ANNUAL REPORT 2016

HOFTEX GROUP
TEXTILE TECHNOLOGIES

Key figures of the Hoftex Group

		HGB 2016	HGB 2015	HGB 2014	HGB 2013	HGB 2012
External sales	EUR million	181.4	175.4	185.1	190.4	203.4
Gross revenue	EUR million	182.4	170.7	177.2	189.0	202.0
Gross profit [1]	EUR million	89.3	83.5	82.0	83.6	86.5
Cash flows from operating activity	EUR million	21.7	23.2	19.6	15.9	21.9
Personnel		1,206	1,221	1,286	1,419	1,507
Capital expenditure on tangible fixed assets	EUR million	16.0	24.8	26.2	21.6	10.8
Depreciation and amortisation and write-downs	EUR million	11.6	10.0	9.8	8.9	8.7
Result current year	EUR million	7.8	6.1	3.5	0.2	6.4
Result per share	EUR	1.4	1.1	0.7	0.0	1.2
Cash flows	EUR million	18.9	18.2	16.3	6.7	11.4
EBITDA (adjusted)	EUR million	18.7	17.0	14.2	15.2	15.9
Net senior debt to EBITDA ratio	x-fold	1.7	1.2	0.9	1.1	0.9
Dynamic debt-equity ratio [2]	%	393	352	404	976	466
Balance sheet total	EUR million	191.2	180.1	174.7	160.0	157.2
of which tangible fixed assets	EUR million	97.4	94.7	83.8	73.0	63.7
balance-sheet equity	EUR million	96.4	89.5	82.7	76.2	77.9
economic equity [3]	EUR million	95.3	103.3	100.3	95.5	97.0
Equity ratio [4]	%	49.9	57.3	57.4	59.7	61.7

[1] Gross revenue less cost of materials

[2] Debt capital (excluding shareholder loan) less cash and cash equivalents/cash flow

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

[4] Based on economic equity

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Group overview

Divisions	Hoftex	Neutex	Tenowo
Companies	Hoftex GmbH Hoftex Färberei GmbH Hoftex Färberei Betriebs GmbH Hoftex Liberec s.r.o. *) Hoftex CoreTech GmbH Hoftex Max Süss GmbH *) inactive	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 **) inactive	Münchberg Targu Mures (Romania)	Hof Reichenbach Mittweida Lincolnton (USA) Huzhou (China)
Sales in EUR million [1]	27.0	19.0	133.4
Employees (annual average) 2016	214	293	645
Unit sales [2]	6.2 million kg	5.7 million m²	260.0 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

Letter to Shareholders

Dear Shareholders,

We are delighted to be able to share more positive news with you again this year. 2016 results across all divisions outperformed the previous year, which – given the turmoil and the uncertainty in the world today – is no mean feat. More and more people inside and outside the Company are giving us positive feedback and their trust. This is a clear sign that we are heading in the right direction.

In the 4th quarter of 2016, our banking partners demonstrated their loyalty. We were able to secure a *Schuldscheindarlehen* (bonded loan, or SSD) amounting to EUR 50 million with a term of 3 to 7 years. Thanks to our good credit standing, the banks granted the SSD unsecured. This ensures business continuity for the Company and enables us to pursue our investment strategy unconstrained. Capital expenditure is vital for the continued growth of the Hoftex Group and although investments in 2016 didn't quite reach the levels of previous years, they were no less important. The former spinning and weaving mill in Moschendorf has been converted into a logistics centre and a nonwovens production facility, while investments at the US-based site led to significant increases in production capacity.

Investments in 2016 were not limited to capital goods. This year also saw the initial roll-out of our new IT system, which is set to go live in the first of our Group companies during the second half of 2017.

The Hoftex Group generated a total of EUR 7.8 million in consolidated net income for 2016. We will propose a dividend of EUR 0.20 per share to the Annual General Meeting. This corresponds to a year-on-year increase of 17% and a dividend yield of 1.65%, using the year-end share price for 2016 as a basis. After a few difficult years of restructuring, our share price is on a steady upwards trend, driving up the value of the Company. Our commitment to conservative, forward-looking action is also reflected in our dividend policy and we sincerely hope that you as shareholders will continue to accompany us as we move forward.

And that way forward, as we have already mentioned, is very promising. Thanks to the investments we have already made and those planned for the future, we are set to break the EUR 200 million sales mark in the medium term, although that is unlikely to happen before the end of fiscal 2017. We expect the operating result to continue to rise year-on-year and total investments to exceed 2016 figures slightly.

These ambitious plans will demand a lot from everyone in the Hoftex Group. As members of the Management Board, we would like to express our sincere gratitude to the entire staff for their strong commitment and outstanding performance. Together, we know we can master any challenges that come our way.

The Supervisory Board is also a key driver of the Company's success. In its supervisory role, the Board not only challenges us to conduct our daily business in a responsible manner, but also to give our medium and long-term strategy the attention it deserves.

On behalf of the entire staff here at Hoftex Group, we pledge to work with dedication and drive to further improve the Group's standing and grow profits.

Hof, 31 March 2017

Klaus Steger
Chairman of the Managing Board

Jacques van den Burg
CFO

Supervisory Board Report

During the 2016 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, as stipulated in the German Stock Corporation Act, the Articles of Association and the Board's internal rules and procedures. With comprehensive written and oral reports, the Management Board regularly updated the Supervisory Board on the Group's business developments and financial position as well as its divisions, principal subsidiaries and key projects. The Supervisory Board also played a key role in the Group's investment, financial and personnel planning through regular reporting on issues such as order intake, staff development, sales, cash flows, 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 current conditions and all key transactions.

During the year under review, the Supervisory Board met for four regular meetings as well as one extraordinary meeting in October 2016. The Supervisory Board approved by circulation the renewal of a Management Board member's contract.

With the exception of one meeting, for which one member sent apologies, all members of the Supervisory Board attended each meeting. As in the previous years, no committees were formed. The Supervisory Board in its present form with nine members is of a suitable size to deliberate and resolve all matters.

In its March meeting, the Supervisory Board also addressed the project which is currently underway to implement a new standard software system, in addition to the regularly recurring issues. Other agenda items included a Management Board report concerning the progress of the investments planned for 2016 and an overview of business developments at the India-based subsidiary Supreme Nonwoven, which produces nonwoven textiles.

On 27 May 2017, the Supervisory Board focused on a comprehensive review of the annual financial statements and audit reports as of 31 December 2015 for HOFTEX GROUP AG and the Group. The Board approved the agenda for the Annual General Meeting, along with the various resolution proposals. The Managing Director of Tenowo GmbH also gave a presentation on current business developments and planned investments at the nonwovens plants in China and the US as well as the plant at the Reichenbach site in Germany.

The focus at the 26 July 2016 meeting was the Management Board's report on the current fiscal year as of 30 June 2016. The Board also heard a presentation concerning changes needed in the Compliance department as a result of the Market Abuse Regulation that went into effect on 3 July 2016. The Management Board then updated the Supervisory Board on the progress of the renovations at the former spinning and weaving mill in Hof-Moschendorf, which is being converted into a logistics centre.

The extraordinary meeting on 28 October 2016, with some members present and others attending via conference call, the Supervisory Board discussed the Group's debt restructuring in detail. The Management Board introduced the proposal to refinance the liabilities to banks and the shareholder loan as well as general corporate financing by means of an unsecured *Schuldscheindarlehen* (bonded loan) with a target volume of EUR 50 million, which was approved following the Supervisory Board's in-depth deliberations.

At its final meeting of the fiscal year on 9 December 2016, the Supervisory Board received documentation outlining the Company's plans for the 2017 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 2017. The Managing Director of the Indian subsidiary Supreme Nonwoven provided the Supervisory Board with an overview of business performance as well as a comprehensive report on the strategy it plans to pursue. Other agenda items included an update on the roll-out of the new IT system and a presentation on the progress of the refinancing plan.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2016. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2016 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 22 May 2017 annual report meeting of the Supervisory Board, in which they engaged in a thorough discussion of the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2016, 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 of HOFTEX GROUP AG as of 31 December 2016 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 2016 as stipulated by Section 312 AktG (subordinate status 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 accurate 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 subordinate status 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 legal transactions were made with these affiliates, the Company received adequate consideration for each legal 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 subordinate status report, the Supervisory Board raised no objections to this declaration.

The members of the Supervisory Board would like to thank the Management Board and the entire Group staff for their dedicated and successful efforts during the 2016 fiscal year.

Hof, May 2017

The Supervisory Board of HOFTEX GROUP AG

Waltraud Hertreiter

Chairperson of the Supervisory Board

The HOFTEX GROUP AG share

The Hoftex share performed well in the 2016 trading year, particularly towards year-end. Performance was sluggish during the first six months of the year, with markets beginning to recover from early year losses around springtime. At the end of the second quarter, the Brexit referendum brought uncertainty to global markets, particularly those in Europe. By the second half of the year, sentiment was creeping up, first in July and above all in December. In the end, the results for the year as a whole were positive.

The US-based Dow Jones finished H1 2016 up slightly, with growth gaining speed in November and December.

By contrast, China's Hang Seng was down slightly at the mid-year point. After a strong rally during the summer months, the index lost ground again towards the end of the financial year, although it ended the year with results significantly higher than early 2016.

The Euro Stoxx 50 and Germany's key index DAX both fell below 2016's opening figures by mid-year, but a December rally brought strong gains.

Hoftex Group-Aktie im Überblick

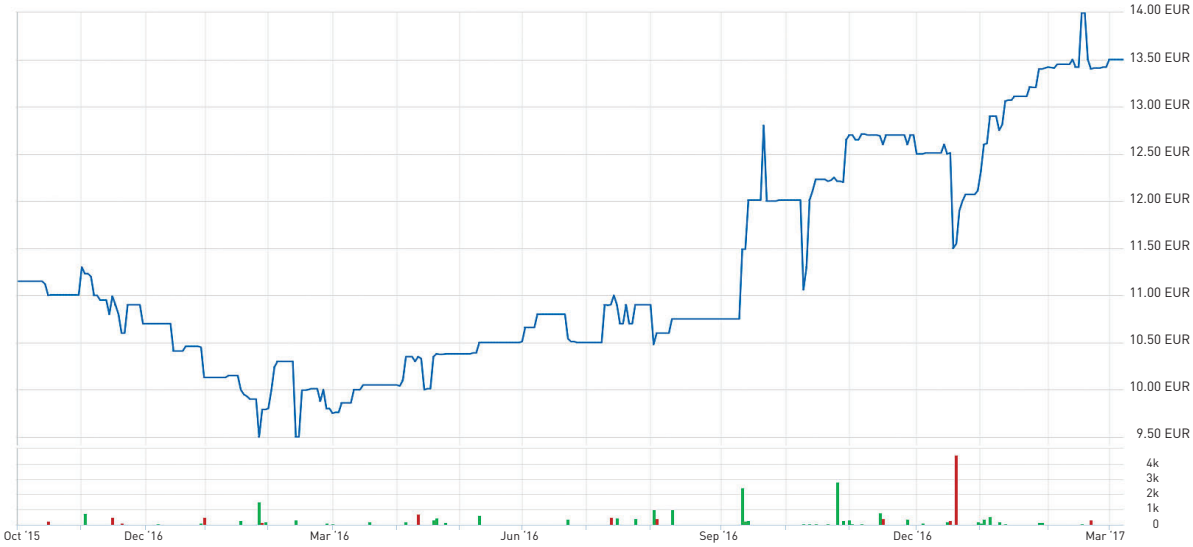
Share type	No-par value shares, each with a proportional share of €2.56 (rounded) in the share capital.
Listing	Munich Stock Exchange
Share capital	EUR 13,919,988.69
Number of no-par value shares	5,444,800
Market segment	m:access
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN [1]	676000

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

Hoftex Group shares are traded on the m:access market segment of the Munich Stock Exchange. Since our move to the Open Market on 29 June 2009, the Company is no longer considered to be "publicly listed" as defined in the German Securities Trading Act (*Wertpapierhandelsgesetz*, or WpHG). For this reason, shareholders are no longer subject to the special provisions in the WpHG governing the duty to disclose holdings that exceed or fall below certain reporting thresholds.

Our principal shareholder, ERWO Holding AG currently holds 4,588,175 shares, or 84.26% of all shares.

The following chart shows the performance of the Hoftex Group share from 1 October 2015 to 1 March 2017.



Source: www.onvista.de

During the year under review, shares in HOFTEX GROUP AG went from EUR 10.13 on 1 January 2016 to EUR 12.11 on 31 December 2016, reaching a low point of EUR 9.50 and a peak of EUR 12.71 during this period.

As approximately 84% of our share capital is held by our principal shareholder ERWO Holding AG, only 16% of shares can theoretically 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. The low trading volume is probably a key factor in the strong fluctuations and deviations seen on the performance chart above. It is difficult, if not impossible, to otherwise account for these fluctuations and deviations. That said, the move to a *Schuldscheindarlehen* at the end of the year could be one possible explanation for upward trends in the share price.

Key figures for the Hoftex Group share	FY 2016	FY 2015	Change	
Net income (€/share)	1.43	1.13	0.30	26.9%
Equity [1] (€/share)	17.85	16.43	1.41	8.6%
Opening price 1 Jan (€/share)	10.13	9.41	0.72	7.7%
Year high (€/share)	12.71	11.96	0.75	6.3%
Year low (€/share)	9.50	9,41	0.09	1.0%
Year-end share price 31 Dec (€/share)	12.11	10.13	1.98	19.5%
Market capitalisation 31 Dec (€ thousand)	65,937	55,156	10,781	19.5%

[1] based on consolidated equity

Dividends for the Hoftex Group share	FY 2013	FY 2014	FY 2015	FY 2016
Proposed dividend in €/share	0.00	0.15	0.17	0.20

Group Management Report

1. Group fundamentals

1.1. Business model

The HOFTEX GROUP AG (formerly Textilgruppe Hof AG) with its registered office in Hof (Bavaria), is a group of companies operating in the global textile industry. The companies of the Hoftex Group are active on three continents in 5 countries at a total of 12 manufacturing and sales locations, offering customers worldwide their services as a trusted partner.

The Hoftex Group is among Europe's largest textile companies with a 160-year history in the global textile trade. During this time, the Group has grown in several stages from a conventional textile manufacturer to a diversified niche supplier of highly innovative textile products.

In the three divisions Hoftex, Neutex and Tenowo, the Hoftex Group brings together unparalleled expertise in textile production and R&D.

Hoftex Division	Neutex Division	Tenowo Division
Hoftex GmbH	Neutex Home Deco GmbH	Tenowo GmbH
Hoftex CoreTech GmbH	Neutex Betriebs GmbH	Tenowo Hof GmbH
Hoftex Max Süss GmbH	SC Textor S.A.	Tenowo Reichenbach GmbH
Hoftex Färberei GmbH		Tenowo Mittweida GmbH
Hoftex Färberei Betriebs GmbH		Tenowo Inc.
Hoftex Liberec s.r.o. *)		Tenowo Huzhou New Materials Co. Ltd.
		Supreme Nonwoven Industries Pvt. Ltd.

*) no longer operating

The **Hoftex** division represents the origins of today's Hoftex Group and offers traditional products from the spinning sector, such as yarns and threads, with a focus on applications for technical fabrics and apparel. Tailored to meet the needs of its customers, Hoftex develops and manufactures numerous specialised textiles such as yarns for tyre production and for applications in the food sector, in addition to traditional yarns and threads. The central location of its production and development facilities in Germany guarantees short lead times and on-schedule deliveries.

The **Neutex** division includes segments for weaving, dyeing and finishing of decorative fabrics and has for the past 50 years maintained a strong position in a sector where the critical success factors are creativity, the ability to keep pace with changes in the zeitgeist on local markets, rapid development and lead times as well as strong, fast-paced innovation. Today, as a premium systems supplier operating on a global scale, Neutex manufactures and markets creative decorative fabrics as yard goods as well as ready-made household textiles. It also supplies innovative sun-protective textiles to industrial customers for further processing.

The **Tenowo** division with sites in Europe, North America, China and India is a market leader in the development and manufacturing of innovative technical textiles and nonwovens, demonstrating with its double-digit growth rates that the modern textile industry in Germany can still achieve success. Tenowo develops and manufactures products like acoustic nonwovens for the automotive industry as well as nonwoven textiles for the construction industry, the cable industry or the garment trade.

1.2. Structure

The HOFTEX GROUP AG functions as a holding company with a flat hierarchy and forms part of the Hoftex Group along with the three divisions and their respective subsidiaries. As a holding company, HOFTEX GROUP AG is primarily focused on performing core duties across the entire Hoftex Group, including purchasing, human resources, corporate finance and accounting, Group financial control, IT and plant engineering, among others.

With its nine members, the Supervisory Board advises the Management Board and oversees its management activities. The Supervisory Board must be consulted in all decisions material to the company, including evaluating the single-entity and consolidated annual financial statements. During the Annual General Meeting, the chairperson of the Supervisory Board presents the Management Board's written report. The Supervisory Board has members who are employees of ERWO Holding AG, employee representatives and independent experts.

The Management Board comprises two members, while the divisions in the individual subsidiaries are run by their respective managing directors. The managing directors receive support from a management team that includes staff for sales, production/engineering and finance.

1.3. Strategy and objectives

The Hoftex Group has evolved over several stages from a conventional textile producer to a diversified niche provider of highly innovative textile products. As a manufacturer of textile solutions, our companies act as professional and reliable partners for customers in a wide variety of future-oriented and high-growth industries. There is very little overlap between the divisions, which allows each division to develop its own strategy.

Each division is focused on products that are innovative and reliable as well as satisfying the highest product quality standards. We always place the requests and requirements of our customers at the heart of our operations, which in turn forms the foundation for every strategy and development.

The stable ownership structure of the HOFTEX GROUP AG along with its balanced product and service portfolio guarantee steady and sustainable long-term corporate growth and enable us to pursue our corporate strategy. As a result, customers of the Hoftex Group are secure in the knowledge that they have a trustworthy partner at their side, even over the course of a multi-year product cycle.

1.4. Sustainability

Every day we are faced with the effects of our changing world: scarcity of resources, climate change and increasing economic inequality. It is our view that the Hoftex Group can leverage its expertise with textiles, particularly in terms of technology and plant engineering, to play a key role in making the textile industry more transparent and sustainable.

A crucial component of any sustainability program is energy and environmental management. Once again last year, we introduced measures to further reduce our energy consumption. We plan to pursue such measures in future as well.

The companies of the Hoftex Group are subject to regular audits in an effort to maintain and systematically improve our safety, quality and sustainability standards, which ultimately results in a more efficient and more profitable enterprise. The numerous certifications we have received document and guarantee for our stakeholders our strong commitment. Within our industry, we are also acknowledged and valued as a reliable partner.

1.5. Control system

The financial performance indicators decisive for corporate management include sales, EBITDA, operating result and operating cash flow. The Management Board in collaboration with the Group Financial Controller is responsible for financial control at the Group level.

In addition to financial performance indicators, our management teams also focus on various other metrics such as staffing data, complaints rates, etc.

1.6. Research and development (R&D)

The Hoftex Group places a high value on proprietary research and development and considers it a critical success factor. Our products often require thorough R&D to achieve the product specifications in terms of technology and price that we defined in collaboration with our customers. Our focus in this process is always on customer benefit, and we always strive to find solutions for the key issues and challenges they face, pioneering novel ideas and approaches along the way. Ultimately this leads to new applications and market segments that we can continue to develop and expand in future. Of course, we put a lot of effort into introducing improvements in already established products and applications as well, both in terms of new features for products as well as efficiency gains and conservation of resources.

We engage in joint projects and contract research with partners at polytechnic colleges, universities and research institutes. Key partners here are: the Hof University of Applied Science, the Technical University Chemnitz, STFI Chemnitz, the Fraunhofer Institute, the University of Bayreuth, the Technical University Dresden and the University of Applied Sciences Zwickau. We also currently have several joint projects with numerous partners in industry.

The Hoftex division's R&D activities are strongly focused on developing products to meet our customers' specific demands. In the Neutex division, a total of 10 staff are employed in our workshop and production facilities, focusing on developing new designs and new weaving techniques. The associated costs amount to EUR 0.7 million (prior year: EUR 0.6 million). As in the previous year, 17 total staff are employed worldwide in research and development for the Tenowo division, with costs for trial production amounting to EUR 1.6 million (prior year: EUR 1.3 million).

2. Economic report

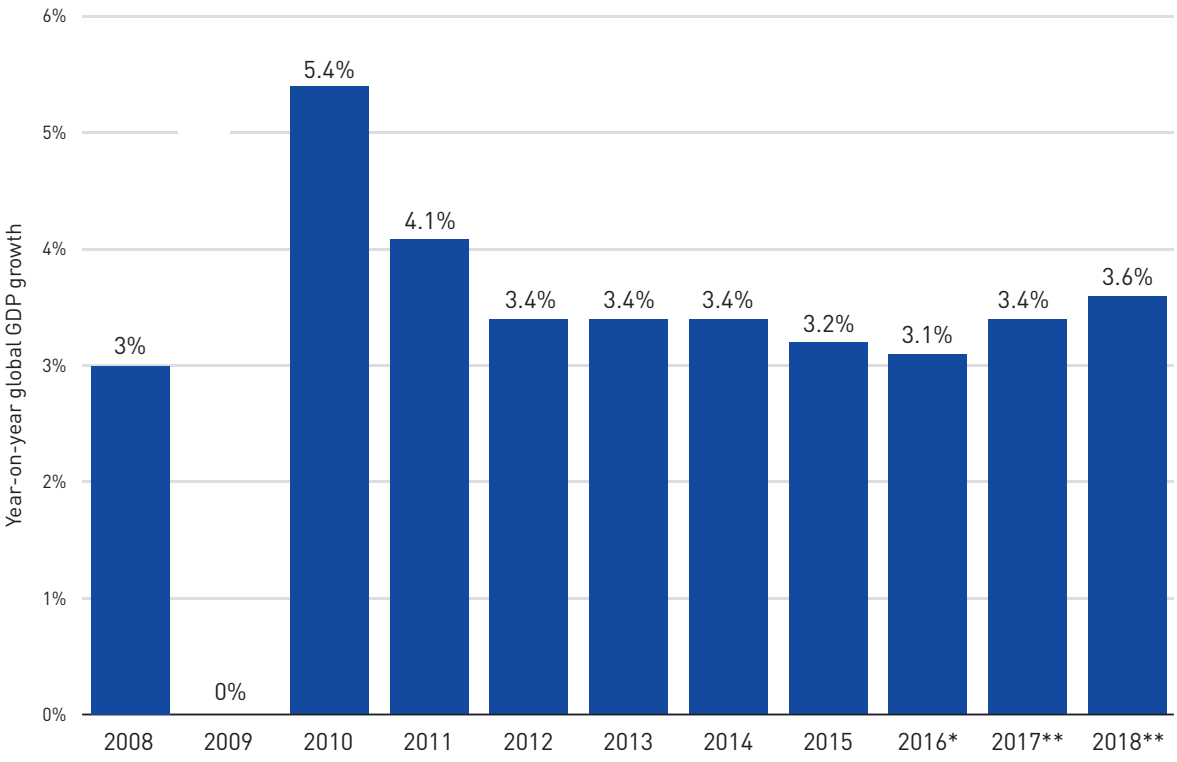
2.1. Macroeconomic conditions

At 3.1%, global economic growth fell year-on-year once again in 2016 (prior year: 3.2%). The economy profited from a significant upwards trend in the second half of the year. The 0.9% growth rate recorded in the third quarter marked the highest gain in two and a half years.

Economic growth in the advanced economies continued at a moderate rate, even as production rates showed clear signs of recovery at the end of summer. The US was one of the key drivers here, reporting a strong rise in inventory investments and exports after a weak first half-year. Japan saw a slight uptick in total economic output thanks to exports. Moderate economic growth continued in the Eurozone as it entered its fourth year of recovery, spurred on by private and public-sector spending and broad-based regional growth.

Emerging economies continued to grow even stronger in 2016, although some still face major economic challenges. Starting in the summer, production rates rose sharply in China, India and other countries in Southeast Asia – thanks in part to expansionary economic policies. Latin American markets, particularly Mexico and the Andean states, experienced a similar trend. Russia's production rates stabilised once again after a weak first quarter. Following much political turbulence, economic activity in Turkey suffered an out-and-out collapse during the summer.

Growth in global gross domestic product (GDP) from 2008 to 2018 (year-on-year)



Source: IMF © Statista 2017

*) Estimate **) Projections

USA

The US economy was unable to maintain the growth rates of the previous year. Gross domestic product (GDP) rose by only 1.6% in 2016, down by one percentage point over the previous year, mainly due to a weak first half. While consumer spending reported gains, capital investments among US companies in particular dropped significantly. A key factor in reversing the trend was a move by companies around summertime to start building up stock again after five straight quarters of inventory reduction. Exports started to recover at around the same time. There is considerable promise for a continued rally in the US as evidenced by a year-on-year rise in consumer prices (+1.3% compared to the prior year's +0.1%) and another drop in the unemployment rate by 0.4% to the comparatively low rate of 4.9%.

Europe

The economic climate in the Eurozone continued its moderate upwards trend, with growth rates falling by 0.2% to 1.7%. The contribution of foreign trade to this growth was down slightly by -0.2%. Economic growth was evenly spread across the regions, with every country in the Eurozone reporting increased output. Even those countries facing strong economic challenges – Portugal, Italy and Greece – experienced an uptick. The UK economy grew 0.5% in the third quarter – despite its decision to leave the EU. Consumer spending and corporate investments increased significantly and contributed to the annual growth rate of 1.6%. Gains in employment continued in Europe, with average unemployment falling by 0.8% to 10.1%. The consumer price index rose by 0.2% after staying flat last year.

Germany

Over the past three years, the German economy has experienced a period of recovery, with expansion continuing in 2016. The growth rate slightly exceeded that of the previous year once again, up by 0.2% to 1.9%. Although uncertainty on the international political stage led to a noticeable drop in companies' willingness to invest in the second half of the year, the economy rallied once again and ended the year with a clear upwards trend.

Once again this year, consumer spending got a boost from low interest rates. Particularly the construction industry was operating at near-full capacity, reporting the highest order volumes in 16 years at year-end. The key driver for economic growth was consumer spending again this year, which benefitted from strong employment figures, rising real wages and continued moderate crude oil prices. Germany's exports were able to overcome a brief downturn, ending the year up by 2.5%.

The employment market reported positive trends: according to the Federal Office of Statistics, the number of people in gainful employment rose on average by 1.0% in 2016, setting a new record at year-end with 43.5 million people on the rolls. At 1.76 million, the number of unemployed people hit a historic low, resulting in a seasonally adjusted unemployment rate of 4.1%.

We saw an upwards trend in consumer prices in 2016, although these figures were somewhat subdued due to continued low energy costs. The consumer price index rose by 0.5% on average over the year (prior year: 0.2%), although that figure was as high as 1.7% in a December-to-December comparison.

Asia

After a rather moderate pace of growth for emerging economies in 2015, the sluggish growth at the start of 2016 picked up speed over the course of the year. Thanks to expansionary economic policies, China in particular saw substantial growth in gross domestic product over the year, ending fiscal 2016 up slightly on government growth targets. That said, growth fell short of the previous year's figures, down 0.2% to 6.7%.

The Indian government introduced a currency reform in late autumn, which seriously impacted economic activity in late 2016. Asia's second largest economy still managed to grow at almost the same rate as the previous year, down slightly year-on-year from 7.3% to 7.1%. Growth continued in the remaining emerging economies as well, with an average 4.8% economic growth in Indonesia, Thailand, Malaysia and the Philippines.

Despite the appreciation of the yen, Japan succeeded in increasing exports within Asia during the second half of 2016. That said, public and private-sector spending and gross investments stagnated, resulting in another year of weak growth for Japan, down from 1.2% in 2015 to 1.0% in 2016.

2.2. Sector-specific conditions

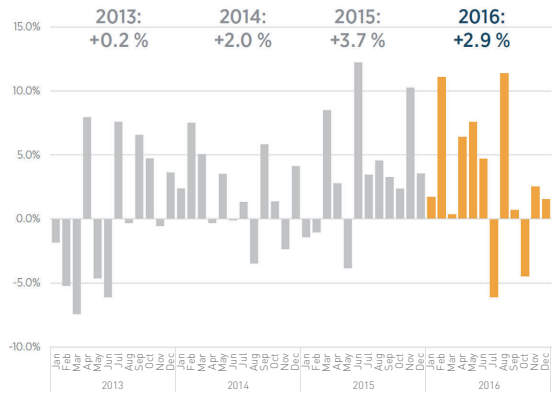
According to the industry association "textil+mode", 2016 sales rose by a marginal +0.2% over the previous year. With sales up by +2.9% for the textile segment and down by -3.8% for the apparel segment, textiles clearly outperformed apparel again this year.

Employment rates have fluctuated only slightly over the past few years, with recovery from the financial crisis continuing in 2016. Up by +0.8%, employment rates rose slightly in Germany, with roughly 118,000 people on the rolls in the textile and apparel industry in Germany alone. Segment performance varied considerably in this metric as well: the textile segment employed +2.4% more people than in the previous year, while there was a -2.3% drop in people employed by the apparel segment.

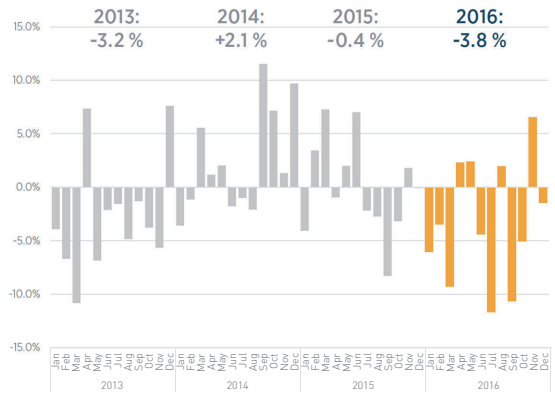
Exports trended upward in both segments. The apparel industry exported +1.4% more goods and the textile segment +0.8% more in 2016, resulting in overall export growth of +1.2%. Looking at goods sold domestically and abroad by companies manufacturing in Germany, the textile segment reported growth in all markets, while sales in the apparel segment were down across the board. The Eurozone is highly relevant for the German textile and apparel segments, with exports within the region also having a positive impact. Markets outside Europe are problematic particularly for the apparel segment.

Sales trends in apparel have been relatively volatile over the past few years, while the textile industry has seen steady growth in sales during the same period.

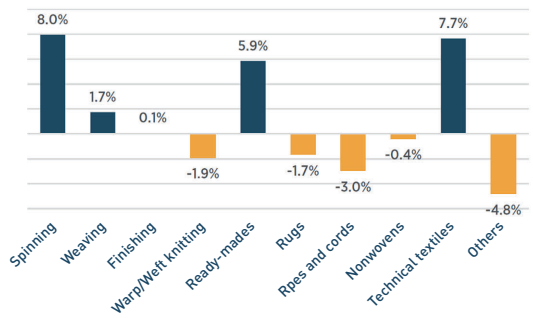
Sales trends – Textiles[1]



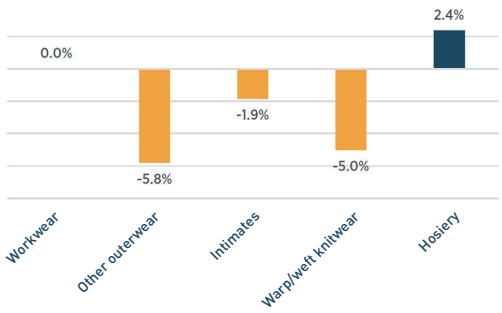
Sales trends – Apparel[1]



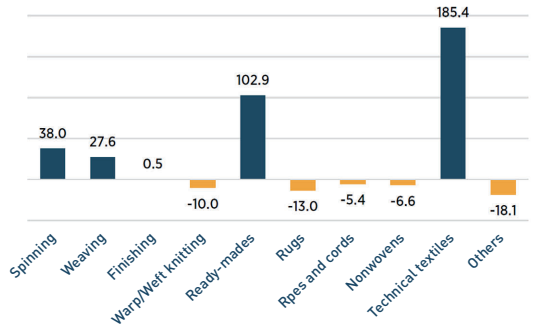
Sales growth in the Textile segment 2016[1]



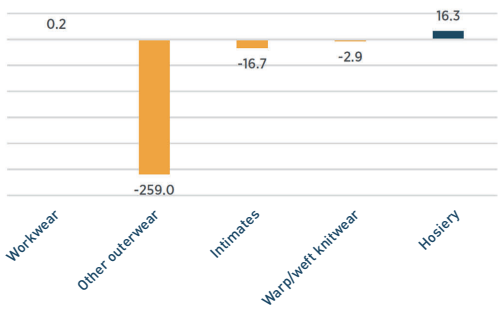
Sales growth in the Apparel segment 2016[1]



Sales growth in the Textile segment 2016[1]
in EUR million



Sales growth in the Apparel segment 2016[1]
in EUR million



[1] Index 2010 = 100, calendar and seasonal-adjusted figures
Source: Industry association "textil+mode", Feb. 2017 market report

The segment breakdown shows that technical textiles are still the growth drivers for the textile industry. Although performance of nonwovens had been strong in the previous years, it was unable to contribute to growth in 2016. The traditional spinning and weaving segments in particular gained strength in 2016, and ready-mades also experienced a very good year. In apparel, poor performance in outerwear caused a significant drop in sales, which could not be offset by the strong past performance in workwear.

2.3. Business performance

Despite all of the turbulence and uncertainty in the world during 2016, all of the divisions of the Hoftex Group outperformed results from 2015. This demonstrates how well the Group has coped with the closure of two facilities in the Hoftex division during 2014/2015.

In summary:

- Hoftex Group:
Sales grew to EUR 181.4 million (prior year: EUR 175.4 million)
Consolidated net income for the year rose by EUR 1.7 million to auf EUR 7.8 million

- Hoftex:
Sales fell by EUR 6.6 million to EUR 27.4 million (prior year: EUR 34.0 million)

- Neutex:
Sales grew by EUR 1.7 million to EUR 19.0 million (prior year: EUR 17.3 million)

- Tenowo:
Sales grew by EUR 10.1 million to EUR 133.3 million (prior year: EUR 123.2 million)
longer start-up phase in Reichenbach

Hoftex

During the 2016 fiscal year just ended, external sales in the Hoftex division amounted to EUR 27 million, just under sales targets. The products were manufactured at the facilities in Venusberg (spinning & doubling mill), Cranzahl (doubling mill) and Selbitz (dyeworks) or purchased wholesale by third-parties. In a year-on-year comparison, this amounts to a EUR 6.6 million drop in sales. That said, 2015 sales were impacted by inventory reductions from the 2014 closure of the Moschendorf spinning mill.

During the past few years, Hoftex has succeeded in evolving from a traditional yarn manufacturer for the apparel industry into a supplier of innovative products in the spinning segment for a variety of applications. In 2016, only 20% of the division's sales were generated by customers in the apparel industry, with remaining sales attributable to technical and automotive applications.

Exports accounted for more than one-half of sales, while additional intra-Group business came from the sale of yarns and threads produced in the Venusberg and Cranzahl spinning mill to the dyeworks.

Overall, demand was volatile in the year just ended. After a positive start to fiscal 2016, the market was unable to return to these levels after the summer holidays. For the past several years, we have seen this trend solidify, whereby sales peak in the first half of the calendar year and weaken somewhat towards year-end.
This also had an effect on capacity utilisation in our production facilities. Based on the overall results for the year, all plants performed in line with or exceeded projections, although production output fluctuated between over and underutilisation of capacity due to customers' ordering patterns. Customer demand for more flexibility is the greatest challenge we are facing in terms of manufacturing both today and into the future.

Neutex

2016 was a banner year for Neutex. Sales not only outperformed 2015 by 10%, but we were also able to achieve gains across all of our sales segments, with the "Sun" range finishing the year as top performer. The Neutex division's operating result for 2016 exceeded targets.
The growth in sales is not only driven by an increase in the quantities sold, but also an increase in average earnings, due in part to a growing share in sales of higher-priced items from the "Sun" range. For years we have seen the trend move away from yard goods toward ready-made items and decorative window treatments. A breakdown of 2016 sales by segment documents that shift. Products from the interior sun shading range ("Sun") have become one of the Neutex division's key pillars. Much like the Hoftex division, customer demand at Neutex fluctuated considerably month to month in 2016, although certain seasonal variations have always played a big role here.
2016 was a landmark year for exports. Thanks to soaring sales of the "Sun" range, we were able to make inroads with existing and potential customers on the international sales market. The collections, image campaigns and colours have had an outstanding reception in the sector. Both domestic sales and exports rose in 2016, resulting in an export ratio in line with last year's results.

Tenowo

Business performance was satisfactory in Tenowo during the fiscal year just ended. Revenue from the sale of products rose year-on-year by 8%. The largest growth rates were recorded for exports, with gains in sales to EU member states and third countries.

Thanks to strong demand on the US market, sales of nonwovens produced in Germany to Tenowo Inc. (USA) rose once again during the year under review. Deliveries to Tenowo Huzhou (China) fell as expected due to an increase in local production. We saw a year-on-year increase in intra-Group sales.

The automotive segment continues to be our strongest sales driver, and its share in the overall sales of nonwovens increased accordingly. We also recorded growth in the automotive segment at Tenowo Germany, with the largest gains in backing fleeces, acoustic nonwovens and technical tapes.

The industrial segment was unable to achieve the growth rates of the automotive segment. Within the segment, trends varied from sector to sector. Growth in the filtration area was offset by losses in other areas.

Tenowo's interlinings range performed well again in 2016, maintaining solid sales in a market that has shown signs of shrinking in Europe. The few remaining apparel manufacturers in Germany are strengthening their positions, which benefits us as a supplier of nonwoven and fabric interlayers. On the whole, however, this market segment only makes up a marginal share of Tenowo's business.

The increase in sales came as a result of higher output across all facilities. The investments in expansion of our Germany-based production sites in particular have enabled us to produce the extra orders our customers are demanding. By the same token, our continuous efforts to further optimise and maintain factory equipment are key success factors in providing the products our customers want with consistently high quality standards. In keeping with this, we implemented major maintenance measures at our long-standing site in Hof.

The launch of our second nonwovens line in Reichenbach demanded a lot from our development, engineering and sales staff during the year under review. It was up to them to ensure we produce items reliably and in line with customer specifications on the new equipment. As a result, we staged a lot of test runs and produced prototypes, which led to additional costs and inefficiencies. A Company who has been in business as long as we have understands that the process from development of an item to final approval by the customer can take time. Our job over the next few months will be to populate new excess capacity with items from existing and new market segments.

2016 was a great year once again for Tenowo Inc. (USA). Sales grew by 14% overall, with gains recorded in both the automotive segment and the industrial segment. As in the previous year, the automotive segment accounted for the greatest share in overall sales. Exports to Asia and Latin America also increased significantly. The increase in output that accompanies sales gains brought additional economies of scale in production costs, contributing to very strong earnings. Expansion work on our production facilities was completed on time and within budget, as was the investment in our new nonwovens production line using stitch-bonding technology. We have been using this technology successfully in Mittweida for decades, but it was new to our US facility. German staff hosted their American counterparts in Mittweida for a few weeks to provide in-depth training and support. By tackling the installation of the new stitch-bonding line and the up-skilling of staff at the same time, we were able to roll out the first successful prototypes in late 2016. Some of the output from the new US-based line will cover demand in Europe, as we await the launch of an additional stitch-bonding line in Germany.

We are satisfied with business performance at Tenowo Huzhou New Materials Co. Ltd. (China). Sales from own production increased and outperformed targets. The Tenowo Group grew its sales to customers in China. Production costs were in line with projections; the objective is to continue to streamline costs. Investments at the facility were moderate, focused primarily on various operating and office equipment. Tenowo GmbH's direct business with Chinese customers was virtually unchanged as expected. In our effort to achieve the goals we set for Huzhou, we plan to further optimise internal operations and continue to train staff. R&D and mechanical adjustments will also be a key focus.

In India last November, the government banned the 500 and 1,000 rupee bank notes in an attempt to combat corruption and tax evasion, which created considerable confusion in the Indian economy. As a result, we are anxiously awaiting the results of the upcoming regional elections, which will serve as an indicator for the 2019 parliamentary elections. In the first ten months of the fiscal year just ended, our Indian subsidiary succeeded in increasing sales by 5% over the prior-year period. As the fiscal year of Supreme Nonwoven Industries Private Ltd. runs from 1 April to 31 March, we are unable to make any statements as to the results for the fiscal year as a whole. Earnings in the 2015/2016 fiscal year outperformed the previous year, and we received a dividend payment of EUR 0.15 million.

2.4. Business results

Results of operations

The consolidated income statement for 2016 shows continued growth in sales as well as a marked improvement in net income. This positive trend comes as a result of our continued focus on the core competencies of our three divisions, maximum attention to customer benefit and continued investments in our business.

in EUR thousand	FY 2016	in % of gross revenue	FY 2015	in % of gross revenue	Change year-on-year	Change year-on-year in %
Sales	181,391	99.5	175,430	102.8	5,961	3.4
Gross revenue	182,383	100.0	170,722	100.0	11,661	6.8
Cost of materials	-93,055	-51.0	-87,217	-51.1	-5,838	6.7
Personnel expenses	-43,884	-24.1	-41,774	-24.5	-2,110	5.1
Operating result	11,164	6.1	9,986	5.8	1,178	11.8
Net income for the year	7,803	4.3	6,149	3.6	1,654	26.9

Relative to gross revenue, personnel expenses decreased by 0.4% over the previous year. Personnel expenses in absolute terms increased due to wage and salary increases as well as recruitment in the expanding Tenowo division, although that increase did not exceed the increase in the Group's gross revenue.

Financial position

Our assessment of the cash flows and financial performance of the Hoftex Group in 2016 is very positive. Operating cash flow amounted to EUR 21.7 million during the year under review (prior year: EUR 23.2 million).

The outflow of funds from investing activities were focused mainly on the Tenowo division. We also made major investments in expansion of our facilities in Mittweida (Germany) and Lincolnton (USA).

The cash flows from financing activities centred on the *Schuldscheindarlehen* (SSD). In late October 2016, the Supervisory Board approved financing by way of a *Schuldscheindarlehen*, or bonded loan. On 15 December 2016, the company signed an agreement on the issue of a SSD with a volume of EUR 50 million and a term of three to seven years. Thanks to the funding from the SSD, we repaid all earlier secured financial obligations and the shareholder loan from ERWO Holding AG. The SSD will serve to finance general corporate funding needs as well as our continued growth strategy.

In comparison to the financing structure it replaced, the SSD leverages the current low interest rates and achieves interest savings amounting to EUR 0.5 million per annum. IKB Deutsche Industriebank AG (IKB) arranged the SSD, placing it with the HOFTEX GROUP AG's house banks (Bayern LB, Commerzbank, HSBC, Landesbank Baden-Württemberg and UniCredit). Various combinations of maturities and interest rates are available with the new *Schuldscheindarlehen* (variable and/or fixed interest rates).

In addition, the Hoftex Group has access to a working capital facility totalling EUR 14.0 million. This is EUR 4.0 million higher than the previous credit line that was available from the previous, now defunct funding structure.

Net assets

Fixed assets rose from EUR 102.6 million to EUR 106.6 million in 2016, due primarily to EUR 2.7 million in investments in tangible fixed assets and EUR 1.0 million in investments in intangible assets, with the latter relating to capitalisation of third-party services associated with the implementation of a new IT system.

Current assets increased from EUR 75.6 million to EUR 83.3 million. The rise in production output drove inventories up to EUR 39.5 million (prior year: EUR 37.6 million). By contrast, receivables and other assets decreased from EUR 26.0 million to EUR 23.4 million, with EUR 1.9 million of that drop attributable to trade receivables.

Equity rose from EUR 89.5 million to EUR 96.4 million, mainly thanks to the net income for the year. A strong equity ratio is a critical factor in credit ratings, and these ratings played a key role in the Company receiving its recent Schuldscheindarlehen.

Liabilities amounting to EUR 71.1 million (prior year: EUR 53.3 million) rose mainly as a result of the Schuldscheindarlehen. Liabilities to banks amounted to EUR 33.5 million at the end of the previous year, while they rose to EUR 51.5 million at the end of the year under review.

2.5. General statement

The management's assessment of performance in 2016 is very positive. The Hoftex division has coped very well with the restructuring that took place in 2015, Neutex was able to improve sales and earnings after a sluggish 2015, and the growth strategy at Tenowo is on schedule and on target.

2.6. Employees

The Group employed an average of 1,206 staff in the year under review. While staff numbers dropped in the Hoftex division following the closure of facilities at the Hof and Liberec/Czech sites, the Tenowo division recruited additional staff, especially during the 3rd quarter, in an effort to spur growth.

3. Gender quota

On 9 December 2016, the Supervisory Board of the HOFTEX GROUP AG resolved to maintain the status quo as the target for the Management Board up to 31 December 2021, i.e. a zero quota. The Supervisory Board resolved to appoint at least two women members by 31 December 2021. There are four women on the Supervisory Board at present. The Management Board of HOFTEX GROUP AG has set a target of 20% for the top management level below the Management Board on or before the 31 December 2021 deadline. At the time the target was set, 50 percent of the managers at this level were women. No target has been set for the second management level, as HOFTEX GROUP AG in its role as a holding company has a flat hierarchy; there is therefore no continuous second management level. As a result, we are in compliance with the quotas required by the "Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector".

4. Risk and opportunity report

4.1. Risk management system

The Hoftex Group has a multi-tiered risk management system and additional supporting control systems. Central oversight and coordination of the risk management process is the responsibility of Group's finance and accounting managers.

Risk management is integrated into the existing planning, controlling and information systems and covers all companies of the Hoftex Group.

The internal control system incorporates the principles, processes and measures introduced by the management to ensure

- its business activities are conducted effectively and profitably
- the internal and external accounting is performed in a proper, reliable manner
- it complies with all legal provisions that are relevant for the company.

All of the organisational rules and measures implemented to identify and manage the risks associated with business operations are included in the risk management system. With regard to the Group's financial reporting process, the following structures and processes have been implemented at Group level. The Management Board bears overall responsibility for the internal control and risk management system associated with Group financial reporting. All corporate units and divisions are involved as defined in the management and reporting structure. Internal guidelines outline the principles, the organisational structure and workflows as well as all processes for the accounting-related control and risk management systems. In terms of the financial reporting process, the internal control and risk management systems that we define as material are those that have a significant impact on the accounts and the overall picture conveyed by the single-entity and consolidated annual financial statements including the Group management report. These relate primarily to the following elements:

- Identification of key risk and oversight areas that are relevant for the financial reporting process.
- Monitoring controls designed to oversee the financial reporting process and their results at Management Board level.
- Preventive control measures in finance and accounting as well as in operational, performance-related processes that generate key data for the preparation of the single-entity and consolidated financial statements including the Group management report ensure that the relevant divisions uphold the segregation of duties and pre-defined approval process.
- Measures to ensure the proper computer processing of accounting-related events and data.
- Measures to monitor the accounting-related internal control and risk management system.

Where necessary, auditors report on any identified deficiencies in the internal control system.

4.2. Key risks

The Hoftex Group classifies its risks in the following categories:

Strategic risks and Market risks	Operational risks
• Site/country risks • Market trends/sales fluctuations • Competition • Pricing pressure/fluctuations • Procurement market risks	• Production • Purchasing/logistics • Personnel • Project management • Research/development • Sales • Information management

Financial risks	Compliance risks
• Currency and interest rate risks • Risk on default of receivables • Liquidity risks • Devaluation risk (e.g. fixed assets, goodwill, inventories)	• Antitrust law • Corruption/fraud • Interruption of operations • Product liability and recall risk • Environmental risk • Safety/code of conduct • Information security/data protection • Capital market law/tax law

The main financial risks the Company faces are **currency and interest risks**. The development of the US dollar does not play the key role in the global economy that it once did. In Europe, a majority of raw materials are purchased in euro and a majority of shipments are paid in euro as well. The same goes for companies in China, although the key currencies here are USD and RMB. That said, the US dollar has a major impact on purchasing prices for shipments from our main supplier. We therefore continue to watch currency developments closely and try to mitigate risks as much as possible with "natural hedging". The Company uses forward exchange derivatives where appropriate. Interest rate hedging is used to mitigate the risk of possible interest rate increases for outstanding variable-interest bank loans. In early 2017, the HOFTEX GROUP AG concluded additional interest rate hedging agreements for the *Schuldscheindarlehen*.

In the area of receivables management, trade credit insurance helps protect against bad debt risk. In principle, a credit limit must be set for each customer. Where this is not the case, we set payment terms such as prepayment or documentary letter of credit. In some instances, we assign customers an internal credit limit. This limit is subject to an internal approval process and can be changed at any time. There were no significant bad debt losses in fiscal 2016.

The company protects against liquidity risks through short and medium-term liquidity targets. We feel the ratio between our short and long-term financing is well-balanced. Short-term liabilities are settled using operating cash flow. Changes in working capital play a key role. The Company closely monitors the aging of accounts receivable. In addition, the Company pays all invoices on best possible terms.

4.3. Risk assessments performed during the year under review

In the year under review, the Company performed the following targeted risk assessments:

1. Procurement risks – raw materials and consumables (purchasing)
2. Procurement risks – energy supply (plant engineering)
3. Interruption of operations – fire prevention (plant engineering)
4. Safety (plant engineering)
5. Data protection – access rights (IT)
6. Data protection – directory permissions (IT)
7. Market abuse directive – (finance and accounting)

These assessments did not identify any major deficiencies or shortcomings. However, our general risk management activities and the special risk assessments we conduct will from time to time present opportunities to identify (potential) risks and implement corrective measures to prevent such risks from arising.

4.4. General opportunities and market opportunities

Strategic opportunities are primarily derived from the Hoftex Group's strategic focus. Bolstering our core business, driving digital transformation and expanding into growth markets represent our most important long-term growth opportunities. In addition to the possibility of more favourable macroeconomic trends, each of our divisions has the potential to improve efficiency and an opportunity to optimise their respective operations.

Ongoing innovation efforts (see research & development) offer additional potential for each division.

Changes in the legal and regulatory framework may also offer opportunity.

Our main financial opportunities relate to favourable trends in interest and exchange rates.

5. Subordinate status report

Pursuant to Section 312 AktG, the Management Board of HOFTEX GROUP AG compiled a report about the relationships between HOFTEX GROUP AG to its affiliates and presented it to the Supervisory Board. The final statement of the report declares: "On the basis of circumstances known to the Management Board at the time at which the legal transaction was concluded in each case, the Company received adequate consideration for every legal transaction. No measures subject to reporting requirements occurred during the year under review."

6. Forecasts

6.1. Outlook on macroeconomic conditions

For 2017, economists are expecting the global economic recovery to pick up pace. In its report at the turn of the year, the *Institut für Weltwirtschaft* (IfW) is forecasting 3.6% growth in global GDP for 2017, up 0.5 percentage points year-on-year.

Advanced economies look set to grow slightly, albeit at a more moderate pace. Continued expansionary monetary policies, fiscal stimuli and somewhat stronger demand from developing and emerging economies are driving that growth. While it seems unlikely that China will be able to maintain its rate of growth, we expect expansion to accelerate further in other developing countries. A recent recovery in raw materials prices is doubtless a contributing factor here. Experts are expecting Russian production figures to rise once again, while Brazil's economy is slower to recover than expected.

The economic risks of the past few years are still valid: numerous changes announced by the US government produce massive uncertainty in both economic and political terms. Elections are forthcoming in several major European countries, which could bring about a fundamental shift in economic policy. The exact terms for the United Kingdom's withdrawal from the European Union are still unclear. What's more, low interest policies are showing the limits of what monetary policy can accomplish, with the financial sector in particular feeling the negative impact of extremely low interest rates.

6.2. Outlook on sector-specific conditions

According to a survey of its members by the trade association *textil+mode*, many companies see the outlook for 2017 as neutral or positive. About 45% forecast sales growth, another 45% expect sales figures to stay the same. *textil+mode* is projecting an overall 1.7% growth in sales for 2017.

The VR Branchen Special sector analysis for the textile industry reports that sales trends remained positive in 2016. A glance at the current indicators does not, however, suggest that we can expect that growth to continue into 2017. Sales outside the Eurozone in particular are presenting problems.

Despite the slump expected in certain segments of the textile industry, there is no reason to fear a more profound and broader downturn for the textile trade as a whole in 2017 – thanks in part to stable growth rates in the global economy. According to the joint economic forecasts of major economic institutes, German GDP is expected to grow at a rate only slightly below that of 2016.

The same is true for the main industrial sectors of the textile industry. Growth rates for gross capital investments, a key figure for suppliers of industrial and construction textiles, look set to slow down in 2017 (nominal +3.5%, real +1.6%) in comparison to the prior-year figures (+3.9% and +2.4%, respectively). By contrast, manufacturers of consumer textiles can expect the macroeconomic stimuli to remain about the same. Due to pricing factors, increases in consumer spending are expected to be somewhat more moderate in 2017 (nominal +2.7%, real +1.3%) than in 2016 (+2.4% and +1.8%, respectively). The favourable conditions are therefore still in place. This not only applies to Germany, but also to the Eurozone and the global economy, which are at least as important to the sector, with one-half of German textile industry sales generated by customers outside the country. It would not be surprising if nominal sales for the textile sector stagnated overall in 2017, thanks to the strong growth of the recent past, a lack of further order increases and indications that producer prices look set to fall.

If sales stagnate in 2017, the key trends to watch will be cost of materials and personnel costs. That said, it seems unlikely that costs of materials or personnel should increase to an extent that causes concern. According to its raw materials projections for the coming year, the International Monetary Fund (IMF) does not expect cotton or wool prices to decrease. Cotton prices have returned to previous levels recorded before the strong increases of 2010 and 2011. If anything, prices may rise, but the increase is not expected to be especially large. That is due in part to the large share of synthetic fibres used in textile processing. Sales of these fibres are likely to increase further thanks to the proliferation of technical and intelligent textiles, and that tends to weaken demand for (conventional) natural raw materials. The textile industry profited from a drop in the price of synthetic fibres in 2016. Developments in the organic segment are quite different. Here, rising demand for certified fibres can quickly exceed the supply of the sustainably farmed raw materials, which leads to price increases.

With regard to trends in personnel expenses, we will have to await the results of the next round of collective bargaining talks. To date there are no indications that the earnings environment will not remain favourable for textile producers in the next year. In other words, the good earnings position looks set to continue.

Sector rating – textile industry

Sector/Segment	Sales trends		Cyclicality	Competitive pressure	Earnings position	
	FY 2016	FY 2017			FY 2016	FY 2017
Overall	**Growth**	**Stagnation**	**Strong**	**Very high**	**Good**	**Good**
Spinning	Growth	Stagnation	Strong	Predatory	Satisfactory	Satisfactory
Weaving	Stagnation	Slight decrease	Strong	Predatory	Adequate	Adequate
Finishing	Stagnation	Stagnation	Strong	Very high	Satisfactory	Satisfactory
Household textiles	Growth	Growth	Increasing	Very high	Good	Good
Nonwovens	Stagnation	Stagnation	Strong	Very high	Good	Good
Technical textiles	Very strong growth	Slight decrease	Strong	Very high	Good	Good

Source: VR Branchen Special Textilgewerbe, Report No. 24, November 2016

6.3. Outlook – business performance

2017 promises to be an exciting year for the Hoftex Group overall. The markets are unsettled and vulnerable to fluctuations. This poses difficulty for anyone attempting to make forecasts from today's perspective. If markets stay stable, employment figures will develop in line with projections. We are keeping our focus on capital investments across the Group and the roll-out of our new IT system.

Hoftex
Fiscal 2017 started off well. All of our key contracts were already signed in the previous fiscal year. Now we can shift our focus to filling excess production capacity. We also plan to expand our product range to include alternative, innovative products for novel applications in an aim to strengthen our long-term positioning in this rapidly changing market environment.

Current conditions on the raw materials sector are posing additional challenges. Procurement prices are rising across the board, leading to a correction in historically low price levels. It will be up to the sales staff to pass these increases on to customers, while the procurement team will not only have to exhaust every possible leverage in pricing negotiations, but also work together with sales and production to adopt a forward-looking approach planning and resource management.

Neutex
With more exhibitors and visitors than the previous year, the Heimtextil trade fair in January 2017 demonstrated a keen interest from both customers and suppliers. That said, if the past few years is any indication, these kinds of trade fairs are used more for information gathering and networking; interest in actually placing orders at the fair has decreased. Neutex expects the positive mood at the fair and the move towards more textiles in interior decorating to keep the upwards trend from 2016 going.

Sales volumes for yard goods continue to decrease. In addition to expansion of the successful "Sun" range, Neutex plans to offer ready-made items in custom sizes produced expressly for the customer. These products, along with special-purpose items from the "Designer Collection", will enable the division to service high-priced niche markets. Another focus will be on continuing to grow export business, both through expansion of existing business relationships as well as through acquisition of new customers. At present, it is difficult to assess how conditions for business relationships on the eastern European market will develop. A significant recovery in this area could have an additional impact.

Tenowo
Fiscal 2017 started off well for the Tenowo Group, making us optimistic about achieving our defined objectives. The challenge for our German production sites will be to position the excess capacity available at one of our sites on the market within the corresponding time period.

Developments on the American market are very positive. The key issue for the US subsidiary is to fill additional customer orders from the US-based production facility if at all possible, and to make up any shortfalls from capacity available within the Tenowo Group by the agreed deadline. As in the past, full imports sold on the US market by our European competitors push prices down, and that puts pressure on the margins of our US subsidiary Tenowo Inc.

With regard to our China-based facility, we are confident we will achieve our set objectives. The focus here is still on continuing to shape and to strengthen this very young enterprise and to improve workflows through training measures.

6.4. Overall outlook

Management expects performance to be satisfactory in 2017. Ongoing investment initiatives will further improve the product range and the IT infrastructure. Sales are expected to grow by 7%, resulting in year-end sales of EUR 195 million and putting consolidated net income in the EUR 8 million to EUR 9 million range within reach. Operating income is expected to come under pressure from the expected rise in raw material prices. In terms of personnel, we plan to continue our training program and salary increases, which will lead to higher personnel costs. However, we also plan to introduce initiatives to improve efficiency and thus streamline the material and personnel costs. We expect operating cash flow to increase to a range between EUR 23.0 million and EUR 25.0 million.

Hof, 31 March 2017

HOFTEX GROUP AG

The Management Board

Steger van den Burg

HOFTEX GROUP AG
Consolidated balance sheet as of 31 December 2016

Assets in EUR thousand	Notes	31 Dec. 2016	31 Dec. 2015
A. Fixed assets			
I. Intangible fixed assets	6	1,580	644
II. Tangible fixed assets	6	97,427	94,707
III. Long-term financial assets	6/7	7,561	7,268
		106,568	**102,619**
B. Current assets			
I. Inventories	8	39,479	37,611
II. Receivables and other assets	9	23,354	26,012
III. Cash and cash equivalents	10	20,456	11,980
		83,289	**75,603**
C. Prepaid expenses		**109**	**552**
D. Deferred tax assets	11	**1,207**	**1,321**
Total assets		**191,173**	**180,095**

Equity and liabilities in EUR thousand	Notes	31 Dec. 2016	31 Dec. 2015
A. Equity			
I. Subscribed capital	12	13,920	13,920
II. Capital reserves	14	41,158	41,158
III. Revenue reserves	15	42,254	38,754
IV. Change in equity from currency translation		849	796
V. Consolidated net accumulated losses	16	-1,785	-5,162
		96,396	**89,466**
B. Deferred investments grants and subsidies	17	**0**	**735**
C. Shareholder loans	18	**0**	**14,000**
D. Provisions	19	**23,674**	**22,573**
E. Liabilities	20	**71,091**	**53,309**
F. Deferred tax liabilities	11	**12**	**12**
Total equity and liabilities		**191,173**	**180,095**

HOFTEX GROUP AG
Consolidated Income Statement for the 2016 financial year

in EUR thousand	Notes	2016	2015
Sales	21	181,391	175,430
Change in inventories of finished and unfinished goods		992	-4,789
Other own work capitalised		0	81
Gross revenue		**182,383**	**170,722**
Other operating income	22	4,207	5,669
Cost of materials	23	-93,055	-87,217
Gross profit		**93,535**	**89,174**
Personnel expenses	24	-43,884	-41,774
Depreciation, amortisation and write-downs	6	-11,621	-10,026
Other operating expenses	25	-26,866	-27,388
Operating result		**11,164**	**9,986**
Net investment income	26	447	145
Net interest income	27	-2,459	-2,496
Taxes on income	28	-271	-282
Earnings after taxes		**8,881**	**7,353**
Other taxes	29	-1,078	-1,204
Consolidated net income for the year		**7,803**	**6,149**

HOFTEX GROUP AG
Consolidated statement of changes in equity as of 31 December 2016

in EUR thousand	Subscribed Capital	Capital reserves	Revenue Reserves	Change in equity from currency translation	Consolidated net accumulated losses	Total
Balance as of 1 Jan. 2015	**13,920**	**41,158**	**33,722**	**-650**	**-5,462**	**82,688**
2014 dividend payment					-817	-817
Consolidated net income for 2015					6,149	6,149
Foreign currency translation differences				1,446		1,446
Appropriation to revenue reserves pursuant to Section 58(3) AktG			2,700		-2,700	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			2,332		- 2,332	0
Balance as of 31 Dec. 2015	**13,920**	**41,158**	**38,754**	**796**	**-5,162**	**89,466**
2015 dividend payment					-926	-926
Consolidated net income for 2016					7,803	7,803
Foreign currency translation differences				53		53
Appropriation to revenue reserves pursuant to Section 58(3) AktG			1,400		-1,400	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			2,100		- 2,100	0
Balance as of 31 Dec. 2016	**13,920**	**41,158**	**42,254**	**849**	**-1,785**	**96,396**

HOFTEX GROUP AG
Consolidated cash flow statement for the 2016 fiscal year

in EUR thousand	2016	2015
Consolidated net income for the year	7,803	6,149
+/- Depreciation, amortisation and write-downs of fixed assets/ reversals of write-downs of fixed assets	11,621	10,026
+/- Increase/decrease in provision incl. pension provisions	848	-172
+/- Other non-cash expenses and income	337	2,907
-/+ Decrease in deferred government grants and subsidies	-735	-735
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	1,218	2,377
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	-696	547
-/+ Gain/loss on disposal of fixed assets	-928	-116
+/- Interest expense/interest income	2,029	2,496
- Other investment income	-154	-145
+/- Income tax expense/income	271	282
+/- Income tax payments	112	-439
Cash flows from operating activities	**21,726**	**23,177**
- Payments to acquire intangible fixed assets	-1,055	-481
+ Proceeds from disposal of tangible fixed assets	2,045	2,087
- Payments to acquire tangible fixed assets	-15,957	-24,799
+ Interest received	0	16
+ Dividends received	154	117
Cash flows from investing activities	**-14,813**	**-23,060**
+ Cash proceeds from bank borrowings	51,446	15,000
- Cash repayments of bank borrowings	-33,529	-9,705
- Cash repayments of borrowing from parent company	-14,000	-7,000
+ Cash proceeds from short-term loans from related companies	561	715
+ Proceeds from grants/subsidies received	28	0
- Interest paid	-2,029	-1,968
- Dividends paid	-926	-817
Cash flows from financing activities	**1,551**	**-3,775**
Changes in cash and cash equivalents	**8,464**	**-3,658**
Effect on cash funds of exchange rate movements and remeasurement	12	72
Cash and cash equivalents as of 1 January	11,980	15,566
Cash and cash equivalents as of 31 December	**20,456**	**11,980**

NOTES TO THE 2016 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 with an entry in the commercial register of the Hof district court 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 nonwoven fabrics for technical applications and apparel, the production of raw and coloured textiles including decorative fabrics and the production of raw and coloured yarns including specialty and ply yarns.

As of 29 June 2009, the Company's shares have been traded on the m:access open market of the Munich Stock exchange. 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 2016 are prepared pursuant to the provisions of the HGB and the AktG prevailing on the balance sheet date. These statements have been prepared for the first time using the provisions of the HGB in the version as amended by the Accounting Directive Implementation Act (*Bilanzrichtlinie-Umsetzungsgesetz*, or BilRUG). The presentation, classification and measurement of the consolidated financial statements correspond to those of the previous year, with the exception of changes from the BilRUG. Due to the first-time application of the BilRUG, earnings amounting to EUR 372 thousand previously reported under other operating income has been reclassified as sales. The corresponding income from the previous year amounting to EUR 401 thousand has not been reclassified.

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), unless 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 2016 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 2016 include 16 (prior year: 16) 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). Pursuant to Section 296(2) HGB, one domestic subsidiary (prior year: 1) 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 CoreTech GmbH, Hoftex Max Süss GmbH, Hoftex Färberei GmbH, Hoftex Färberei Betriebs 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 control and profit transfer agreements. Each of these companies is also included in the HOFTEX GROUP AG consolidated annual financial statements. Of these 12 companies (prior year: 12), 6 companies (prior year: 6) make full use of the relief provisions in Section 264(3) HGB and 6 companies (prior year: 6) make partial use of the same relief provisions.

Hoftex Immobilien II GmbH & Co. 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 2016 are as follows:

Company	Registered office		Share of capital in %	Currency	Equity in EUR thousand [7]	Result for the year in EUR thousand
Fully consolidated companies as defined in Section 290(2) no. 1 HGB						
Hoftex GmbH	Hof	[1]	100.00	Euro	26,232	(CPTA) [8]
Hof Garn Verwaltungs GmbH	Hof		100.00	Euro	-187	-3
Hoftex Max Süss GmbH	Hof	[3]	100.00	Euro	150	(CPTA)
Hoftex CoreTech GmbH	Hof	[2]	100.00	Euro	150	(CPTA)
Hoftex Färberei GmbH	Hof	[2]	100.00	Euro	787	(CPTA)
Hoftex Färberei Betriebs GmbH	Hof	[2]	100.00	Euro	150	(CPTA)
Hoftex Liberec s.r.o. (inactive; in liquidation since 1 Jan. 2017)	Liberec, Czech Rep.	[2]	100.00	CZK [9]	3,658	-1,079
Tenowo GmbH	Hof		100.00	Euro	38,171	(CPTA)
Tenowo Hof GmbH	Hof	[4]	100.00	Euro	150	(CPTA)
Tenowo Reichenbach GmbH	Hof	[4]	100.00	Euro	150	(CPTA)
Tenowo Mittweida GmbH	Hof	[4]	100.00	Euro	150	(CPTA)
Tenowo Inc.	Lincolnton, USA	[4]	100.00	USD [10]	6,834	4,259
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	[4]	100.00	CNY [11]	35,912	-9,691
Neutex Home Deco GmbH	Münchberg		100.00	Euro	7,536	(CPTA)
Neutex Betriebs GmbH	Münchberg	[5]	100.00	Euro	150	(CPTA)
SC Textor S.A.	Targu Mures, Romania	[5]	100.00	RON [12]	11,683	266
Textil Hof Immobilien Geschäftsführungs GmbH [14]	Hof		100.00	Euro	78	1
Hoftex Immobilien II GmbH & Co. KG	Hof		100.00	Euro	10,743	-172
Feinspinnerei Hof GmbH	Hof		100.00	Euro	54	-2
Hoftex Immobilien I GmbH	Hof		100.00	Euro	4,472	(CPTA)
Fully consolidated companies as defined in Section 290(2) no. 4 HGB						
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof		0.00			
Unconsolidated companies as defined in Section 296(2) HGB						
HBD Textil-GmbH	Hof		100.00	Euro	10	-2
Associated companies						
Supreme Nonwoven Industries Private Limited	Mumbai, India	[6]	49.00	INR [13]	996,270	65,931

[1] 96% of all shares held by HOFTEX GROUP AG, 4% held by Hof Garn Verwaltungs GmbH.
[2] 100% of all shares held by Hoftex GmbH.
[3] 100% of all shares held by Hoftex Färberei GmbH.
[4] 100% of all shares held by Tenowo GmbH.
[5] 100% of all shares held by Neutex Home Deco GmbH.
[6] 49.00% of all shares held by Tenowo GmbH.
[7] This figure is reported including the result for the year and without deducting for unpaid contributions.
[8] CPTA = Control and profit transfer agreement.
[9] Spot rate on the closing date 31 Dec. 2016: 1 euro = 27.021 CZK
[10] Spot rate on the closing date 31 Dec. 2016: 1 euro = 1.0541 USD
[11] Spot rate on the closing date 31 Dec. 2016: 1 euro = 7.3202 CNY
[12] Spot rate on the closing date 31 Dec. 2016: 1 euro = 4.5390 RON
[13] Spot rate on the closing date 31 Mar. 2016: 1 euro = 75.4298 INR; annual financial statements as of 31 Mar. 2016.
[14] General partner of Hoftex Immobilien II GmbH & Co. KG.

(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 as amended by the German Accounting Law Modernisation Act (*Bilanzrechtsmodernisierungsgesetz*, or BilMoG). According to this method, the subsidiary's equity at the time of initial consolidation is recorded as the fair value of all assets, liabilities, accruals, deferrals and extraordinary items to be included in the consolidated annual financial statements. Any excess of acquisition cost over the value of the equity is capitalised as goodwill.

If the value of equity exceeds the purchase price, 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 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) sentences 1 and 2, 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 asset 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 throughout the Group are recognised on a straight-line basis over the expected useful life of the asset in question.

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. Borrowing costs are not included in the production cost.

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.

Cash and cash equivalents are recognised at their nominal value.

Prepaid expenses relate to expenditures prior to the balance sheet date that pertain to a determinable period after this date; amortisation is recognised on a straight-line basis over the specified period of time.

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 is almost exactly the same as the fair value amounting to EUR 3,237 thousand (prior year: EUR 3,538 thousand)

and the settlement amount of the offset obligations amounts to EUR 4,491 thousand (prior year: EUR 4,711 thousand), resulting in a net post-employment benefit liability (provision) of EUR 1,254 thousand (prior year: EUR 1,173 thousand). In the interest income/expense item, expenses for the reversal of discounting on pension obligations amounting to EUR 476 thousand (prior year: EUR 574 thousand) are offset against the expected return on pension plan assets of EUR 28 thousand (prior year: EUR 30 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 4.31% 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 ten financial years based on an assumed term of 15 years as calculated and published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*, or RückAbzinsV). In the previous year, the Company exercised its option to apply the revised provisions in Section 253(2) HGB before they came into force in accordance with Article 75(7) of the EGHGB. The excess amount resulting from exercising the option to choose between a seven and a ten-year average discount rate, which at EUR 540 thousand (prior year: EUR 321 thousand) falls short of the dividend pay-out threshold, amounts to EUR 627 thousand (prior year: EUR 371 thousand).

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.

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. As the scheme is closed to new members, no fluctuation rate is taken into account.

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 previous accounting policies. 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 1,973 thousand (prior year: EUR 2,275 thousand). Post-retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,826 thousand (prior year: EUR 3,094 thousand). The net liability of EUR 853 thousand (prior year: EUR 819 thousand) is not recognised in the consolidated annual financial statements pursuant to Article 28(1) EGHGB.

Other provisions must be recognised for uncertain liabilities and impending losses from on-going transactions. Provisions must also be set aside 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. Provisions are recognised 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. Contingencies 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" (*Einfrierungsmethode*).

(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. Historic exchange rates are used for all equity items. 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 2016	**3,280**
Additions	1,055
Disposals	-248
Balance on 31 December 2016	**4,087**
Cumulative depreciation, amortisation and write-downs	
Balance on 1 January 2016	**2,636**
Additions	106
Disposals *)	-235
Balance on 31 December 2016	**2,507**
Carrying amounts on 31 December 2016	**1,580**
Carrying amounts on 31 December 2015	**644**

*) Disposals include gains from currency translation amounting to EUR +2 thousand.
+ asset increase / - asset reduction

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 January 2016	**128,455**	**4,956**	**218,479**	**59,195**	**411,085**
Additions *)	2,151	6,389	5,873	1,544	15,957
Reclassifications	7,021	-10,370	3,339	10	0
Disposals **)	-7,034	0	-16,464	-4,072	-27,570
Balance on 31 December 2016	**130,593**	**975**	**211,227**	**56,677**	**399,472**
Cumulative depreciation, amortisation and write-downs					
Balance on 1 January 2016	**88,471**	**0**	**173,183**	**54,724**	**316,378**
Depreciation, amortisation and write-downs in the fiscal year	1,808	0	8,448	1,259	11,515
Disposals ***)	-6,283	0	-15,629	-3,936	-25,848
Balance on 31 December 2016	**83,996**	**0**	**166,002**	**52,047**	**302,045**
Carrying amounts on 31 December 2016	**46,597**	**975**	**45,225**	**4,630**	**97,427**
Carrying amounts on 31 December 2015	**39,984**	**4,956**	**45,296**	**4,471**	**94,707**

*) Additions include losses from currency translation amounting to EUR -951 thousand.
**) Disposals include losses from currency translation amounting to EUR -625 thousand.
***) Disposals include gains from currency translation amounting to EUR +615 thousand.

+ asset increase / - asset reduction

Long-term financial assets

	Equity interest in affiliated companies	Equity interest in associates	Long-term equity investments	Other loans	Total
Cost					
Balance on 1 January 2016	**26**	**10,007**	**83**	**1**	**10,117**
Additions	0	293	0	0	293
Disposals	0	0	0	0	0
Balance on 31 December 2016	**26**	**10,300**	**83**	**1**	**10,410**
Cumulative depreciation, amortisation and write-downs					
Balance on 1 January 2016	**0**	**2,782**	**67**	**0**	**2,849**
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Balance on 31 December 2016	**0**	**2,782**	**67**	**0**	**2,849**
Carrying amounts on 31 December 2016	**26**	**7,518**	**16**	**1**	**7,561**
Carrying amounts on 31 December 2015	**26**	**7,225**	**16**	**1**	**7,268**

(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 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 49.0% 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 financial statements issued for the fiscal year ending 31 March 2016 value the Group's share (49.0%) in the associate's net income for the year at EUR 447 thousand (prior year: EUR 259 thousand), less EUR 154 thousand (prior year: EUR 117 thousand) in dividends paid out, which is recorded on the balance sheet as EUR 293 thousand (prior year: EUR 142 thousand) less EUR 0 thousand (prior year: EUR 114 thousand) in goodwill net of any remaining amortisation. As the associate has not prepared interim financial statements for the period ending 31 December 2016, HOFTEX GROUP AG was unable to make any adjustments to the at-equity valuation for 2016 in the consolidated annual financial statements.

(8) Inventories

	31 Dec. 2016	31 Dec. 2015
Raw materials, consumables and supplies	16,623	15,968
Unfinished goods, services in progress	4,284	4,251
Finished goods and merchandise	18,572	17,392
	39,479	**37,611**

(9) Receivables and other assets

	31 Dec. 2016	31 Dec. 2015
Trade receivables	19,899	21,782
Receivables from affiliated companies	256	327
Other receivables and other assets	3,199	3,903
	23,354	**26,012**

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, cheques and bank balances.

(11) Deferred tax assets and liabilities

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

	31 Dec. 2016 Deferred tax assets	31 Dec. 2015 Deferred tax assets	31 Dec. 2016 Deferred tax liabilities	31 Dec. 2015 Deferred tax liabilities
Intangible fixed assets	0	0	12	12
Tangible fixed assets	1,813	2,649	108	0
Long-term financial assets	1,349	1,292	0	0
Inventories	460	590	0	0
Receivables and other assets	508	507	786	785
Deferred investment grants/subsidies	0	214	0	0
Pension provisions	663	651	0	0
Other provisions	917	630	0	0
Liabilities	0	0	26	26
Net accumulated losses	7,205	7,674	0	0
Other	0	0	0	0
Sum of all deferred taxes	**12,915**	**14,207**	**932**	**823**

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-related.

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.

After exercising the netting and recognition options for positive net differences, EUR 1,207 thousand in deferred tax assets (prior year: EUR 1,321 thousand) and EUR 12 thousand in deferred tax liabilities (prior year: EUR 12 thousand) are recognised in the balance sheet.

Tax loss carry forwards are recognised only in the amount that is likely to be utilised over the next 5 years. We reported an additional EUR 0.6 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 realised. This amount, however, can only be used for a limited time.

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 5,444,800 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) Authorised capital

With a resolution dated 7 July 2014, the Management Board is authorised, with the consent of the Supervisory Board, to increase the share capital by up to EUR 5,000 thousand on one or more occasions on or before 6 July 2019, whereby the shareholders' subscription rights may be excluded. To date, the Management Board has not exercised its authority to increase the share capital.

(14) Capital reserves

HOFTEX GROUP AG reported capital reserves amounting to EUR 41,158 thousand. Pursuant to Section 272(2) no. 1 HGB, this figure includes a premium of EUR 2,199 thousand from the capital increase implemented in 2008 as well as capital contributions from former shareholders.

(15) Revenue reserves

	2016	2015
Revenue reserves on 1 January 2016/2015	38,754	33,722
Allocations pursuant to Section 58(3) AktG	1,400	2,700
Allocations pursuant to Section 58(2) AktG	2,100	2,332
Revenue reserves on 31 December 2016/2015	**42,254**	**38,754**

(16) Appropriation of net profit

	2016	2015
Consolidated net losses on 1 January	-5,162	-5,462
Dividend payment	-926	-817
Allocation to other revenue reserves by the Annual General Meeting pursuant to Section 58(3) AktG	-1,400	-2,700
Consolidated net income for the year	7,803	6,149
Allocation to other revenue reserves by the Management Board and the Supervisory Board pursuant to Section 58(2) AktG	-2,100	-2,332
Consolidated net losses on 31 December	**-1,785**	**-5,162**

(17) Deferred investment grants and subsidies

The final scheduled derecognition of the deferred investment grants and subsidies amounted to EUR 735 thousand in this fiscal year and has been recognised under other operating income.

(18) Shareholder loans

The HOFTEX GROUP AG has restructured its previous corporate financing (syndicated loan agreements, bilateral loan agreements) by way of the issue of an unsecured *Schuldscheindarlehen* amounting to EUR 50,000 thousand. Thanks to this bonded loan, we were able to repay in full the long-term loan from our principal shareholder ERWO Holding AG in the amount of EUR 14,000 thousand.

(19) Provisions

	31 Dec. 2016	31 Dec. 2015
Provisions for pensions and similar obligations	11,132	11,507
Excess of plan assets over pension liability	-1,264	-1,263
Disclosure of pension provisions	9,868	10,244
Provisions for taxes	1,107	854
Other provisions	12,699	11,475
	23,674	**22,573**

Other provisions mainly comprise legal and litigation costs as well as obligations towards members of staff.

(20) Liabilities

	31 Dec. 2016	31 Dec. 2015
Liabilities to banks	51,463	33,546
Payments received on account of orders	0	0
Trade payables	6,792	8,500
Liabilities on bills accepted and drawn	482	155
Liabilities to affiliated companies	605	337
Other liabilities	11,749	10,771
of which taxes	(375)	(293)
of which social security	(54)	(67)
	71,091	**53,309**

Liabilities to affiliated companies include EUR 595 thousand (prior year: EUR 337 thousand) in liabilities to the shareholder ERWO Holding AG and other companies of the Südwolle Group. As in the previous year, they relate mainly to other recharges.

Residual maturity	31 Dec. 2016			31 Dec. 2015		
	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Liabilities to banks	1,463	37,500	12,500	6,832	22,964	3,750
Payments received	0	0	0	0	0	0
Trade payables	6,792	0	0	8,500	0	0
Liabilities on bill accepted and drawn	482	0	0	155	0	0
Liabilities to affiliated companies	605	0	0	337	0	0
Other liabilities	11,746	3	0	1,527	9,244	0
of which taxes	(375)	(0)	(0)	(293)	(0)	(0)
of which social security	(54)	(0)	(0)	(67)	(0)	(0)
	21,088	**37,503**	**12,500**	**17,351**	**32,208**	**3,750**

Other liabilities include EUR 11,080 thousand (prior year: EUR 9,240 thousand) in liabilities to related companies. Of that amount, EUR 9,800 thousand (prior year: EUR 9,240 thousand) relates to loans granted by China-based Zhangjiagang Yangtse Spinning Co. (ZYS) to Tenowo Huzhou Ltd., which bear interest at current rates and are due within one year.

(21) Classification of sales

	2016	2015
By division		
Hoftex	27,370	33,992
Neutex	18,999	17,348
Tenowo	133,297	123,210
Other	1,725	880
	181,391	**175,430**
By region		
Germany	69,288	69,508
Other EU member states	50,535	51,203
Rest of world	61,568	54,719
	181,391	**175,430**

The chart only includes sales with non-Group companies.

(22) Other operating income

The key items at Group level are income from the disposal of fixed assets at EUR 942 thousand (prior year: EUR 945 thousand), income from the derecognition of grants and subsidies received at EUR 735 thousand (prior year: EUR 735 thousand), income from the reversal of provisions no longer required at EUR 585 thousand (prior year: EUR 525 thousand), income from the recovery of receivables written off in prior periods and income from reduction in valuation allowances at EUR 147 thousand (prior year: EUR 308 thousand), other prior period income at EUR 321 thousand (prior year: EUR 304 thousand), foreign exchange/currency gains at EUR 1,084 thousand (prior year: EUR 1,971 thousand) and other operating income at EUR 393 thousand (prior year: EUR 514 thousand).

The services to companies of the Südwolle Group and rental income included in this item in the previous year were reclassified as sales for fiscal 2016 due to BilRUG.

(23) Cost of materials

	2016	2015
Cost of raw materials, consumables and supplies, and of purchased merchandise	88,131	84,355
Cost of purchased services	4,924	2,862
	93,055	**87,217**

The cost of materials ratio based on the operating income/loss (excluding other operating income) amounts to 51.0% (prior year: 51.1%).

(24) Personnel expenses

	2016	2015
Wages and salaries	35,869	34,711
Social security, post-employment and other employee benefit costs	8,015	7,063
of which for post-employment benefits	(245)	(139)
	43,884	**41,774**

On average during the year under review, the Company employed:

	2016	2015
Workers	844	840
Salaried employees	326	344
Apprentices	36	37
	1,206	**1,221**

(25) Other operating expenses

	2016	2015
Addition to valuation allowances, derecognition of receivables	326	471
Currency translation losses	517	296
Other prior-period expenses	428	267
Other general and administrative expenses	5,815	7,089
Operating costs	9,773	9,333
Selling expenses	8,017	8,205
Other operating expenses	1,990	1,727
	26,866	**27,388**

(26) Investment income

	2016	2015
Income from associates	447	145

(27) Net interest result

	2016	2015
Other interest and similar income	45	46
of which from affiliated companies	(0)	(0)
Interest and similar expenses	-2,029	-1,968
of which to affiliated companies	(-249)	(-293)
Interest expense from pension provisions	-475	-574
	-2,459	**-2,496**

The excess of plan assets over pension obligations amounts to EUR 28 thousand (prior year: EUR 30 thousand).

(28) Taxes on income

	2016	2015
Corporate income tax financial year	-267	-246
Release of prior-year corporate income tax provisions	40	79
Corporate income tax refunds	146	0
Trade tax financial year	-271	-252
Release of prior-year tax provisions	100	125
Trade tax refund	95	0
Changes in deferred taxes	-114	12
	-271	**-282**

(29) Other taxes

		2016		2015
Property tax		-551		-497
Motor vehicle tax		-18		-19
Other taxes				
- in Germany	-116		-75	
- in the US	-286		-106	
- in China	-107		-225	
		-509		-406
Wage taxes and VAT from tax audit		0		-282
		-1,078		**-1,204**

(30) Auditors' fees

Our Munich-based auditors Deloitte & Touche GmbH charged fees totalling EUR 322 thousand (prior year: EUR 335 thousand) for the year under review.

The following table provides a breakdown of the fees:

	2016	2015
Auditing services	190	181
Other certification services	22	30
Tax consultancy services	107	92
Other services	3	32
	322	**335**

(31) Remuneration of the Supervisory Board and Management Board

The provisions of Section 314 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 89 thousand (prior year: EUR 53 thousand).

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 381 thousand (prior year: EUR 380 thousand). Provisions totalling EUR 3,770 thousand (prior year: EUR 3,829 thousand) have been recognised for pension obligations to former members of the Management Board and their survivors.

(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.

(33) Contingent liabilities

	2016	2015
Bills of exchange	181	0
Guarantee obligations	120	110

Based on past experience, we do not expect any claims arising from contingencies.

(34) Other financial commitments

The other financial commitments contain EUR 5,540 thousand (prior year: EUR 6,375 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 the interest rate risk of its variable rate loans amounting to EUR 28,500 thousand. The hedges had a nominal volume of EUR 12,000 thousand on 31 December 2016, 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 33 months, the maturities of the interest rate hedges currently held correspond to those of the underlying transactions and these have been combined to create net hedges. As of the balance sheet date, the Company was not obliged to recognise provisions arising from the net hedges for these transactions.

The risk hedged with these net hedges amounted to EUR 546 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 2016, the fair value of the Group's interest rate hedges is as follows:

Expiry date	Nominal value	Carrying value	Fair value	Swap rate
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -137 thousand	1.3950 %
30 Sept. 2019	EUR 4.0 million	EUR 0 thousand	EUR -178 thousand	1.3600 %
30 Sept. 2019	EUR 2.0 million	EUR 0 thousand	EUR -92 thousand	1.4100 %
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -139 thousand	1.4200 %

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 2016, the fair value of these contracts is as follows:

	Expiry date (latest)	Nominal value	Currency in thousands	Positive market value in EUR thousand	Negative market value in EUR thousand
Forward sales	2 March 2017	50	USD	0	3
	3 April 2017	50	GBP	0	2
				0	**5**

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

(36) Report on events after the balance sheet date

As part of the debt restructuring with the *Schuldscheindarlehen*, the Company contracted additional interest rate hedges in the first quarter of 2017, in an aim to hedge against the risk of interest rate fluctuations as much as possible. At EUR 28,500 thousand, the hedged volume is equal to that of the variable-rate loans.
On 14 March 2017, a fire broke out in the fibre blending line of the Hof-based nonwovens plant of our subsidiary Tenowo GmbH. The fire almost completely destroyed one of four blending lines. Operations have resumed on the three remaining blending lines. In order to avoid delays in delivery, run times on the blending lines have been extended to the weekend with extra shifts. The damage to property and the business interruption resulting from the fire are covered by insurance less deductibles. There is no indication that the insurance company will reject the claim.

There were no other significant events after the balance sheet date.

(37) Members of the Supervisory Board

Waltraud Hertreiter Chairperson Independent Management Consultant Neubeuern
Martin Steger Deputy Chairperson Self-employed property developer Nürnberg
Werner Berlet IT-Manager Bad Homburg
Renate Dempfle Managing Director of PDV Inter-Media GmbH Augsburg
Johanna Falasa* Commercial employee Münchberg
York Riedel Independent attorney Nürnberg
Wolfgang Schmidt* Chairperson of the works council at Tenowo Hof und Reichenbach Hof
Tom Steger Independent attorney Nürnberg
Carmen Teismann* Laboratory technician Schwarzenbach/Saale

* elected by employees

(38) Members of the Management Board

Klaus Steger Chairperson of the Management Board, Chief Executive Officer Nürnberg
Volker Adrion (until 29 February 2016) Chief Financial Officer Münchberg
Jacques van den Burg (since 1 March 2016) Chief Financial Officer Wendelstein

(39) Corporate group

HOFTEX GROUP AG, Hof, is a small corporation as defined in Section 267 HGB, the parent company of the Group and also a subsidiary of ERWO Holding AG, Schwaig. The two companies both prepare consolidated financial statements as the parent company of their respective groups that include each of their subsidiaries; they did not avail of the exemption provisions of Section 291 HGB. In the notes to the annual financial statements, HOFTEX GROUP AG reports that it is included in the consolidated financial statements of ERWO Holding AG. Further, the Company confirms that ERWO Holding AG prepares the consolidated financial statements for the largest group of companies (Section 285 no. 14 HGB) and that HOFTEX GROUP AG prepares the consolidated financial statements for the smallest group of companies (Section 285 no. 14a HGB). Both consolidated financial statements are available in the Electronic Federal Gazette.

(40) Group parent company's proposal for the appropriation of net income

With the consent of the Supervisory Board, a proposal will be made to the Annual General Meeting to allocate the net retained profits of HOFTEX GROUP AG as follow:

Payment of a dividend of EUR 0.20 per share on the subscribed capital of EUR 13,919,988.69 (= 5,444,800 no-par value shares)	€ 1,088,960.00
Allocation to the revenue reserves pursuant to Section 58(3) AktG	€ 1,200,000.00
Carry forward to new account	€ 100,252.72
Net retained profits	**€ 2,389,212.72**

Hof, 31 March 2017

HOFTEX GROUP AG

The Management Board

Steger van den Burg

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 2015 to 31 December 2016. 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, 5 May 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Stadter
Wirtschaftsprüfer (Public Auditor)

Markert
Wirtschaftsprüferin (Public Auditor)

HOFTEX GROUP AG, Hof/Saale
Balance sheet as of 31 December 2016

Assets in EUR thousand	31 December 2016	31 December 2015
Fixed assets		
Intangible fixed assets	1,452	504
Tangible fixed assets	1,483	1,478
Long-term financial assets	91,473	95,682
	94,408	**97,664**
Current assets		
Accounts receivable and other assets	78,082	79,562
Cash and cash equivalents	16,562	6,796
	94,644	**86,358**
Prepaid expenses	**12**	**209**
Total assets	**189,064**	**184,231**

Liabilities and equity in EUR thousand	31 December 2016	31 December 2015
Equity		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	45,215	41,715
Net retained profits	2,389	2,494
	102,682	**99,287**
Shareholder loans	**0**	**14,000**
Provisions	**10,000**	**10,419**
Liabilities		
Liabilities to banks	50,000	31,668
Trade payables	150	427
Liabilities to affiliated companies	26,135	28,371
Other liabilities	97	59
	76,382	**60,525**
Total equity and liabilities	**189,064**	**184,231**

HOFTEX GROUP AG, Hof/Saale
Income Statement for the 2016 financial year

in EUR thousand	2016	2015
Sales	3,378	0
Other operating income	17	2,545
Personnel expenses	-2,777	-2,860
Depreciation, amortisation and write-downs	-227	-211
Other operating expenses	-2,140	-2,310
Net investment income	4,524	6,235
Net interest income	1,772	1,939
Taxes on income	-150	-293
Earnings after tax	**4,397**	**5,045**
Other taxes	-76	-380
Net income for the financial year	**4,321**	**4,665**
Retained profits brought forward	168	161
Appropriation to revenue reserves	-2,100	-2,332
Net retained profits	**2,389**	**2,494**

HOFTEXPLOSION 3

KUNST- & KULTURFESTIVAL

22. bis 24. SEPTEMBER 2017

HOFTEX GROUP
TEXTILE TECHNOLOGIES

HOFTEX GROUP AG
Fabrikzeile 21
95028 Hof
Germany

Phone +49 (0) 9281-49-0
Fax +49 (0) 9281-49-216

vorstand@hoftexgroup.com
www.hoftexgroup.com