and assessment, we hereby certify that the factual information contained in the report is correct and that the consideration received by the Company for each legal transaction disclosed in the report was not unreasonably high."
The Supervisory Board duly noted the report and the findings of the audit of the report, reviewed both reports and discussed the findings of each with the Management Board and the auditors. The Supervisory Board concurred with the findings of the audit of the dependency report prepared by the auditors.

At the end of the report, the Management Board declared that based on the circumstances known to it at the time the transactions were made with these affiliates, the Company received adequate consideration for each transaction and neither took nor refrained from taking measures in the best interest of the controlling company. Based on the findings of these discussions and its assessment of the dependency report, the Supervisory Board raised no objections to this declaration.

The membership of the Supervisory Board of HOFTEX GROUP AG has changed as follows:
Mr Wolfgang Kammerer as employee representative resigned from the Supervisory Board on 30 April 2014 upon termination of his employment. Ms Monika Fröhlich was appointed as the new employee representative of the Supervisory Board.

Hof, May 2015

Waltraud Hertreiter
Chair of the Supervisory Board

The HOFTEX GROUP AG share

Our shares are traded on the m:access market segment of the Munich Stock Exchange. Since our move to the Open Market, the Company is no longer considered to be "publicly listed" in terms of the German Securities Trading Act (*Wertpapierhandelsgesetz*, or WpHG) and shareholders are no longer obliged to inform us when they exceed or fall below certain reporting thresholds. As a result, we can only provide information on the stake held by our principal shareholder, ERWO Holding AG, which currently own 4,588,175 shares, or 84.26% of all shares.

As a company listed on the m:access market segment, we are governed by the **"Rules and Regulations for the m:access Market Segment of the Munich Stock Exchange"** (*Regelwerk für das Marktsegment m:access an der Börse München*). In addition to complying with other regulations, we are obliged to attend at least one analyst conference organised by the Munich Stock Exchange or a comparable event each year. During fiscal 2014, we attended an analyst conference at the Munich Stock Exchange on 22 July and have been invited to another analyst conference on 22 July 2015.

Hoftex Group share: share performance

Source: www.finanzen.net

As highlighted in the above share performance chart, we saw steady growth in our share price throughout 2014, which continued on through late March when the present report was completed. The share price rose from EUR 9.35 to EUR 10.15 as of 23 March 2015. As approximately 84% of our share capital is held by our principal shareholder ERWO Holding AG, in theory just 16% of shares can be in free float at any time. As a result, trading volume in these shares is low, as evidenced in the bottom section of the chart. In fact, there were several days with no share trading at all. When trading did take place, there were only a few days in which the volume traded exceeded 1,000 shares. The largest volume traded on any day was just over 6,000 in early January 2014. The low trading volume in our shares is likely also the reason for the strong fluctuations and/or deviations seen on the share performance chart above. A clear upward trend in our share price has been evident since last year's Annual General Meeting at the beginning of July 2014. The share is currently trading just slightly below its peak price of EUR 10.30.

Information on the Hoftex Group Share

Share type	No-par value shares, each with a proportionate share of EUR 2.52 (rounded) in the share capital
Share capital	EUR 13,920 thousand
Number of no-par value shares	5,444,800
Market capitalisation as of 31 December 2014	EUR 51.2 million
Listing	Munich Stock Exchange
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN [1]	676000

[1] German Securities Identification Number (*Wertpapierkennnummer*, or WKN)

Information on the Hoftex Group share price

Fiscal year ending 31 December	2014	2013	2012	2011
Year-end share price	EUR 9.41	EUR 9.39	EUR 7.00	EUR 7.75
Year high	EUR 10.30	EUR 9.39	EUR 7.79	EUR 7.85
Year low	EUR 8.60	EUR 7.00	EUR 5.90	EUR 7.00

Financial calendar

HOFTEX GROUP AG Annual General Meeting

9 July 2015

at the Bürgergesellschaft in Hof

m:access Analyst Conference

22 July 2015

at the Munich Stock Exchange

Mid-year issuer report as of 30 June 2015

September 2015

Group management report

Group fundamentals

Guiding principles and business model of the Group

The Hoftex Group is a highly diversified group of companies operating in the textile industry that can look back with pride at a long, successful history since its founding more than a century and a half ago. Throughout that time, the Hoftex Group as a whole has consistently succeeded in adapting to the changing dynamics of our industry. During the last decade in particular, we have seen profound structural change in the global textile industry. Working under our parent company, ERWO Holding AG, we have become a globally-active, well-respected provider of textile solutions with a wide variety of applications. In our business, we strive above all to achieve sustainability and sound growth. Business success and corporate social responsibility are two inseparable goals of Hoftex Group. Responsible and ethical conduct towards employees, business partners, society and the environment are key components of our corporate values and the foundation for all our actions. An awareness of our corporate social responsibility guides all of the Group's initiatives, both within and outside our corporate sphere. We are committed to fairness in all of our dealings with business partners and third parties and to building partnerships with professionalism and high quality standards. We support fair competition in compliance with competition and anti-trust regulations and operate all our facilities in accordance with regulations and standards on environmental protection. Through responsible use of natural resources, we ensure that our activities have the lowest possible impact on the environment. Using highly efficient decision-making processes, we are constantly working towards providing services with the best value for money for our customers. The only way to meet these high expectations is through specialisation, which is why for many years our business activities have been concentrated into three separate divisions, each of which comprise various business units.

Internal control system

Our internal control system is closely linked to our risk management system. The Group's management staff review and approve all plans prepared by each division, making corrections where necessary. The approved plans are combined into one detailed Group planning document. One of our key management tools is the Group business plan that is prepared each year with multi-year forecasts for the income statements, balance sheets and financial indicators. The multi-year plan is also used to derive our future funding requirements.

To monitor performance in the short term, the business units of each division submit sales reports to the Group's internal control department on a weekly basis, enabling us to analyse variances quickly and take countermeasures if needed. The subsidiaries in each division prepare monthly financial statements taking into account the relevant accruals/deferrals and forward the key indicators to the Group's internal control department. At the latest when these monthly statements have been released, we can determine and analyse what impact budgetary deviations in operating profit or at the cost level will have on earnings. The advisory committee meets each month when the monthly statements are released. The internal control department is responsible for preparing a comprehensive, standardised report for the monthly advisory committee meetings, where the participants analyse the business performance for the month in detail, discuss future prospects and introduce countermeasures where necessary.

Research and Development

The Hoftex Group intends to keep its main focus on technical textiles, in those divisions that belong to the more traditional textile industry (yarns and fabrics) but also – and above all – in the production of nonwoven textiles at Tenowo GmbH, and we see further expansion of our R&D activities in this division in particular as a priority. A lot of development work often goes into meeting our customers' demanding product standards both in terms of technology and price. One major element of our corporate philosophy is to be proactive in translating the needs of our customers into finished products. Especially when a product is designed for a particular technical application, it is vital for us to achieve the exact specifications and still be competitive on price. At the Hoftex Group, we don't see ourselves as mass producers. Instead, we are moving towards becoming a niche provider for unique and specialised products – which means we have to give our customers the specialised products they need quickly and economically. In our pursuit of these objectives and the development activities described here, certain companies within the Group have recruited additional staff. We currently have 16 staff employed worldwide in product development for the Nonwovens division (prior year: 16) and invest a total of EUR 1.4 million in R&D. In 2014, we conducted a total of 389 trials in our production facilities, with 25 new nonwovens going into series production.

Our R&D activities include joint projects and contract research with partners in the Technical University of Chemnitz, the Hof University of Applied Sciences, the Fraunhofer Institute, the Technical University of Dresden, STFI Chemnitz and the University of Bayreuth as well as several other partners within the industry.

The Home Decoration division also has an R&D department in the form of a workshop where new designs are developed by a team of 9 employees, including the woven textile designers. Personnel expenses and material costs for this department are in the region of EUR 0.6 million.

Economic report

Macroeconomic and sector-specific conditions

Macroeconomic trends

The economy in the Eurozone and above all in Germany performed better in 2014 than had been predicted mid-year. The upswing in Germany in particular created some momentum for the rest of the Europe. German GDP grew by an average of 1.5% in 2014 (prior year: 0.4%), while growth rates for the Eurozone averaged 0.8% (prior year: -0.5%). According to 2015 forecasts from both the European Commission and the OECD, growth rates are expected to remain unchanged for Germany at 1.5% and rise slightly for the Eurozone (19) at 1.3%. Average annual growth in worldwide GDP during fiscal 2014 was on par with the previous year. A similar trend was seen in China and India, while the Russian and Brazilian economies remained sluggish. The global economy appears to have stabilised to a certain extent, as these figures demonstrate. The recovery we are seeing in some industrialised nations in the West has been able to offset the slowdown in some Asian countries and is likely to continue to do so.

The strong momentum in most of the industrialised economies had a positive impact on their employment levels and labour markets. Unemployment rates dropped sharply in all of the major industrialised countries in the West, accompanied by significant wage increases in recent years. Thanks to improvements in the labour markets and the corresponding increase in income, Western industrial economies saw growth in domestic demand. A sharp decline in oil prices and a further drop in interest rates also helped drive economic growth. Taken together, all these developments combined to create very effective stimulus programme that eased looming fears of an economic slowdown.

Consumer spending remained the key driver for economic growth in 2014. Disposable household income increased by 2.3% (prior year: 2.1%), while savings rates remained very low at 9.4%. Historically low interest rates played a role in this trend as well. Over the last few years, a continued drop in savings rates to finance consumer spending has been driving modest growth in our economy, however over the long term we see this trend as a cause for concern, as it has an adverse impact on private pension planning. With no hope for returns on virtually any type of investment, interest in saving for retirement is waning.

These developments led to a drop in the unemployment rate from 6.9% in 2013 to 6.7% in 2014, driving Germany ahead of all other European countries. According to figures published in early 2015, Germany's unemployment rate was the lowest in the EU, toppling last year's leader Austria.

Growth rates are expected to continue to rise over the coming years, with a gradual pickup in investment and more robust consumer demand as the key drivers for economic growth. A rise in investments for capital equipment was already evident in the last quarter of 2013 and continued to pick up momentum, ending 2014 with an increase of 3.4%. Economists are forecasting these investments to increase by 4.4% in 2015 and by as high as 9.5% in 2016. The same reports analyse export and import trends, projecting exports to grow by 6.4% in 2015 and 6.5% in 2016, with imports up a full 8%. Overall, we expect the trade deficit to increase by approximately 0.2% to 0.3%, which means exports are not likely to make a positive contribution to growth in Germany's domestic economy.

Overall, economic development promises to stay exciting over the next two years, not least because of the recent momentum. It remains to be seen whether investment activity will overtake consumer spending as the key driver for growth. It is also unclear whether the expected growth from rising domestic consumer demand can make up for the dampening effect on the economy of proposed measures like the minimum wage hike or the stay-at-home-mom pension, to name just a few of the controversial measures up for debate, which increase costs for business and may cause redundancies.

Trends in the textile industry

The German textile industry (textiles and apparel) reported growth in sales of up to 2% in 2014, in line with the stronger consumer demand in the Germany's domestic economy and the loss of value of the euro, especially against the US dollar. However, the uptick in sales is mainly due to the one-off effects mentioned above and there is no way of knowing whether they have a long-term impact. Sales trends are positive for both the textile sector and the apparel sector.

In the apparel sector, the highest growth was in
- workwear at +10.3%.

In the textile sector, the highest growth was in
- nonwovens at 12.5%,
- woven and knitted fabrics at 7.3%, and
- - ready-made textiles at 7.1%.

While growth was down for
- preparation of spinning textile fibres (-11.3%), and
- technical textiles (-6.4%).

Although the industry reported growth in overall sales and production output rose by 5.2% in the apparel sector and by 2.2% in the textile sector, employment figures fell once again by -2.7% in the apparel sector and by -3.0% in the textile sector.

The combined drop in employment in both sectors amounted to -2.9%. 2014 exports of textile products (from semi-finished to finished products) increased year-on-year by 3.4%, or by EUR 800 million in absolute terms. By contrast, imports rose by 3.7%, or by EUR 1,287 million in absolute terms. As imports increased at a higher rate than exports in absolute terms, the industry reported a rise in the net import surplus of EUR 487 million. In the previous year, the import surplus rose as well by EUR 429 million. The positive trend in the textile industry's trade balance in 2014 further aggravated the general decline in the industry's employment levels.

The figures quoted here come from the industry association "textil+mode" relate to the period from January to November 2014.

The Hoftex Group's performance in fiscal 2014

In the 2014 financial year, the performance of the Hoftex Group was diverging – as it has been for years within the Group and throughout the textile industry. The more technically sophisticated Nonwovens division reported very satisfactory results, while the units operating in the more traditional textile industry – in our case, the Yarns & Fabrics division and, to a certain extent, the Home Decoration division – were hit with a sharp drop in demand. These trends make it very clear that the decision to close down operations at the loss-making sites Hof-Moschendorf and Liberec in the Czech Republic during 2014 was unavoidable, despite the hardship it caused. The closure affected Hoftex Spinnerei GmbH, Hoftex Weberei GmbH and Hoftex Liberec s.r.o. Expenses for phasing out operations at these facilities and extraordinary impairments at the Liberec site impacted our 2014 results, but the solid performance in the Nonwovens division was able to offset a large share of these extraordinary, one-off effects. At year-end, the Group succeeded in generating consolidated net income of EUR 3.5 million – a very respectable result in view of these massive burdens.

In the Yarns & Fabrics division, we gradually phased out operations at the Hoftex weaving and spinning mills and at Hoftex Liberec s.r.o. starting in August until the final closure at the end of November. This process was necessary to facilitate some major orders still outstanding. After all, it is in our best interest to maintain good relations with customers that may avail of our services at other facilities in the Yarns & Fabrics division. During the year of closure, the operating loss of the two plants in Moschendorf and the plant in the Czech Republic increased once again from EUR -4.1 million in the prior year to EUR -5.6 million. In addition, the closure of the Liberec plant resulted in extraordinary impairment losses totalling EUR 3.4 million on the lower market value of the business premises. As a result, the recently closed facilities reduced Group results by roughly EUR -9.0 million in 2014.

After the closure of the two Moschendorf sites and the Liberec plant, the Yarns & Fabrics division consists of Hoftex GmbH and Hoftex Färberei as sales companies, and Hoftex CoreTech GmbH, Hoftex Max Süss GmbH and Hoftex Färberei Betriebs GmbH as production companies. Optimisation of production equipment in the remaining spinning mill Hoftex CoreTech GmbH will enable us to keep producing the most attractive products in the spinning mill portfolio. These remaining companies in the Yarns & Fabrics division generated EUR 0.5 million in 2014 operating income, down from EUR 0.8 million in the prior year.

These figures clearly show that business developments in the Yarns & Fabrics division and the additional closure costs of the Liberec spinning mill had a significant negative impact on consolidated net income for fiscal 2014.

Sales for the Home Decoration division, with the lead subsidiary Neutex Home Deco GmbH and Romania-based SC Textor S.A., dropped once again in fiscal 2014. Tensions between the West and Russia during the Ukrainian crisis also played a role here, causing a sharp drop in our sales to Russia, where we had established promising business relations in previous years. Production of ready-mades in Romania, which manufactures exclusively for Neutex Home Deco GmbH, performed in line with projections once again in 2014, enabling us to leverage cost advantages relative to subcontracting out these orders.

The Nonwovens division has been reporting growth in sales for several years, up by 5% from EUR 102.8 million in 2013 to EUR 107.9 million in 2014. As all of our Nonwovens operations are working at full capacity, we can only achieve this level of growth through intermittent expansion of capacity and the opening of our new China-based Tenowo Huzhou production facility during the second half of the year. Despite the considerable – but budgeted-for – start-up costs at the Chinese site, the Nonwovens sub-Group improved results significantly. All other Nonwovens facilities contributed to this success with strong earnings growth.

Fiscal 2014 at a glance:

- Completion of three plant closures in the Yarns & Fabrics division by November 2014
- EUR 3.4 million in extraordinary expenses for the closure of the Liberec facility (Czech Republic)
- Sharp drop in sales due to the closure of two spinning mills and a weaving mill
- Decline in sales in the Home Decoration division, due among other things to the Russian crisis
- Sales growth in the Nonwovens division
- Full capacity utilisation in the Nonwovens division
- Start-up of China-based Nonwovens operations
- Improvement in the Nonwovens division results despite start-up costs in China
- Strong earnings growth for all other Nonwovens sites
- Outstanding performance of the Nonwovens division offsets weak results and extraordinary expenses in the Yarns & Fabrics division

Financial position of the Group

The Hoftex Group's total assets (balance sheet total) rose from EUR 160.0 million to EUR 174.7 million in 2014. Fixed assets increased by EUR 10.7 million from EUR 80.6 million to EUR 91.3 million due primarily to growing capital expenditure on tangible fixed assets. As a result, capital expenditure considerably exceeds depreciation charges. In the current assets, funds amounting to EUR 9.0 million in inventories were released, while funds committed for accounts receivable fell slightly by EUR 0.4 million. The Group received payment of EUR 20.0 million in loans under the second syndicate loan agreement (KDV II) just before the drawdown period expired on 30 June 2014, which led to a corresponding increase in cash and cash equivalents of EUR 15.6 million.

Balance-sheet equity increased year-on-year from EUR 76.2 million to EUR 82.7 million thanks to consolidated net income totalling EUR 3.5 million and currency translation gains of EUR +3.0 million due to higher exchange rates for the financial statements of foreign subsidiaries.

The Group reported a balance-sheet equity ratio of 47.3%, down from the prior-year figure of 47.7%. The more decisive figure for us is economic equity, which adds to the balance-sheet equity EUR 14.0 million in subordinated shareholder loans (prior year: EUR 14.0 million), EUR 3.0 million in funds from a cash-pooling arrangement based on a long-term subordination agreement (prior year EUR 3.0 million) and EUR 1.4 million in deferred grants (prior year: EUR 2.2 million), resulting in an economic equity ratio of 57.4% (prior year: 59.7%). Although there was a substantial increase in equity, both equity ratios were down, mainly due the base effect of the higher balance sheet total.

Pension provisions are carried at their full amounts and calculated as stipulated in the German Accounting Law Modernisation Act (*Bilanzierungsrechtsmodernisierungsgesetz*, or BilMoG). Funds attributable to claims against insurance amounting to EUR 3.6 million (prior year: EUR 3.7 million) were deducted from the provisions, resulting in a EUR 0.2 million drop in the pension provision item (prior year: EUR 0.4 million). Pension provisions are calculated using a 4.53% interest rate (prior year: 4.88 %) and a 1.5% annual rate of benefit increase (prior year: 1.5 %).

There was a decrease in provisions for taxes of EUR 0.3 million and in other provisions of EUR 3.8 million. The latter decrease is due mainly to redundancy payments for plant closures, paid out under the social compensation scheme on 31 December 2014.

Bank loans included EUR 27.4 million in long-term investment loans (prior year: EUR 11.6 million) and EUR 0.9 million in short-term overdraft facility (prior year: EUR 8.9 million). The Company paid out EUR 4.2 million in scheduled repayments of long-term loans. On 30 June 2014, the Group received payment of EUR 20.0 million in investment loans under the second syndicate loan agreement (KDV II) signed in 2013. This cash inflow went to repayment of the overdraft facility and cash-in-hand. With the movements of bank deposits included, net liabilities to banks decreased by EUR 5.6 million from EUR 18.3 million to EUR 12.7 million. Despite a de facto zero interest rate on the high bank balances and an increase in long-term loans, interest expenses fell slightly by EUR -0.1 million.

Trade payables were down by EUR 2.4 million despite the fact that some extensive investment projects are still on-going. It is generally our policy to settle trade payables within the discount period.

Other liabilities increased by EUR 8.0 million due mainly to the new China-based subsidiary, which has also received the equivalent of EUR 8.5 million in funding from related companies.

Cash flow and financing

The key drivers for the Group's financial position in 2014 were the solid performance of the Nonwovens division and funds released through inventory reductions following the closure of production sites in the Yarns & Fabrics division.

Cash flow

The abbreviated version of the consolidated cash flow statement is as follows:

in EUR million	2014	2013
Cash flows from operating activities	19.6	15.9
Cash flows from investing activities	-22.6	-18.2
Cash flows from financing activities	16.3	-4.7
Change in cash and cash equivalents	13.3	-7.0

Cash flows from operating activities rose year-on-year by EUR 3.7 million to EUR 19.6 million, largely as a result of a rise in net income for the year and funds released through inventory reductions. Payments of redundancy provisions under the social compensation scheme and the decline in other liabilities negatively impacted cash flow.

At EUR 26.3 million, capital expenditure was significantly higher than the prior-year figure of EUR 21.7 million, due mainly to major investments in the Nonwovens division for the new China-based subsidiary Tenowo Huzhou and EUR 25 million in gross investments for the new Reichenbach II plant.

2014 saw completion of our investment project in China, with production going online mid-year. At the Reichenbach II site, construction was completed on the structural shell at the end of the year, with machine components starting go in. After offsetting these outflows against the cash inflows from repayments and the disposal of tangible fixed assets (total EUR 3.7 million), net cash flows from investing activities amount to EUR 22.6 million (prior year: EUR 18.2 million). The remaining EUR 3.0 million in funding requirements was covered by the EUR 20.0 million in loans received (KDV II) for domestic investments and by EUR 8.5 million in funds from the cash-pooling agreement with related companies for China-based subsidiary Tenowo Huzhou's investments. The remaining cash was used for scheduled repayment of long-term loans under the first syndicate loan agreement (KDV I), the first repayment instalment for KDV II totalling EUR 4.2 million and repayment of EUR 8.0 million in short-term loans. The remaining EUR 13.3 million in cash increases the Group's cash and cash equivalents to EUR 15.6 million.

Financing

HOFTEX GROUP AG performs all financing activities for the Hoftex Group, including taking out loans to cover the subsidiaries' funding requirements and securing sufficient liquidity by negotiating adequate credit lines with banks. Derivatives are only used to hedge against currency and interest rate risks.

Based on our experiences during the recent financial crisis, the Hoftex Group moved to a syndicated financing model on 21 July 2010 by way of an agreement between HOFTEX GROUP AG and their domestic subsidiaries on the one side and the financial institutions that have provided funding to date on the other: Commerzbank AG, UniCredit Bank AG and Bayerische Landesbank Anstalt des öffentlichen Rechts. A total of EUR 38 million in loans was granted, divided into EUR 18 million in long-term loans with a five-year term and EUR 20 million in working capital loans and lines of credit with fixed interest for a term of three years. EUR 10 million in working capital loans and EUR 10 million in short-term loans expired on 30 June 2013 and were subsequently extended to 30 June 2015 on the basis of a working capital line of credit initially amounting to EUR 16 million and dropping to EUR 15 million on 1 January 2015. The Group was granted another EUR 15 million in loans under a second syndicate loan agreement (KDV II) with Commerzbank AG, Bayerische Landesbank Anstalt des öffentlichen Rechts and Baden-Württembergische Bank to finance the extensive investments proposed for the Nonwovens division, in particular roughly EUR 25 million for investments in the planned expansion of the Reichenbach II plant. This loan volume increased to EUR 20.0 million during the first half of 2014 through the subsequent inclusion of UniCredit in the syndicate. The investment funding expires on 30 June 2020. As the drawdown period for KDV II expired on 30 June 2014, the Company had to take out the full EUR 20.0 million in loans. By including UniCredit in the syndicate, we can ensure we obtain additional financing at the same terms after the loans and working capital lines from the first syndicate loan agreement (KDV I) are repaid as planned on 30 June 2015. However, this loan deal was made by way of four bilateral contracts with our existing banks. The combined funding under the title "Darlehen III" consists of four equal loan agreements for a total loan volume of EUR 15.0 million expiring on 30 June 2022 and four equal working capital loans of up to EUR 10.0 in total expiring on 30 June 2018. The agreements for "Darlehen III" were signed in March 2015.

Drawdown rights in all three loan arrangements (KDV I, KDV II and Darlehen III) shall be exercised exclusively by HOFTEX GROUP AG. The German subsidiaries are also authorised to utilise the working capital lines of credit. The original syndicate loan agreement (KDV I) provided secure funding during the financial and Eurozone crisis. In 2013, we once again secured new funding for our planned investments by way of a second syndicate loan agreement (KDV II) in order to spread the borrower default risk evenly across the banks in the syndicate. With Darlehen III based on bilateral agreements, we intend to return to a simpler funding model in the medium term.

The Group's results of operations

The Group's **sales** fell by EUR 5.3 million to EUR 185.1 million. The loss is mainly attributable to the performance of the Yarns & Fabrics and the Home Decoration divisions, while the Nonwovens division improved significantly once again in fiscal 2014. The 2014 sales figures were as follows:

in EUR million	2014	Prior year	Net change
Yarns & Fabrics	58.3	66.9	-8.6
Home Decoration	18.2	20.0	-1.8
Nonwovens	107.9	102.8	+5.1
Others and consolidation	0.7	0.7	0.0
Group sales	185.1	190.4	-5.3

As expected, sales in the Yarns & Fabrics division were down due mainly to a reduction in capacity utilisation as operations were phased out in the period preceding the fourth-quarter closure. The Home Decoration division is still suffering from increasing competition from low-wage economies and the follow-on effects of the conflict between the West and Russia, which has all but stalled business in that market. It was impossible to offset those effects given the global competitive situation, but we have stepped up our efforts to expand exports into Western countries in future. The Nonwovens division, by contrast, continues to thrive as in recent years. All of the companies in this division worked at full capacity during the year under review. During the second half of the year, production at the new China-based subsidiary went online and marketing of its products started. Initial activities of the subsidiary generated sales equivalent to EUR 2.3 million. US sales declined year-on-year by EUR 0.9 million as higher Industrial sales were unable to offset the drop in Automotive sales. Sales for the Germany-based sites in Hof, Reichenbach and Mittweida, all working at full capacity, increased by EUR 3.6 million thanks to investments in capacity expansion (Mittweida) and efficiency improvement (Hof).

Reduction of finished and unfinished goods inventories resulted in a **net change in inventories** of EUR -7.9 million (prior year: EUR -1.5 million). The phasing out of production at two spinning mills and a weaving mill was the main driver for inventory reduction. The following chart shows the breakdown by division:

in EUR million	2014	Prior year
Yarns & Fabrics	-9.3	+1.2
Home Decoration	-0,3	-0.8
Nonwovens	+1.7	-1.9
Others and consolidation	0.0	0.0
Group total	-7.9	-1.5

Other operating income rose to EUR 5.6 million, up by EUR 1.5 million year-on-year, due mainly to the following items:

in EUR million	2014	Prior year
Income from the disposal of fixed assets	1.5	0.8
Currency translation gains	0.9	0.4
Release of deferred grants	0.7	0.7
Reversal of provisions	0.7	0.5
Prior-period income	0.6	0.7
Rental income	0.3	0.2
Other	0.9	0.8
Group total	5.6	4.1

Income from the disposal of fixed assets resulted mainly from the sale of capital equipment during the closure of the Yarns & Fabrics division's production facilities. The currency translation gains stem mainly from revenue generated in dollars, but also from the valuation of dollar reserves and receivables. The release of deferred grants received relate to prior-period grants and subsidies that are subject to scheduled release over the useful life of the subsidised machines.

The **cost of materials** ratio relative to operating income/loss fell from 55.8% to 53.7% during the financial year just ended, despite further increases in the price of cotton and mainly due to the fact that the Nonwovens division, with its lower cost of materials ratio, accounts for a larger share in the Group's overall business.

	2014		Prior year	
	EUR million	as a % of income	EUR million	as a % of income
Yarns & Fabrics	32.9	66.3 %	44.9	65.7 %
Home Decoration	5.2	29.2 %	6.7	34.7 %
Nonwovens	57.2	52.2 %	53.9	53.3 %
Others, including consolidation	-0.1	-	-0.1	-
Group total	95.2	53.7 %	105.4	55.8 %

Personnel expenses fell from EUR 44.5 million in the prior year to EUR 42.9 million in 2014 mainly as a result of the closure of three plants in the Yarns & Fabrics division during the year.

The following chart shows the breakdown by division:

	2014		Prior year	
	EUR million	Employees	EUR million	Employees
Yarns & Fabrics	12.3	422	15.8	595
Home Decoration	7.5	298	7.5	314
Nonwovens	20.6	527	18.8	471
Others, including property management	2.5	39	2.4	39
Group total expenses/headcount	42.9	1,286	44.5	1,419

The average headcount (including apprentices) fell by 133 employees to 1,286 employees (prior year: 1,419).

Depreciation and amortisation, which can be characterised as fixed costs, increased year-on-year by EUR 1.0 million to EUR 9.8 million. The increase is due mainly to capital expenditure in the Nonwovens division, where depreciation rose from EUR 5.2 million to EUR 6.6 million, up year-on-year by EUR 1.4 million. Depreciation and amortisation fell slightly in the other two business areas. Straight-line depreciation was recognized for the closed facilities up until the fourth quarter of 2014.

Other operating expenses, which also contain fix costs, but to a lesser extent, rose only slightly by EUR 0.3 million to EUR 25.4 million during the year under review. However, any increases caused by the expansion of our business in the Nonwovens division are being offset by cost reductions from restructuring in the Yarns & Fabrics and Home Decoration divisions.

In EUR million	2014	Prior year
Yarns & Fabrics	8.3	9.3
Home Decoration	4.5	4.9
Nonwovens	14.6	12.7
Others, including consolidation	-2.0	-1.8
Group total	25.4	25.1

The increase in the Nonwovens division, up EUR 1.9 million this year, is attributable entirely to the expansion of this division's business. The start-up costs for the new China-based production site are reflected here. The share of the Chinese subsidiary amounted to EUR 1.1 million.

The **operating result after deducting other taxes** rose year-on-year from EUR 8.6 million to EUR 8.8 million, despite the additional start-up losses in China and the problems associated with phasing out operations in three of the Yarns & Fabrics division's facilities.

In EUR million	2014	Prior year
Yarns & Fabrics	-3.6	-2.6
Home Decoration	+0.5	-0.1
Nonwovens	+12.5	+12.3
Others, including property management	-0.6	-1.0
Operating result	+8.8	+8.6

The **investment income** for the financial year just ended relate to the Group's proportionate share in the net income of its India-based associate Supreme Nonwoven, with an at-equity value of EUR 0.1 million (prior year: EUR 0.3 million). India's economy was sluggish once again during fiscal 2013/2014, with rising energy prices and a week rupee exacerbating the problems.

The negative **financial result** of EUR -2.3 million saw a slight year-on-year improvement of just under EUR 0.1 million as a result of the significant drop in the utilisation of the overdraft facility. This led to a EUR 0.1 million decline in interest expenses. In addition to the original interest expense of EUR 1.7 million, the financial result also includes EUR 0.6 million in non-cash charges for accrued interest on pension provisions (prior year: EUR 0.6 million).

The **extraordinary result** includes EUR 3.4 million in extraordinary impairments on the business premises of Hoftex Liberec s.r.o. in Liberec (Czech Republic). EUR 6.0 million in provisions were set aside in the previous year for the financial impact of the closure of the joint production facility of Hoftex Spinnerei GmbH and Hoftex Weberei GmbH in Moschendorf.

Taxes on income show a net gain from the reversal of prior-period provisions that are no longer needed. The key income tax items are as follows:

	EUR thousand
Taxes on income for the financial year	-420
Reversal of prior-year tax provisions	+780
Increase in deferred tax assets	+43
Decrease in deferred tax liabilities	+1
Total taxes on income	**+404**

Other taxes include property tax, motor vehicle tax and value-added tax on non-cash benefits.

Despite continued extraordinary expenses during the year under review, the Group generated **satisfactory consolidated net income for the year** at EUR 3.5 million.

Result per share

HOFTEX GROUP AG's result amounted to EUR 1.21 per share (prior year: EUR -0.42) based on the Company's net income for the year of EUR 6,590 thousand (prior year: net loss of EUR -2,260 thousand) and a total of 5,444,800 shares. With consolidated net income at EUR 3,544 thousand (prior year: EUR 206 thousand), the Group's result amounted to EUR 0.65 per share (prior year: EUR 0.04).

Employees

The Group employed an average of 1,286 staff compared to 1,419 in the prior year. This decrease results mainly from the closure of the spinning and weaving mills in Hof and the spinning mill in Liberec in the fourth quarter of 2014.

Investments

Capital expenditure on tangible and intangible fixed assets and long-term financial assets amounted to EUR 26.3 million in 2014 (prior year: EUR 21.7 million).

Risk report

As a company that manufactures industrial textiles on a global scale, Hoftex Group is exposed to certain risks. The Management Board of HOFTEX GROUP AG is responsible for establishing an enterprise-wide control system for the timely identification and assessment of the Group's risk exposure pursuant to Section 91(2) of the German Stock Corporation Act (*Aktiengesetz*, or AktG). Due to the decentralised structure of the Group, risk management is an integral part of its planning, monitoring and reporting processes. HOFTEX GROUP AG and its subsidiaries use a standardised risk management system that is improved and adjusted on an on-going basis to respond to changing requirements. With its diversified structure, the Hoftex Group is exposed to different risks and risk concentrations in each of the individual divisions. This enables the Group to spread risk to a certain extent.

We have set up efficient financial control systems for our cash flows as well as interest and accounts receivable management. As a holding company, HOFTEX GROUP AG is responsible for hedging all of the Group's financial risks and for monitoring and controlling the utilisation of the credit lines granted to our subsidiaries by the banks. The holding company monitors and coordinates any currency hedges set up by individual subsidiaries. As part of the daily cash pooling with all of our banks, the holding company has access to data on the subsidiaries' financial performance on an on-going basis.

We adhere to one key principle in our accounts management: customer orders are limited to the credit limit granted by credit insurers. Any divergency from this principle is subject to prior approval by Group management. The holding company receives monthly indicators on the aging of accounts as well as payment dates for current and past due accounts. Active management of our accounts receivable enables us to take advantage of opportunities without allowing risk to spiral out of control. Group companies entering into transactions that exceed the agreed limits must set aside adequate risk provisions.

Staff from internal control and the management of the individual Group companies are responsible for the early risk detection system.

The reporting system and the internal controls ensure decision-makers are kept up-to-date on business performance and on any unfavourable developments that may arise. The Group's internal audit department also monitors the efficiency of individual structures and processes, the reliability of individual systems and compliance with rules and regulations, as well as proper accounting and safeguarding of assets.

The three mainstays of our risk management system are:
- Systemic security functions
- Reporting policies requiring regular and ad-hoc reporting
- Case-by-case examinations

These controls ensure management obtains information on potential risks in a timely manner and is able to take the correct actions to manage the risk.

Audits carried out in 2014 focused on:
- Evaluation of electricity and gas supply contracts in relation to capacity reductions
- Evaluation of agreements on the sale of equipment with foreign equipment dealers
- Evaluation of bank powers of attorney for electronic payments (e-banking)
- Daily review of balances of all bank accounts and agreed payment plans
- Evaluation of the results of interest rate hedges from late 2013
- Compliance with customs requirements and VAT formalities
- Evaluation of travel expenses claims for compliance with recent legislative changes.

At the time this report was prepared (March 2014), our key risks relate to environmental and sector risks, corporate strategy risks as well as financial risks due to uncertainty about future interest and exchange rates. We were able to make realistic assessments in the past about the impact of increased competition from Asian countries – initially on our Yarns & Fabrics division and more recently on our Home Decoration division. As a result, we were able to mount a rapid response.

There are latent corporate strategy risks throughout the Nonwovens division. In its main role as a supplier to the automotive industry, Nonwovens is always under pressure to improve quality, delivery reliability and production costs, because it is the buyer in this segment that has a greater influence on prices than the manufacturer. To maintain our competitive edge over the long term, we must regularly invest in new, quality-enhancing and cost-cutting production methods. Risks are also associated with uncertainties about the future development of the automotive sector in the United States and particularly in Europe. Our options for responding to these changes are very limited. Our decision to open a Nonwovens production site in China may serve to mitigate these risks somewhat.

Our concerns about increasing concentration on the German banking sector as a follow-on effect to 2008/2009 financial crisis have been confirmed.

Recently, it seems companies are finding it increasingly difficult to obtain – and maintain – the debt financing they need. Experience has shown that the "Basel II" regulations have a stronger effect during a crisis and may actually exacerbate the situation. The recent financial and economic crisis in 2008 and 2009 revealed additional risks. We attempted to address these developments as early as 2010 by moving towards a syndicated financing solution with our house banks, which has significantly helped secure the funding we need. We also opted for syndicated financing in 2013 when we secured funding for the extensive investments in the Nonwovens division. In negotiations for a third round of financing to secure long-term funding until 2022 after the 2010 syndicate loans expire on 30 June 2015, we chose to return to bilateral agreements with our four house banks. The fact that conditions have eased somewhat in the banking sector was key in our decision to move away from syndicated financing for this long-term funding and return to an arrangement with a simpler structure.

With EUR 25.0 million in long-term funds from the Darlehen III arrangement and EUR 20.0 million from KDV II, we have secured long-term funding for major investments in our business, including two new facilities in the Nonwovens division.

The overall demand for Nonwovens remains strong, however, and we feel it is necessary to adapt the division's production capacity to market realities. The expansion project at the Reichenbach II plant will be completed during fiscal 2015, with production going online before year-end. With the new capacity, we will be able to grow the Industrial unit's business at Tenowo GmbH, which will act as a counterweight to the Automotive business and further stabilise the division's profitability. Another key objective of the Reichenbach expansion is to reduce turn times, which will help us to improve cost structures even more. Work on an additional small-scale investment at the Mittweida site is nearing completion and will also help boost sales. Our investment in a new China-based facility was completed in 2014, with production going online before year-end. Work also started on an investment project to substantially expand capacity at the US-based subsidiary Tenowo Inc., with production phasing in over the next few months.

With interest rates at an all time low since the last quarter of 2013, we took advantage of the situation and entered into interest rate swaps to hedge most of the long-term EURIBOR loans for the Reichenbach expansion for the period from October 2014 to September 2019. Even though interest rates have unexpectedly dropped even further since the end of 2013, we feel it is worth it to secure a fixed interest rate for EUR 12.0 million in loans, making them de facto fixed-interest loans.

Dependency report

As stipulated in Section 312 AktG, the HOFTEX GROUP AG Management Board prepared a report on the HOFTEX GROUP AG's relationship with ERWO Holding AG and its affiliates and submitted it to the Supervisory Board. At the end of the report, the Management Board made the following declaration: "Based on the circumstances known to the Management Board at the time the legal transactions disclosed in this report were conducted, the Company received consideration for each legal transaction disclosed in the report that was not unreasonably high. No measures requiring disclosure were taken during the year under review."

Forecast and outlook for fiscal 2015

During the 2014 financial year, we closed our largest loss-making operations, the spinning and weaving mills in Hof Moschendorf and an associated spinning mill in Liberec (Czech Republic). This helped eliminate a lot of the uncertainties plaguing the Yarns & Fabrics division due to competition with low-wage countries and emerging industrial economies. The remaining companies in the Yarns & Fabrics division manufacture products that are slightly more sophisticated, giving them a better shot at success. And given their limited output, the risk of major losses is very low. We plan to sell any remaining inventory from the closed facilities over the next one to two years, with overall sales of EUR 39.0 million forecast for 2015. The division is expected to end the year with a marginal net loss.

Process optimisation in the Neutex Home Decoration division is expected to further improve cost structures and generate cost savings. We hope to acquire new prospective customers by expanding the division's export business. In addition to measures already taken to recruit staff and launch new design patterns, we are placing more focus on core countries in future. We are currently working on textiles that go beyond mere decoration to provide added benefits. We are confident that once we successfully implement these measures and keep promoting innovative products, the division can generate higher profits once again. With these restructuring measures still on-going, we expect to generate EUR 20.0 million in sales and end the year with a net loss of EUR -0.8 million.

We expect the Nonwovens division to continue to record strong growth. Capacity utilisation is set to rise in the new China-based facility in 2015. When production at the Reichenbach II plant goes online before the end of 2015, the Industrial business is expected to grow and boost sales. The very successful Mittweida facility has already started expanding capacity with a new production line in Hof Moschendorf, providing opportunities to further leverage the favourable market conditions for its products. At all other plants, investments in efficiency improvement will help raise capacity limits a bit further.

Sales in the division are expected to grow by roughly 12% to approx. EUR 120 million. The start-up costs in two facilities will likely produce weaker results than fiscal 2014. Given the circumstances, we are forecasting consolidated net income in the region of EUR 8.0 million.

Provided sales remain at the current low level, the other units, including the holding company, the real-estate companies and non-allocated consolidation within the Group, are expected to generate a loss of EUR -1.5 million before profit/loss transfer from the subsidiaries but less income tax for the profit/loss transfer amounts.

Based on these assumptions, we think it is achievable to generate Group sales of roughly EUR 180 million and consolidated net income in the range of EUR 5.0 million to EUR 6.0 million. It is worth noting that about EUR 10 million of the 2015 sales will come from inventory reductions after the closure of the Yarns & Fabrics division's facilities. Based on what we know today and with all due caution concerning the rising costs of energy and staff, we are projecting Group sales of approx. EUR 190 million and consolidated net income between EUR 6.0 million and EUR 7.0 million for fiscal 2016.

The above forecasts come with the proviso that these two cost items do not increase unexpectedly.

Report on events after the balance sheet date

After the balance sheet date, there were no events that significantly impact the Group's net assets, financial position and results of operations.

Hof, 31 March 2015

HOFTEX GROUP AG

The Management Board

Steger Adrion

HOFTEX GROUP AG
Consolidated balance sheet as of 31 December 2014

Assets in EUR thousand	Notes	31 December 2014	31 December 2013
A. Fixed assets			
I. Intangible fixed assets	6	277	321
II. Tangible fixed assets	6	83,758	73,045
III. Long-term financial assets	6/7	7,240	7,205
		91,275	**80,571**
B. Current assets			
I. Inventories	8	42,251	51,250
II. Receivables and other assets	9	23,833	24,178
III. Cash and cash equivalents	10	15,566	2,140
		81,650	**77,568**
C. Prepaid expenses		**434**	**577**
D. Deferred tax assets	11	**1,309**	**1,266**
Total assets		**174,668**	**159,982**

Equity and liabilities in EUR thousand	Notes	31 December 2014	31 December 2013
A. Equity			
I. Subscribed capital	12	13,920	13,920
II. Capital reserves	13	41,158	41,158
III. Revenue reserves	14	33,722	30,547
IV. Change in equity from currency translation		-650	-3,561
V. Consolidated net accumulated losses	15	-5,462	-5,831
		82,688	**76,233**
B. Deferred investments grants and subsidies	16	**1,470**	**2,215**
C. Shareholder loans	17	**14,000**	**14,000**
D. Provisions	18	**22,745**	**27,151**
E. Liabilities	19	**53,752**	**40,369**
F. Deferred tax liabilities	11	**13**	**14**
Total equity and liabilities		**174,668**	**159,982**

HOFTEX GROUP AG
Consolidated Income Statement for the 2014 financial year

in EUR thousand	Notes	2014	2013
Sales	20	185,103	190,448
Change in inventories of finished and unfinished goods		-7,945	-1,478
Other own work capitalised		0	3
Gross revenue		**177,158**	**188,973**
Other operating income	21	5,621	4,099
Cost of materials	22	-95,183	-105,395
Gross profit		**87,596**	**87,677**
Personnel expenses	23	-42,876	-44,473
Depreciation, amortisation and write-downs	6	-9,813	-8,858
Other operating expenses	24	-25,396	-25,072
Operating result		**9,511**	**9,274**
Investment income	25	63	313
Financial result	26	-2,263	-2,373
Result from ordinary activities		**7,311**	**7,214**
Extraordinary result	27	-3,445	-6,000
Result before tax		**3,866**	**1,214**
Taxes on income	28	404	-335
Other taxes	29	-726	-673
Consolidated net income for the year		**3,544**	**206**

HOFTEX GROUP AG
Consolidated statement of changes in equity as of 31 December 2014

In EUR thousand	Subscribed capital	Capital reserves	Revenue reserves	Difference in equity from currency translation	Consolidated net accumulated losses	Total
Balance as of 1 Jan 2013	**13,920**	**41,158**	**30,547**	**-2,512**	**-5,220**	**77,893**
2012 dividend payment					-817	-817
Consolidated net income for 2013					206	206
Foreign currency translation differences				-1,049		-1,049
Balance as of 31 Dec 2013	**13,920**	**41,158**	**30,547**	**-3,561**	**-5,831**	**76,233**
2013 dividend payment					0	0
Consolidated net income for 2014					3,544	3,544
Foreign currency translation differences				2,911		2,911
Appropriation to revenue reserves pursuant to Section 58(2) AktG			3,175		-3,175	0
Balance as of 31 Dec 2014	**13,920**	**41,158**	**33,722**	**-650**	**-5,462**	**82,688**

HOFTEX GROUP AG
Consolidated cash flow statement for the 2014 financial year

In EUR thousand	2014	2013
Consolidated net income for the year	3,544	206
-/+ Income/loss from disposal of fixed assets	-1,333	-681
+ Depreciation and amortisation on fixed assets	13,258	8,858
- Reduction in deferred government grants	-744	-735
-/+ Changes in pension provisions before offsetting with assets	-243	-372
+/- other non-cash expenses and income	1,808	-553
Changes in assets and liabilities		
+/- Changes in inventories	8,999	1,374
-/+ Changes in receivables before offsetting with assets	1,406	-1,689
+/- Changes in liabilities and other provisions not attributable to financing activities	-7,117	9,502
Cash flows from operating activities	**19,578**	**15,910**
- Capital expenditure on intangible and tangible fixed assets	-26,278	-21,690
- Investment in long-term financial assets		0
+ Repayment of long-term financial assets	9	54
+ Proceeds from disposal of long-term financial assets	3,684	3,449
Cash flows from operating activities	**-22,585**	**-18,187**
+/- Changes in liabilities to banks	-12,209	-3,926
+ Payout from KDV II	20,000	0
- Dividend payments	0	-817
- Decrease/+ increase in short-term funding from parent company	0	0
- Decrease/+ increase in short-term loans from related companies	8,525	0
Cash flows from financing activities	**16,316**	**-4,743**
Changes in cash and cash equivalents	13,309	-7,020
Increase/decrease in cash and cash equivalents due to currency translation	117	-28
Cash and cash equivalents as of 1 January	2,140	9,188
Cash and cash equivalents as of 31 December	**15,566**	**2,140**

NOTES TO THE 2014 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(1) Presentation of the Consolidated Financial Statements

HOFTEX GROUP AG is registered as a public limited company in the Federal Republic of Germany in the commercial register of the district court of Hof under the code HRB 50. Its business address is Fabrikzeile 21, 95028 Hof, Germany. It serves the holding company of the Hoftex Group.

The purpose of the Company corresponds to the entry in the commercial register. The Hoftex Group's main activities are the production of raw and coloured yarns including specialty and ply yarns, the production of raw and coloured textiles including decorative fabrics and the production of nonwoven fabrics for technical applications and apparel.

As of 29 June 2009, the Company's shares have been traded on the m:access open market of the Munich Stock exchange, and since this time HOFTEX GROUP AG is no longer considered as a "publicly listed" or "capital market-oriented" company as defined in the HGB and the AktG.

The consolidated financial statements of the HOFTEX GROUP AG for the year ending 31 December 2014 are prepared on the basis of the provisions of the HGB and the AktG prevailing on the balance sheet date.

Section 290 HGB governs the obligation to prepare consolidated annual financial statements. The consolidated financial statements for the preceding financial year are to be prepared within five months of the new financial year. These statements are prepared in euros (EUR) and all figures are shown in thousands of euros (EUR thousand), if not expressly stated otherwise.

The single-entity annual financial statements of the Group companies and the consolidated annual financial statements are prepared as of the balance sheet date of the parent company. The HOFTEX GROUP AG annual financial statements and the annual financial statements of all domestic subsidiaries included in consolidation for the 2014 financial year were prepared on the basis of the provisions of the HGB, the AktG and/or the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*, or GmbHG). For the purpose of preparing the consolidated annual financial statements, we have adapted the annual financial statements of foreign subsidiaries to comply with HGB, where necessary.

Certain items in the balance sheet and the income statement have been aggregated to improve clarity of presentation. These items are reported separately and clarified in the notes to the financial statements. The income statement is prepared using the total cost method.

(2) Consolidated companies

In addition to HOFTEX GROUP AG, the consolidated annual financial statements for the year ending 31 December 2014 includes 18 (prior year: 18) domestic and 4 (prior year: 4) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and therefore exercises control over these companies. The Group relief fund, the *Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.*, is also subject to consolidation as stipulated in Section 290(2) no. 4 HGB in conjunction with Standard 19 of the German Accounting Standards (*Deutsche Rechnungslegungsstandard* or DRS). One domestic subsidiary (prior year: one) was not included in consolidation due to its insignificance for the Group's net assets, financial position and results of operations.

The subsidiaries Hoftex GmbH, Hoftex Spinnerei GmbH, Hoftex Weberei GmbH, Hoftex CoreTech GmbH, Hoftex Max Süss GmbH, Neutex Home Deco GmbH, Neutex Betriebs GmbH, Tenowo GmbH, Tenowo Hof GmbH, Tenowo Reichenbach GmbH, Tenowo Mittweida GmbH and Hoftex Immobilien I GmbH are all bound to HOFTEX GROUP AG as their parent company on the basis of a control and profit transfer agreement. Each of these 12 companies (prior year: 12) is also included in the HOFTEX GROUP AG consolidated annual financial statements and makes full use of the exemption provision in Section 264(3) HGB.

Hoftex Immobilien II GmbH & Co. KG is included in the HOFTEX GROUP AG consolidated annual financial statements and therefore makes full use of the relief provisions in Section 264b HGB.

HOFTEX GROUP AG's consolidated companies for the year ending 31 December 2014 are as follows:

	Registered office		Stake in %
Fully consolidated companies as defined in Section 290(2) no. 1 HGB			
Hoftex GmbH	Hof	1)	100.00
Hof Garn Verwaltungs GmbH	Hof		100.00
Hoftex Färberei GmbH	Hof	2)	100.00
Hoftex Färberei Betriebs GmbH	Hof	3)	100.00
Hoftex Spinnerei GmbH	Hof	2)	100.00
Hoftex Weberei GmbH	Hof	2)	100.00
Hoftex CoreTech GmbH	Hof	2)	100.00
Hoftex Max Süss GmbH	Hof	2)	100.00
Hoftex Liberec s.r.o.	Liberec, Czech Republic	2)	100.00
Tenowo GmbH	Hof		100.00
Tenowo Hof GmbH	Hof	4)	100.00
Tenowo Reichenbach GmbH	Hof	4)	100.00
Tenowo Mittweida GmbH	Hof	4)	100.00
Tenowo Inc.	Lincolnton, USA	4)	100.00
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	4)	100.00
Neutex Home Deco GmbH	Münchberg		100.00
Neutex Betriebs GmbH	Münchberg	5)	100.00
SC Textor S.A.	Targu Mures, Romania	5)	100.00
Textil Hof Immobilien Geschäftsführungs GmbH	Hof		100.00
Hoftex Immobilien II GmbH & Co. KG	Hof		100.00
Feinspinnerei Hof GmbH	Hof		100.00
Hoftex Immobilien I GmbH	Hof		100.00
Fully consolidated companies as defined in Section 290(2) no. 4 HGB			
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof		-
Non-consolidated companies as defined in Section 296(2) HGB			
HBD Textil-GmbH	Hof		100.00
Associates			
Supreme Nonwoven Industries Private Limited	Mumbai, India	6)	49.00

1) 96% of all shares are held by HOFTEX GROUP AG, 4% are held by Hof Garn Verwaltungs GmbH
2) 100% of all shares are held by Hoftex GmbH
3) 100% of all shares are held by Hoftex Färberei GmbH
4) 100% of all shares are held by Tenowo GmbH
5) 100% of all shares are held by Neutex Home Deco GmbH
6) 49% of all shares are held by Tenowo GmbH

(3) Consolidation principles

For first-time consolidations before 1 January 2009, capital is consolidated using the book value method pursuant to Art. 66(3) sentence 4 of the EGHGB. First-time consolidations after this date use the revaluation method only, as outlined in Section 301 HGB (new version), which was amended after introduction of the BilMoG. According to this method, the subsidiary's equity at the time of initial consolidation is recorded at the fair value of all assets, liabilities, accruals, deferrals and extraordinary items to be included in the consolidated annual financial statements. Under the book value method, capital is consolidated by offsetting the cost of the consolidated company against the Group's share of its net assets on the date of initial consolidation and recognising any differences that arise in assets and liabilities. Where the difference is positive, any remaining excess is capitalised as goodwill. Where the difference is negative, it must be recorded as a separate line item below equity. Negative goodwill from first-time consolidations before 1 January 2009 is released to income pursuant to Section 309(2) HGB.

The results from subsidiaries that are bought or sold during the year are recognised in the consolidated income statements as from the actual date of acquisition or up until the actual date of sale. Where necessary, the annual financial statements of new subsidiaries will be adjusted to conform to the accounting policies used in the consolidated annual financial statements.

All receivables and payables between companies included in consolidation are eliminated.

Interim results, intragroup sales, expenses and income, receivables and payables between consolidated companies as well as intragroup provisions are eliminated.

(4) Accounting policies

Intangible assets, provided they have been acquired in cash, are recognised at cost and amortised on a straight-line basis over their estimated useful life. As provided in Section 248(2) HGB, companies may exercise the option to capitalise internally generated intangible assets at cost in line with Section 255(3) sentence 1, provided these assets are not brands, newspaper mastheads, publishing rights, customer lists or similar intangible fixed assets. The Group did not exercise this option. The intangible fixed assets item relates in particular to software and licences purchased from third parties. These are written down from the date of acquisition using straight-line amortisation over a period of 5 years.

Tangible assets are recognised at cost less straight-line depreciation provided the assets are subject to wear and tear. The cost of tangible assets produced in-house includes directly allocable expenses and a reasonable share of necessary materials and production overheads including depreciation provided it is production-related. Interest on borrowed capital is not included in the production cost.

Extraordinary depreciation charges are recognised for impairment that exceeds scheduled depreciation and is likely to be permanent. When the reasons for the impairment no longer apply, the write-downs are reversed.

As a rule, depreciation and amortisation are recognised on a straight-line basis throughout the Group.

Long-term financial assets are generally carried at cost or, in the event of permanent value impairment, at the lower of cost and fair value on the balance sheet date.

Equity interests in non-consolidated affiliates and other equity interests are carried at cost or, in the event of permanent value impairment, at the lower of cost and fair value. If the reasons for retaining the lower value no longer apply, the write-downs are reversed pursuant to Section 253(5) HGB.

Equity interests in associates are recognised using the equity method pursuant to Section 312 HGB. Any remaining difference from the purchase of equity interests in an associate or from an increase in the equity interest in an existing associate after 31 December 2008 will be amortised using the straight-line method over a period of five years, provided it is characterised as goodwill.

Loans are carried at face value or, where appropriate, at the lower of cost and fair value.

Raw materials, consumables and supplies are recognised under inventories using the average cost method or at the current market value on the purchase or sales market, whichever is lower.

Finished and unfinished goods are carried at cost pursuant to Section 255(2) HGB. Production costs include direct material costs, direct production costs, extraordinary direct production costs and a reasonable portion of material overheads, production overheads and impairment charges for fixed assets provided they are production-related. They also include a reasonable share of the other general and administrative expenses.

When replacement costs or realisable prices are the lower of cost or market on the balance sheet date, write-downs are taken on the lowest value. Reasonable and adequate write-downs are recognised to cover resale risk.

Accounts receivable and other assets are generally carried at face value. Specific valuation allowances are made for accounts receivable based on the likelihood of default. General valuation allowances are made for overall credit risk, generally based on past experience.

Deferred tax assets are recognised where differences arise between the book value and the tax base of assets, liabilities, prepaid expenses and deferred income, and these differences are likely to diminish in subsequent financial years. The difference between these two values is subject to the prevailing tax rate in the relevant countries. If the net difference results in a tax charge for the Group companies, this charge must be recognised as a deferred tax liability in the balance sheet. If the net difference results in a tax saving, it is recognised as a deferred tax asset in the balance sheet. In the calculation of deferred tax assets, tax loss carry-forwards must be recognised in the amount of the net losses expected to accumulate over the following 5 years. If consolidation measures result in additional differences between the book value and the tax base of assets, liabilities, prepaid expenses and deferred income, and these differences are likely to diminish in subsequent financial years, the net tax charge must be recognised as a deferred tax liability and the net tax saving must be recognised as a deferred tax asset. Deferred tax assets are calculated using the relevant income tax rate for the Group companies in question.

In order to meet our obligations for post-employment employee benefits on the basis of deferred compensation, we have taken out endowment life insurance policies, which are pledged to the qualifying employees and therefore exempt from attachment by all other creditors. As of fiscal 2009, these assets are carried at fair value as communicated to the Group by the insurance company. Pursuant to Section 246(2) sentence 2 HGB, the fair value of plan assets is offset against the matched post-employment benefit obligations. If the obligations exceed the plan assets, the excess is recognised in provisions. If the fair value of the plan assets exceeds the obligations, this must be recognised under the item "Excess of plan assets over post-employment benefit liability" on the asset side of the balance sheet. The acquisition cost of the offset assets amounts to EUR 3,600 thousand; the fair value of the assets amounts to EUR 3,682 thousand; and the settlement amount of the offset obligations amounts to EUR 4,822 thousand, resulting in a net post-employment benefit liability of EUR 1,140 thousand.

Provisions for the post-employment benefit entitlements of individual employees and pensioners are calculated using the projected unit credit method taking into account actuarial principles and all binding obligations on the balance sheet date. The present value is calculated using a 4.88% interest rate and a 1.5% rate of benefit increase. As provided in Section 253(2) sentence 2 HGB, the underlying interest rate used to discount pension obligations corresponds to the average market interest rate from the past seven financial years based on an assumed term of 15 years. These discount rates are determined and published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*, or RückAbzinsV). We use Prof Dr Klaus Heubeck's 2005 G Standard Tables published in 2006 for estimating biometric probabilities. The salaries have already been frozen and will therefore no longer be increased.

Pursuant to Section 290(2) no. 4 HGB and its interpretation in DRS 19 (published on 18 February 2011), relief funds (Unterstützungskassen) must now also be included in consolidation, contrary to accounting policies to date. According to this interpretation of the law, the Hoftex Group is required to include its relief fund in the consolidated annual financial statements. For the most part, the relief fund's obligations are funded by life insurance policies. The present value of the claims against'the insurance companies amount to EUR 2,404 thousand as of the balance sheet date. Post-retirement benefit obligations, valued as required by Section 253(1) sentence 2 HGB, amount to EUR 3,280 thousand. The net liability of EUR 876 thousand is not recognised in the consolidated annual financial statements pursuant to Article 28(1) EGHGB.

The Company pension scheme has been closed to new members since 1976. According to an agreement dated 14 December 1994, all unvested and vested pension entitlements were fixed and guaranteed at their corresponding Deutschmark amount with effect from 31 December 1994.

Other provisions must be recognised for uncertain liabilities and impending losses from on-going transactions. We must also set aside provisions for deferred maintenance, which is to be completed within three months after the start of the subsequent financial year, and for warranties granted with no legal obligation. We recognised provisions in the amount required to meet these obligations as determined by prudent business judgement, taking all foreseeable risks into account. We have allowed for future price and cost increases where they seemed likely to occur based on objective evidence. Provisions with a remaining term of more than one year were discounted using the relevant average market interest rate from the past seven financial years in accordance with the remaining term.

Liabilities are recognised at their settlement amount as of the balance sheet date. Contingent liabilities from liability agreements correspond to the loan amounts actually drawn down at the balance sheet date.

Where hedge accounting is applied pursuant to Section 254 HGB, the amounts are reported using the so-called "net hedge presentation method".

(5) Currency translation

Assets and liabilities denominated in foreign currency were translated using the average spot market rate on the balance sheet date. Where the residual term is less than one year, the acquisition cost no longer represents the upper value limit and gains must be recognised in income. The assets and liabilities of all companies within the group are translated using the period-end closing rate. Expenses and income are translated at the fiscal-year average exchange rate.

(6) Fixed assets

Intangible fixed assets

	Purchased software and other rights
Acquisition or production costs	
Balance on 1 January 2014	**2,739**
Additions *)	68
Disposals **)	0
Balance on 31 December 2014	**2,807**
Cumulative depreciation, amortisation and write-downs	
Balance on 1 January 2014	**2,418**
Additions	105
Disposals ***)	7
Balance on 31 December 2014	**2,530**
Carrying amounts on 31 December 2013	**321**
Carrying amounts on 31 December 2014	**277**

Tangible fixed assets

	Land and buildings	Prepayments and assets under construction	Machines and equipment	Factory and office equipment	Total
Acquisition or production costs					
Balance on 1 Jan 2014	**113,853**	**12,185**	**200,242**	**60,232**	**386,512**
Additions *)	3,924	9,933	11,011	1,342	26,210
Reclassifications	4,035	-12,290	8,164	91	0
Disposals**)	-2,691	-258	-7,955	-1,907	-12,811
Balance on 31 Dec 2014	**119,121**	**9,570**	**211,462**	**59,758**	**399,911**
Cumulative depreciation, amortisation and write-downs					
Balance on 1 Jan 2014	**83,384**	**0**	**174,095**	**55,988**	**313,467**
Depreciation, amortisation and write-downs in the fiscal year ***)	4,993	0	6,993	1,168	13,154
Disposals ****)	-2,113	0	-6,720	-1,635	-10,468
Balance on 31 Dec 2014	**86,264**	**0**	**174,368**	**55,521**	**316,153**
Carrying amounts on 31 Dec 2013	**30,469**	**12,185**	**26,147**	**4,244**	**73,045**
Carrying amounts on 31 Dec 2014	**32,857**	**9,570**	**37,094**	**4,237**	**83,758**

Long-term financial assets

	Interest (affiliates)	Interest (associates)	Investment	Other loans	Total
Acquisition costs					
Balance on 1 Jan 2014	**3,491**	**9,935**	**16**	**1,628**	**15,070**
Additions	0	44	0	0	44
Disposals	0	0	0	-9	-9
Balance on 31 Dec 2014	**3,491**	**9,979**	**16**	**1,619**	**15,105**
Cumulative depreciation, amortisation and write-downs					
Balance on 1 Jan 2014	**3,465**	**2,782**	**0**	**1,618**	**7,865**
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Balance on 31 Dec 2014	**3,465**	**2,782**	**0**	**1,618**	**7,865**
Carrying amounts on 31 Dec 2013	**26**	**7,153**	**16**	**10**	**7,205**
Carrying amounts on 31 Dec 2014	**26**	**7,197**	**16**	**1**	**7,240**

*) Additions include gains from currency translation amounting to EUR 3.703 thousand (prior year: EUR 0 thousand)
**) Disposals include losses from currency translation amounting to EUR -135 thousand (prior year: EUR -1,882 thousand)
***) Write-downs totalling EUR 3,595 thousand (prior year: EUR 0 thousand) were charged for lower fair value losses
****) Disposals include losses from currency translation amounting to EUR -1,600 thousand (prior year: EUR -1,117 thousand)
+ = asset increase / - = asset reduction

(7) Equity interests in associates

In May 2006, Tenowo GmbH entered into an equity interest acquisition agreement with an Indian group of companies operating in the nonwovens sector, in which Tenowo GmbH agreed to purchase a 25% equity interest in the group. The total translated purchase price amounted to EUR 3,113 thousand. The majority of the group's activities are performed by their affiliate, Supreme Nonwovens. When restructuring measures within the group were completed on 1 April 2007, the investment was included at equity in the consolidated annual accounts for the first time and reclassified from "Equity interest" to "Long-term investments in associates". The restructuring was approved by the High Court in Mumbai as per a resolution dated 28 September 2007. Since this date, the company name has operated under the name Supreme Nonwoven Industries Private Limited. The goodwill resulting from the difference between the allocable net assets and the purchase price was offset against the reserves in the year of acquisition.

Additional equity interest acquired in the company as part of two unilateral capital increases brought the equity share up to 44.9% in 2008 and to 49% in 2010. The acquisition costs for the final instalment amounted to EUR 1,179 thousand, resulting in EUR 670 thousand in goodwill that will be written down over a useful life of 5 years. The associate's financial year runs from 1 April to 31 March of the subsequent year. The annual financial statements for the financial year ending 31 March 2014 value the Group's share (49%) in the associate's net income for the year at EUR 197 (prior year: EUR 447 thousand) less EUR 19 thousand in dividends paid out (prior year: EUR 17 thousand), which is recorded on the balance sheet as EUR 197 thousand (prior year: EUR 447 thousand), less EUR 134 thousand in goodwill net of any cumulative amortisation. As the associate has not prepared interim financial statements for the period ending 31 December 2014, HOFTEX GROUP AG was unable to make any adjustments to the at-equity valuation in the 2014 consolidated annual financial statements.

(8) Inventories

	31 December 2014	31 December 2013
Raw materials, consumables and supplies	16,252	17,835
Unfinished goods, services in progress	3,924	4,968
Finished goods and merchandise	22,075	28,447
	42,251	**51,250**

(9) Receivables and other assets

	31 December 2014	31 December 2013
Trade receivables	19,363	20,191
Receivables from affiliated companies	871	1,854
Other receivables and other assets	3,599	2,133
	23,833	**24,178**

As in the previous year, all receivables and other assets are due within one year. The receivables from affiliated companies are all trade receivables.

(10) Cash and cash equivalents

The cash and cash equivalents relate to cash-in-hand and bank balances.

(11) Deferred tax assets and liabilities

Deferred taxes are recognised for differences between the HGB book value and the tax base for the Group companies and for consolidation measures. These are only reported for temporary differences that are tax-relevant.

The deferred tax assets relate to tax savings deriving from consolidation entries where there is a positive net difference between the lower book value and the tax base of consolidated assets and liabilities.

The following table provides details on the items that result in deferred tax assets and liabilities:

	31 Dec 2014 Deferred tax assets	31 Dec 2013 Deferred tax assets	31 Dec 2014 Deferred tax liabilities	31 Dec 2013 Deferred tax liabilities
Intangible fixed assets	0	0	7	0
Tangible fixed assets	2,707	2,095	7	15
Long-term financial assets	1,008	1,237	0	10
Inventories	544	405	0	0
Receivables and other assets	195	191	791	747
Deferred investment grants/subsidies	214	322	0	0
Pension provisions	637	597	0	0
Other provisions	564	2,389	0	0
Liabilities	15	19	26	30
Net accumulated losses	7,784	6,032	0	0
Other	55	54	0	0
Sum of all deferred taxes	**13,723**	**13,341**	**831**	**802**
Of which recognised				
Deferred tax liabilities from single-entity financial statements	**0**	**0**	**13**	**14**
Deferred tax assets from consolidation entries	**1,309**	**1,266**	**0**	**0**

After exercising the netting and recognition options for positive net differences, EUR 1,309 thousand (prior year: EUR 1,266 thousand) in deferred tax assets and EUR 13 thousand (prior year: EUR 14 thousand) in deferred tax liabilities are recognised in the balance sheet.

Tax loss carry forwards are recognized only in the amount that is likely to be utilised over the next 5 years. We reported an additional EUR 14 million in tax loss carry forwards, where no deferred tax assets have been recognised, as we cannot predict with sufficient certainty whether the deferred tax benefit will be realized. EUR 3 million of this amount can be carried forward indefinitely.

Domestic Group companies calculate deferred tax positions with an income tax rate of 29% (corporation tax 15%, trade tax 14%) on the temporary difference between the tax base and the book value and/or on the net accumulated losses. The income tax rate used for the United States is 39%, for Romania 16% and for the Czech Republic 19%.

(12) Subscribed capital

The subscribed capital of HOFTEX GROUP AG amounts to EUR 13,919,988.69 and is divided into no-par value bearer shares, with each share carrying one vote. One share represents a notional par value of EUR 2.56 (rounded) in the share capital.

(13) Capital reserves

HOFTEX GROUP AG reported capital reserves amounting to EUR 41,158, the majority of which are capital contributions from former shareholders. The difference between the 2008 issue price of new shares of EUR 7.00 and the notional par value of the shares of EUR 2.56 (rounded) was allocated to the capital reserves.

(14) Revenue reserves

	31 Dec 2014	31 Dec 2013
Revenue reserves on 1 January 2014/2013	30,547	30,547
Allocations pursuant to Section 58(2) AktG	3,175	0
Revenue reserves on 31 December 2014/2013	**33,722**	**30,547**

(15) Appropriation of net profit

	31 Dec 2014	31 Dec 2013
Net accumulated losses on 1 January 2014/2013	-5,831	-5,220
Dividend payment for 2013 / 2012	0	-817
Consolidated net income for the year	3,544	206
Allocations pursuant to Section 58(2) AktG by the Management Board and Supervisory Board	-3,175	0
Net accumulated losses on 31 December 2014/2013	**-5,462**	**-5,831**

(16) Deferred investment grants and subsidies

This item relates to deferred government grants amounting to EUR 1,470 thousand (prior year: EUR 2,215 thousand) and includes investment grants and subsidies. EUR 745 thousand from the scheduled reversal of this item is recorded under other operating income.

(17) Shareholder loans

This item relates to EUR 14,000 thousand in long-term loans (prior year: EUR 14,000 thousand) granted by the principle shareholder ERWO Holding AG, for which ERWO Holding AG agrees to remain subordinated to all other creditors and to maintain the loan at the present amount until 30 June 2020.

(18) Provisions

	31 Dec 2014	31 Dec 2013
Provisions for pensions and similar obligations	11,938	12,182
Asset clearing with assignable insurance claims	-1,259	-1,278
Disclosure of pension provisions	10,679	10,904
Provisions for taxes	717	1,062
Other provisions	11,349	15,185
	22,745	**27,151**

Provided other provisions include provisions as defined in Section 249(2) HGB (old version), we are entitled to exercise the retention option provided Art. 67(3) EGHGB.

Other provisions generally comprise deferred risks, legal and litigation costs as well as obligations owards members of staff. During the year under review, this item also contains expenses amounting to EUR 1,872 thousand in closure costs for the Moschendorf site.

(19) Liabilities

	31 Dec 2014	31 Dec 2013
Liabilities to banks	28,251	20,459
Payments received on account of orders	14	1
Trade payables	8,283	10,688
Liabilities to affiliated companies	7,337	7,409
Liabilities to other long-term investees or investors	0	0
Other liabilities	9,867	1,812
of which taxes	(496)	(610)
of which social security	(69)	(82)
	53,752	**40,369**

Liabilities to banks are fully secured by liens on property, the general assignment of receivables and inventories assigned as collateral.

Liabilities to affiliated companies include EUR 7,310 thousand (prior year: EUR 7,395 thousand) in liabilities to the shareholder ERWO Holding AG and other companies of the Südwolle Group, including EUR 7,000 thousand (prior year: EUR 7,000 thousand) in short and medium-term liabilities from working capital loans (cash pooling). Of this amount, EUR 3,000 thousand is subject to a subordination agreement until 30 June 2015.

Residual term	31 Dec 2014 less than 1 year	31 Dec 2014 more than 5 years	31 Dec 2013 less than 1 year	31 Dec 2013 more than 5 years
Liabilities to banks	11,012	1,852	11,943	0
Payments received	14	0	1	0
Trade payables	8,283	0	10,688	0
Liabilities to affiliated companies	7,337	0	4,409	0
Liabilities to other long-term investees or investors	0	0	0	0
Other liabilities	1,892	1	1,358	1
of which taxes	(496)	(0)	(610)	(0)
of which social security	(69)	(0)	(82)	(0)
	28,538	**1,853**	**28,399**	**1**

The other liabilities include EUR 9,024 thousand in liabilities to related companies for loans granted to Tenowo Huzhou Ltd. by Zhangjiagang Yangtse Spinning Co. (ZYS) in China. These loans are subject to interest at current market rates and have an indefinite term.

(20) Classification of sales

	2014	2013
By division		
Yarns & Fabrics	58,378	66,897
Home Decoration	18,181	20,016
Nonwovens	107,844	102,841
Other	700	694
	185,103	**190,448**
By region		
Germany	85,517	89,854
Other EU member states	58,373	57,328
Other countries	41,213	43,266
	185,103	**190,448**

This chart only includes sales with non-Group companies.

(21) Other operating income

The key items at Group level are income from disposed fixed assets at EUR 1,588 thousand (prior year: EUR 1,043 thousand), income from the reversal of investment grants received at EUR 745 thousand (prior year: EUR 735 thousand), income from the reversal of provisions no longer required at EUR 663 thousand (prior year: EUR 467 thousand), income from payments of receivables written down and the reversal of write-downs on receivables no longer required at EUR 433 thousand (prior year: EUR 222 thousand), prior-period income at EUR 629 thousand (prior year: EUR 659 thousand), currency translation gains at EUR 922 thousand (prior year: EUR 427 thousand), income from non-consolidated affiliated companies at EUR 111 thousand (prior year: EUR 130 thousand), leasing and rental income at EUR 326 thousand (prior year: EUR 231 thousand) and other operating income at EUR 204 thousand (prior year: EUR 185 thousand).

(22) Cost of materials

	2014	2013
Cost of raw materials, consumables and supplies, and of purchased merchandise	92,954	103,231
Cost of purchased services	2,229	2,164
	95,183	**105,395**

The cost of materials ratio based on the operating income/loss (excluding other operating income) fell once again to 53.7% (prior year: 55.8%).

(23) Personnel expenses

	2014	2013
Wages and salaries	35,204	36,589
Social security, post-employment and other employee benefit costs	7,672	7,884
of which for post-employment benefits	(376)	(227)
	42,876	**44,473**

On average, the Company employed the following staff:

	2014	2013
Workers	891	1.005
Salaried employees	360	383
Apprentices	35	31
	1,286	**1,419**

(24) Other operating expenses

	2014	2013
Addition to valuation allowances, writing-off receivables	362	431
Currency translation losses	264	578
Other prior-period expenses	407	526
Other general and administrative expenses	6,656	6,029
Operating costs	7,987	8,282
Selling expenses	8,329	8,325
Other operating expenses	1,391	901
	25,396	**25,072**

(25) Investment income

	2014	2013
Income from associates	63	313

(26) Financial result

	2014	2013
Other interest and similar income	54	63
of which from affiliated companies	(0)	(0)
Interest and similar expenses	-1,748	-1,829
of which to affiliated companies	(-423)	(-445)
Interest expense from pensions provisions and net interest income from special-purpose assets	-569	-607
	-2,263	**-2,373**

The net income from special-purpose assets amounts to EUR 26 thousand (prior year: EUR 25 thousand).

(27) Extraordinary result

This item includes EUR 3,445 thousand (converted) in extraordinary impairment losses on the lower market value of the Hoftex Liberec s.r.o. business premises in Liberec, Czech Republic. The impairment came as a result of the closure of this site.

(28) Taxes on income

	2014	2013
Corporate income tax financial year	-218	-236
Release of prior-year corporate income tax provisions	380	51
Corporate income tax refunds	0	2
Trade tax financial year	-202	-241
Release of prior-year trade tax provisions	400	136
Changes in deferred taxes	44	-47
	404	**-335**

(29) Other taxes

	2014	2013
Property tax	-483	-474
Motor-vehicle tax	-22	-19
Other taxes	-221	-180
	-726	**-673**

Other taxes in the previous year included value added tax arrears resulting from an external tax audit.

(30) Auditors' fees

Our Munich-based auditors Deloitte & Touche GmbH charged fees totalling EUR 275 thousand (prior year: EUR 210 thousand) in the year under review.

	2014	2013
Auditing services	171	167
Other certification services	22	29
Tax consultancy services	82	12
Other services	0	2
	275	**210**

(31) Remuneration of the Supervisory Board and Management Board

The provisions of Section 314 (1) no. 6a HGB in conjunction with section 286 (4) HGB apply with respect to the nondisclosure of the total remuneration paid to members of the Management Board.

The remuneration of the Supervisory Board members amounts to EUR 34 thousand (prior year: EUR 32 thousand).

Remuneration paid to former members of the Management Board and their survivor amounts to EUR 377 thousand (prior year: EUR 377 thousand). Provisions totalling EUR 3,907 thousand (prior year: EUR 3,935 thousand) have been recognised for pension obligations to former members of the Management Board and their survivor.

(32) Consolidated cash flow statement

The cash and cash equivalents disclosed here comprise highly liquid funds. The consolidated cash flow statement is compiled using the indirect method. Starting with the consolidated net income for the year, we use significant non-cash expenses and changes in the net current assets to determine the cash inflows from operating activities. The statement records cash outflows from investment and financing activities as well.

In fiscal 2014, the Group received net income tax refunds totalling EUR 0 thousand (prior year: EUR 2 thousand) and paid out EUR 1,748 thousand (prior year: EUR 1,829 thousand) in interest expenses. The interest payments received largely correspond to interest income.

(33) Contingent liabilities

	2014	2013
Bills of exchange	44	28
Guarantee obligations	110	110

We do not expect any claims on the bills of exchange as they had all been honoured as of the date this report was completed.

(34) Other financial commitments

The other financial commitments contain EUR 19,395 thousand (prior year: EUR 9,795 thousand) resulting from leasing contracts, purchase commitments and letter of credit obligations.

(35) Derivative financial instruments

HOFTEX GROUP AG has entered into four interest swaps to hedge against some of the interest rate risk of its variable rate loans. The hedges had a nominal volume of EUR 12,000 thousand on 31 December 2014, with a five-year term from 1 October 2014 to 30 September 2019.

These instruments may only be used to hedge against risks associated with the underlying hedged item and only the parent company is authorised to enter into hedges.

HOFTEX GROUP AG will only utilise derivative financial instruments that are clearly designated as qualified hedging instruments and where the underlying transaction and the hedging instrument are combined in a so-called net hedge. In December 2013, the Company entered into four interest swaps with a combined value of EUR 12.0 million for the purpose of hedging against the interest rate risk on variable-interest long-term loans from banks and shareholders. With a term of 57 months, the maturities of the interest rate hedges held at present correspond to those of the underlying transactions and these have been combined to create net hedges. As of the balance sheet date, these transactions did not require us to recognise provisions arising from the net hedges.

The risk hedged in these net hedges amounted to EUR 678 thousand on the balance sheet date, i.e. the Company was able to avoid setting aside provisions for potential losses in this amount.

On 31 December 2014, the fair value of the Group's interest rate hedges were as follows:

Expiry date	Nominal value	Carrying value	Fair value	Swap rate
30 September 2019	EUR 3.0 million	EUR 0 thousand	EUR -171 thousand	1.395%
30 September 2019	EUR 4.0 million	EUR 0 thousand	EUR -220 thousand	1.360%
30 September 2019	EUR 2.0 million	EUR 0 thousand	EUR -115 thousand	1.410%
30 September 2019	EUR 3.0 million	EUR 0 thousand	EUR -174 thousand	1.420%

The counterparty bank calculates the fair value of the interest rate hedges using recognised calculation models based on the respective yield curves.

The Group has also entered into forward foreign exchange contracts to hedge against currency risk. As of 31 December 2014, the fair value of these contracts is as follows:

	Expiry date	Nominal value	Currency in thousand	Positive market value in EUR thousand	Negative market value in EUR thousand
Forward buying	1 May 2015	90	USD	2	0
Forward selling	18 March 2015	60	GBP	0	1
	30 April 2015	350	USD	0	14
				2	**15**

A provision for potential losses was recognised for negative market values in the balance sheet under other provisions.

(36) Members of the Supervisory Board

Waltraud Hertreiter Chairperson Consultant Neubeuern
Hans Münch Vice Chairperson Member of the ERWO Holding AG Management Board Managing Director of Südwolle GmbH & Co. KG Neumarkt i.d.Opf.
Bernd Grossmann Chairperson of the Commerzbank AG Nuremberg Branch Management Board Nuremberg
Wolfgang Kammerer* (until 30 April 2014) Vice Chairperson of the Hoftex Group works council Oberkotzau
Monika Fröhlich* (as of 1 May 2014) Laboratory technician Oberkotzau
Wolfgang Schmidt* Chairperson of the Hoftex Group works council Hof
Martin Steger Self-employed businessman Nuremberg

* elected by employees

(37) Members of the Management Board

Klaus Steger Chairperson of the Management Board Nuremberg
Volker Adrion Member of the Management Board Münchberg

Hof, 31 March 2015

HOFTEX GROUP AG

The Management Board

Steger Adrion

Auditor's report

We have audited the consolidated annual financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes, including the Group management report of HOFTEX GROUP AG, Hof/Saale, for the fiscal year from 1 January 2014 to 31 December 2014. The accounting and the preparation of the annual financial statements and the Group management report in accordance with the German Commercial Code (*Handelsgesetzbuch*, or HGB) are the responsibility of the Group's Management Board. Our responsibility is to express an opinion, based on our audit, of the consolidated annual financial statements and the Group management report.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, or IDW). These standards require that we plan and perform the audit such that any misstatements and violations materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements and the Group management report in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of our audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting system, consolidated annual financial statements and Group management report are examined primarily on a test basis during the audit. The audit includes assessing the single-entity financial statements of the companies included in consolidation, the definition of the consolidated group, the accounting and consolidation principles used and the significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated annual financial statements and the Group management report. We believe our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the consolidated annual financial statements of HOFTEX GROUP AG, Hof/Saale (Germany), comply with the statutory provisions and convey a true and fair view of the Group's net assets, financial position and results of operations, in accordance with the principles of proper accounting. The Group management report is consistent with the consolidated financial statements, provides a true and fair view of the Group's situation and accurately reflects the opportunities and risks of future growth.

Munich, 24 April 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Stadter	Markert
Wirtschaftsprüfer	Wirtschaftsprüferin
[Public Auditor]	[Public Auditor]

HOFTEX GROUP AG, Hof/Saale
Balance sheet as of 31 December 2014

Assets in EUR thousand	31 December 2014	31 December 2013
Fixed assets		
Intangible fixed assets	123	172
Tangible fixed assets	1,456	1,620
Long-term financial assets	95,802	95,892
	97,381	**97,684**
Current assets		
Accounts receivable and other assets	74,570	60,538
Cash and cash equivalents	10,621	21
	85,191	**60,559**
Prepaid expenses and deferred income	**287**	**387**
Total assets	**182,859**	**158,630**

Liabilities and equity in EUR thousand	31 December 2014	31 December 2013
Equity		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	36,683	33,508
Net retained profits	3,678	496
	95,439	**89,082**
Shareholder loans	**14,000**	**14,000**
Provisions	**10,327**	**10,918**
Liabilities		
Liabilities to banks	26,262	17,554
Trade payables	84	358
Liabilities to affiliated companies	36,460	26,269
Other liabilities	287	449
	63,093	**44,630**
Total equity and liabilities	**182,859**	**158,630**

HOFTEX GROUP AG, Hof/Saale
Income Statement for the 2014 financial year

in EUR thousand	2014	2013
Other operating income	2,706	2,316
Personnel expenses	-2,416	-2,243
Depreciation, amortisation and write-downs	-200	-198
Other operating expenses	-1,982	-1,696
Investment income	6,901	-1,691
Interest income	1,034	1,604
Result from ordinary activities	**6,043**	**-1,908**
Taxes on income	392	-279
Other taxes	-78	-73
Net income for the financial year (prior year: net loss)	**6,357**	**-2,260**
Retained profits brought forward	496	2,756
Appropriation to revenue reserves	-3,175	0
Net retained profits	**3,678**	**496**

Photos: Müller-Esdohr

This photo shows a partial view of the new graffiti on the Hof plant's "Fabrikzeile" (roughly translated as "Factory Row"). As part of a combined graffiti jam and street party hosted by the Hoftex Group on May 31, 2014, 25 graffiti artists from across Germany collaborated to decorate a roughly 150-metre stretch of the premises wall with pictures, words and signs. The event also featured mountain biking, skateboarding and finger-boarding shows and competitions as well as live music and Franconian delicacies at street food stands all along the "Fabrikzeile".

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