ANNUAL REPORT 2018

HOFTEX GROUP

TEXTILE TECHNOLOGIES

Key figures for the Hoftex Group

		2018	2017	2016	2015	2014
External sales	EUR million	174.1	182.6	181.4	175.4	185.1
Gross revenue	EUR million	173.6	181.0	182.4	170.7	177.2
Gross profit [1]	EUR million	86.4	88.7	89.3	83.5	82.0
Cash flows from operating activities	EUR million	18.4	16.3	21.7	23.2	19.6
Personnel		1,197	1,220	1,206	1,221	1,286
Capital expenditure on tangible fixed assets	EUR million	11.7	8.8	16.0	24.8	26.2
Depreciation, amortisation and write-downs	EUR million	10.5	10.6	11.6	10.0	9.8
Result current year	EUR million	8.0	6.8	7.8	6.1	3.5
Earnings per share	EUR million	1.5	1.3	1.4	1.1	0.7
Cash flows	EUR million	17.0	15.0	18.9	18.2	16.3
EBITDA	EUR million	20.8	20.4	22.2	19.0	18.7
Net senior debt to EBITDA ratio	x-fold	1.0	1.9	1.4	1.1	0.7
Dynamic debt-equity ratio [2]	Years	3.4	5.1	3.9	3.5	4.0
Balance sheet total	EUR million	194.3	188.6	191.2	180.1	174.7
of which tangible fixed assets	EUR million	98.1	92.8	97.4	94.7	83.8
balance-sheet equity	EUR million	105.8	98.0	96.4	89.5	82.7
economic equity [3]	EUR million	104.4	96.8	95.3	103.3	100.3
Equity ratio [4]	%	53.7	51.3	49.9	57.3	57.4

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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Letter to Shareholders

Dear shareholders,

The difficult economic environment made 2018 a challenging year for the Hoftex Group. Despite lower sales we were able to achieve a very satisfactory EBITDA of EUR 20.8 million.

Production growth waned in nearly every industry sector in 2018. Automotive production experienced a distinct decline due to the transition to the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in autumn 2018. We also saw a drop in demand in our TENOWO division during the second half of 2018. For years we have steadily expanded our product portfolio by developing new business sectors. Nevertheless, the automotive industry remains our most important customer sector. Consequently, we failed to meet our sales growth projections for this industry. Similarly, both the HOFTEX and NEUTEX divisions were unable to avoid the effects of overall market developments in the textile and apparel segments, where sales dropped by -1.8 %, and were compelled to revise down revenues.

The acquisition of an Italian nonwoven manufacturer in September 2018 and the sale of our share in Indian nonwoven producer Supreme Nonwoven Industries Pvt. Ltd. in September 2018 enabled us to reposition our portfolio in the TENOWO division and take an important step in developing our company's strategic direction going forward.

We are also making further investments in securing and expanding our own production capacities and technologies in our various locations. We spent more than EUR 12 million in total on long-term financial and tangible fixed assets. We will continue to invest this year to ensure and further strengthen our performance capability in the future and push ahead with new technologies and markets.

In light of operating development in 2018, the Management Board and the Supervisory Board of the Annual General Meeting will recommend payment of a dividend of EUR 0.25 per share. This represents an increase of 14 % compared to the previous year. We consider this payment to be appropriate and financially viable. We do hope, dear shareholders, that you will continue to accompany us on our journey and would like to express our gratitude for your confidence in us during the fiscal year just ended.

The difficult and unpredictable macroeconomic environment will make 2019 a year full of challenges. We believe the Hoftex Group's strategic direction positions us well for the future and see our flexible organisation as a medium-sized enterprise as a strength that enables us to effectively respond to changing market conditions.

We would like to take this opportunity to thank the nearly 1,200 employees around the world for their commitment and dedication. It was a year shaped by numerous political and economic uncertainties. However, our work together as a team enabled us to further improve earnings and set a strategic course for the future.

Hof, 29 March 2019

Klaus Steger Chairman of the Management Board	Robert Seibold CFO

Supervisory Board Report

During the 2018 fiscal year, the HOFTEX GROUP AG 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, all of which 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.

In addition to regular reporting from the Management Board at Supervisory Board meetings, both the resigning Chairperson of the Supervisory Board Waltraud Hertreiter and her successor Tom Steger remained in 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. The Supervisory Board also met at a constituent meeting following the new elections by the Annual General Meeting. No extraordinary meetings were convened. With the exception of one meeting, for which one member was excused, 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.

Alongside recurring topics, the Management Board presented the Group's medium-term forecasts at the 26 March 2018 meeting. Moreover, the Board received detailed information about the NEUTEX division. Following an overview of current Group performance, the Management Board presented the 2018 forecast and strategic development measures for NEUTEX. The agenda also included reporting on the TENOWO division's individual acquisition projects.

At the 17 May 2018 meeting, the Supervisory Board held a comprehensive review of the annual financial statements and audit reports as of 31 December 2017 for HOFTEX GROUP AG and the Group. The Board approved the agenda for the Annual General Meeting, along with the various resolution proposals. In addition to regular reporting from the Management Board regarding current business development, the committee focused on approving the sale of the shares in Indian nonwoven manfacturer Supreme Nonwoven Industries Pvt. Ltd. The matter was resolved following a thorough Supervisory Board debate.

The meetings on 17 September 2018 concentrated on a report detailing the key figures for the Group as of July 2018 along with Tenowo GmbH's proposed acquisition of Italian nonwoven manufacturer Resintex Industriale S.r.l., headquartered in Milan. The submitted documents were used to discuss the planned acquisition in detail. This information was the basis for the final, unanimous approval.

In its final meeting of the fiscal year on 4 December 2018, the Supervisory Board received documentation outlining the Group's business performance as of October 2018, the year-end forecasts for 2017 and the Group's plans for the 2019 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 the 2019 fiscal year. The Supervisory Board was also presented with an in-depth overview of the risk management system implemented in the Hoftex Group and the status of the new ERP system roll-out.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2018. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2018 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 20 May 2019 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 2018, as well as the Group management report, the Management Board's proposal for the appropriation of the net retained profits and the audit reports. The Supervisory Board duly noted and approved the audit findings. Following the Supervisory Board's careful review of the single-entity and consolidated financial statements, the Group management report and the proposal for the appropriation of profits, no objections were raised. The Supervisory Board approved and thus adopted the annual financial statements prepared by the Management Board of HOFTEX GROUP AG as of 31 December 2018. 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 2018 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 certification:

"Based on our duly performed audit and assessment, we hereby certify that:

1. The factual information contained in the report is accurate and
2. 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 HOFTEX GROUP AG Supervisory Board and Management Board have the following changes to report:

Jacques van den Burg, the incumbent Chief Financial Officer since 1 March 2016, resigned from the Management Board effective 31 July 2018. The Supervisory Board thanks Mr. van den Burg for his dedication and service to the company. At the same time, the Supervisory Board appointed Mr. Robert Seibold as member of the Executive Board and successor to former CFO Mr. van den Burg.

Ms. Waltraud Hertreiter resigned from her position on the Supervisory Board effective the end of the Annual General Meeting on 6 July 2018. The Annual General Meeting elected Ms. Melanie Liebert as the shareholder representative to the Supervisory Board for the remainder of the exiting member's term of office. The Supervisory Board thanks Ms. Hertreiter for her many years of extraordinary commitment and service to the company.

Mr. Tom Steger was elected Chairman at the subsequent constituent meeting of the Supervisory Board. Deputy Chairman Mr. Martin Steger was confirmed in his post.

The members of the Supervisory Board wish to express their sincere appreciation to the Management Board and the entire Group staff for their dedicated and successful efforts during the 2018 fiscal year.

Hof, May 2019

The Supervisory Board of HOFTEX GROUP AG

Tom Steger
Chairman of the Supervisory Board

Group Management Report for the 2018 Fiscal Year

1. Group fundamentals

1.1. Business model

The HOFTEX GROUP AG, established in 1853 with its registered office in Hof (Bavaria), is a group of companies operating in the global textile industry. 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. The Group comprises the HOFTEX, NEUTEX and TENOWO divisions, which specialise in the development, production and sale of innovative textile products for a wide range of applications. The companies of the Hoftex Group are active on three continents in five countries at a total of eleven manufacturing and sales locations, offering customers worldwide their services as a trusted partner.

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, 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 decorative fabrics and has for the past 50 years maintained a strong position in a sector where critical success factors include creativity, the ability to keep pace with changes in the zeitgeist of 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 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 and China is a market leader in the development and manufacturing of innovative technical textiles and nonwovens, demonstrating that the modern textile industry in Germany can still achieve success with steady growth rates. TENOWO develops and manufactures products such as acoustic nonwovens for the automotive industry as well as nonwoven textiles for the construction industry, the cable industry or the garment trade.

1.2. Group segments

The Hoftex Group is managed by strategic business units in the form of divisions. These are broken down by their specific manufacturing technologies and products in the HOFTEX (yarns & fabrics), NEUTEX (home deco) and TENOWO (nonwovens) divisions. HOFTEX GROUP AG is responsible for the Group's global strategic direction in its role as the holding company. Moreover, HOFTEX GROUP AG performs core duties for the Group's companies, including purchasing, human resources, corporate finance and accounting, taxes and finances, Group financial control, IT, legal and plant engineering.

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.

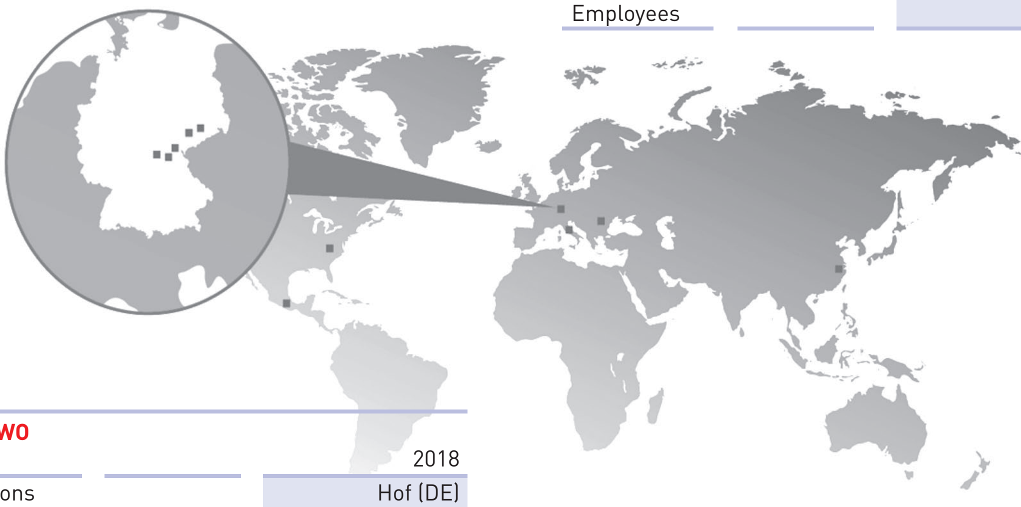
During the Annual General Meeting, the Chairman of the Supervisory Board presents the Management Board's written report.

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.

As of 31 December 2018 the Hoftex Group comprised 15 domestic (prior year: 16) and 4 foreign (prior year: 3) subsidiaries. The following chart presents an overview of the divisions and their locations:

HOFTEX

		2018
Locations		Hof (DE) Selbitz (DE) Drebach (DE)
Sales in	EUR million	22.7
Unit sales	million kg	3.3
Employees		161



TENOWO

		2018
Locations		Hof (DE) Reichenbach (DE) Mittweida (DE) Lincolnton (USA) Huzhou (CN) Milan (IT)
Sales in	EUR million	133.9
Unit sales	million m^2	272
Employees		739

NEUTEX

		2018
Locations		Münchberg (DE) Targu Mures (RO)
Sales in	EUR million	15.2
Unit sales	million m^2	4.2
Employees		249

Fig. 1: Group Overview

1.3. Strategy and objectives

As a medium-sized, family-operated business, the Hoftex Group intends to continue its sustainable, performance-based growth strategy.

To strengthen our position as a supplier and partner to our customers worldwide, we aim to achieve international growth and expand our global footprint. Customers benefit from shorter development and delivery times, which translates into a decisive advantage in global competition. We want to expand our positions in existing markets by supplying innovative products with the highest possible quality. We aim to extend our product portfolio by developing new business sectors. We will individually develop our strategic direction within the strategic Group guidelines taking into account the diversified markets of the individual divisions.

The divisions focus on manufacturing innovative products that meet the most exacting quality standards. To continue to ensure operating profitability in the future, we will concentrate on optimising capacity utilisation at all of our locations and dramatically improving the efficiency of our internal processes. To do this, we are aligning our processes with lean management principles and practising a culture shaped by a common understanding of quality. We see expanding our research and development activities and bundling the unique textile expertise within the Group as a fundamental task and key factor in our success.

Our employees ensure our company's sustained success. They make a crucial contribution to achieving our strategic goals with their professionalism, quality consciousness, loyalty, entrepreneurial spirit and motivation. Many different nationalities are represented at our worldwide locations. Here at the Hoftex Group, we see ourselves as a family with common values based on trust, fairness, integrity, compassion, communication, collaboration and a sense of responsibility and appreciation of others. We foster our employees' professional and social skills and build our strategic HR policy on continuing training and qualification measures along with an integrative leadership style.

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

Our sustainability management efforts focus on the topics we see in our daily business:

- Security
- Environmental protection
- Conservation of resources
- Compliance
- Personnel
- Social responsibility

The Hoftex Group has practised systematic energy management for years. Introducing a certified energy management system enables us to continuously review all of our processes to determine their energy efficiency and identify and eliminate vulnerabilities, making us even more energy efficient and cost effective in the process. We set benchmarks in all of our German locations with our ISO 50001-based audits.

Our product optimisation efforts and new developments are specifically designed to incorporate the use of environmentally friendly raw materials. For example, TENOWO has been using recycled/renewable fibres for years now. Around the world TENOWO completely refrains from the use of halogen and antimony-containing flame retardants.

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.

The companies in the Hoftex Group have agreed to comply with applicable legal health, safety and environmental requirements in every location. Ensuring our employees remain healthy and have a safe workplace is our number one priority. We strive to continuously improve work processes and plant safety. Our employees receive regular training to help identify and prevent workplace hazards.

1.5. Control system

The financial performance indicators decisive for corporate management include sales, EBITDA and total investments. Operating result, operating cash flow, and headcount by division are additional key indicators. The financial control system enables us to measure the achievement of division targets. The divisions provide the Management Board with regular, detailed reports on business performance. This information enables the Management Board to implement measures to counteract unsatisfactory developments in a timely manner.

Alongside the financial performance indicators used for corporate management, our management teams also focus on other non-financial metrics such as complaint costs, energy consumption and on-time deliveries.

1.6. Research and development

Research and development activities in innovative textile solutions are another building block in our strategy of positioning the Group as a global supplier and partner. And partnerships with research facilities and institutes are just as important a factor in this as our joint development work with customers. We focus on delivering customers optimum products that meet high quality standards at competitive prices. Our application-oriented sales staff define specific customer requirements early on to ensure they are incorporated into development work on established products and new advancements.

Our long-standing collaboration partners include the Hof University of Applied Sciences, DITF Denkendorf, the Saxon Textile Research Institute Chemnitz, Dresden University of Technology and RWTH Aachen, among others. Our development expertise and technological know-how is intelligently enhanced in collaborative projects.

The focus of research and development activities in the year under review included further enhancing product qualities, identifying new applications for our products and the environmentally friendly use of raw materials. Using recycled or biodegradable raw materials is becoming increasingly important. The TENOWO division developed nonwoven textiles made of recycled carbon fibres using a special manufacturing process to create products with unique properties in terms of strength and further processability for new fields of application. This development work prompted TENOWO to create the new “carbon compound” product group. The NEUTEX division focuses on creating new designs and additional product features using new weaving techniques or the use of new materials. The HOFTEX division’s main area of emphasis is the development of customer-specific yarns and threads.

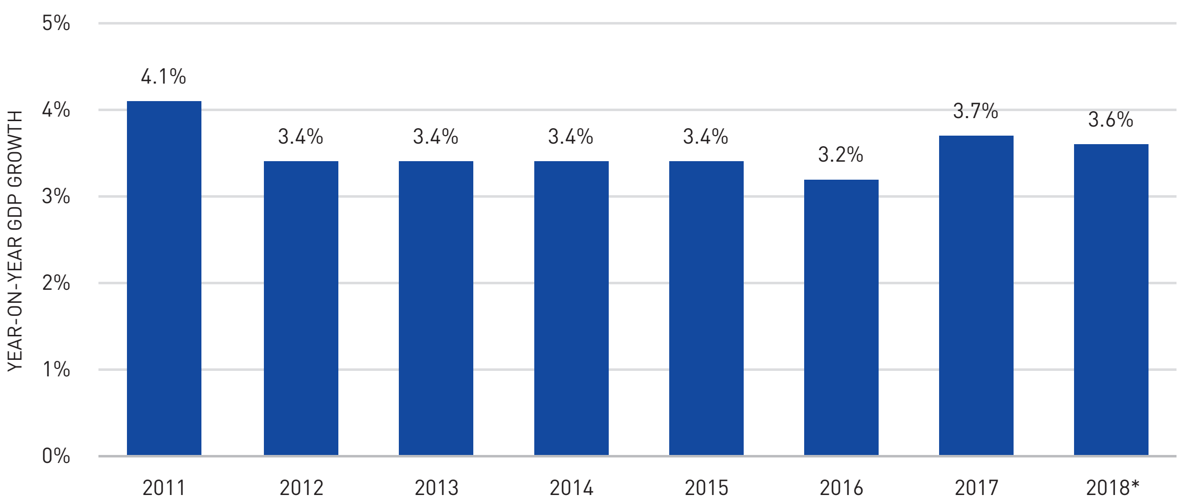
To further expand our technology expertise in nonwoven production, the Hoftex Group decided to build a technology centre for stitch-bonded fabrics at its Mittweida location. Concentrating product and process development in this location will help shorten development times and rapidly transfer the insights gained there to series production in the various locations.

A total of EUR 1.4 million (prior year: EUR 1.8 million) was spent on research and development during the fiscal year just ended. A total of 28 staff are employed in this division. Research and development activities are performed exclusively at Hoftex Group subsidiaries.

2. Economic report

2.1. Macroeconomic conditions

Although the global economy began to stabilise in 2017 and virtually all major national economies reported upward trends for the first time in several years, the economy only grew by a rate of 3.6 % in 2018, thus narrowly missing the International Monetary Fund's (IMF) projections.



Source: Chart supplied by Germany's Federal Statistics Office, based on annual figures published by the IMF *) Estimate

Fig. 2: Growth in global gross domestic product (GDP) from 2011 to 2018

In the advanced economies, dynamics remained moderate – industrialised economies reported 2.2 % growth. However, compared to 2017 the picture was somewhat less balanced at the geographic level. Growth in the Eurozone failed to keep pace with the previous year and slowed to 1.8 % in 2018 (prior year: 2.4 %): Germany, Italy and France in particular showed weaker performance compared to the previous year. In contrast, the US economy showed clear growth (2.9 %) over the prior year's rate (2.2 %) as it benefited from powerful economic policy measures.

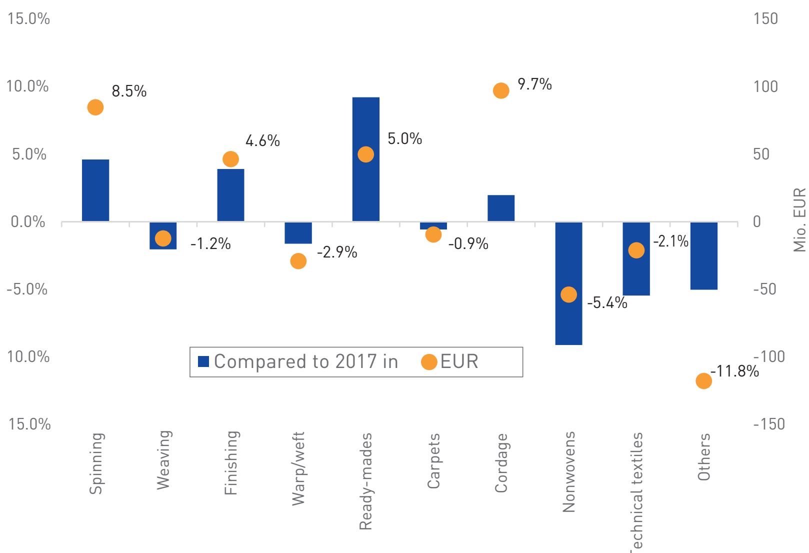
The emerging and developing countries demonstrated similar performance. The Chinese economy slowed slightly in 2018 with a growth rate of 6.6 %, falling just short of the previous year (2017: 6.9 %): The two main drivers for this were the ongoing trade conflict with the US and stricter financial regulations. Unlike China, the Indian economy did experience an accelerated growth rate of 7.1 % (prior year: 6.7 %): The Association of South-East Asian Nations(ASEAN) grew by 5.2 %, just below expectations (2017: 5.3 %): Russia continued the recovery that began in 2016 with 2.3 % growth in 2018 (prior year: 1.5 %): The Latin American countries were unable to continue their recovery at the previous year's pace as rates cooled (from 1.3 % in the prior year to 1.0 % in 2018).

2.2. Sector-specific conditions

Contrary to expectations, the business climate in the textile and fashion industry worsened. Total sales in the German textile and apparel sector (for companies with 50 employees or more) were EUR 17.4 billion in 2018. The market report published by the "textile + mode" trade association thus revised revenues down by -1.9 % (prior year: +1.8 %): Restrained consumer spending and unfavourable price trends in sales and procurement were the chief drivers behind these negative figures.

Fig. 3: Sales, employment and export trends in the textile and apparel sector in 2018

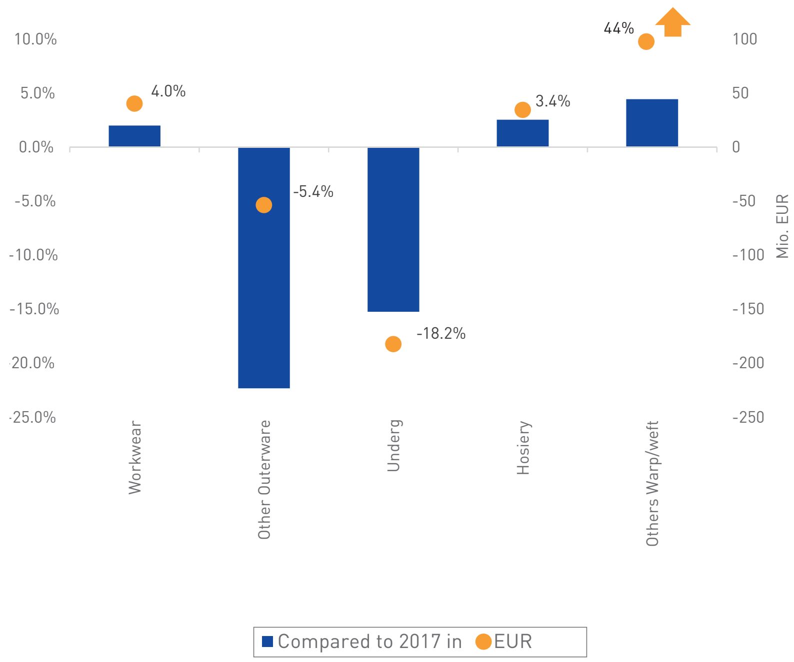
The textile segment was unable to maintain the performance of the previous year, falling below expectations with a slight dip in sales of -0.4 % (prior year: +1.3 %). After the nonwovens segment had slightly recovered in 2017 with a growth rate of 2.4 %, sales dropped by -5.4 % in the year under review. The technical textiles segment also saw a drop in sales (-2.1 %). One reason for the downward trend in both segments could be the extreme dependency on the automotive sector in some cases. Carmakers faced their own major setbacks due to emissions issues. Upward trends were observed in the spinning (+8.5 %) and ready-made (+5.0 %) segments in particular. The association of German Home Textile Manufacturers reported a -4.1 % decline in decorative fabrics segment, as the drop in sales continued in the year under review.



Source: Industry association "textile+ mode", February 2019 market report

Fig. 4: 2018 sales trends – textile segments

After achieving a growth rate of +2.5 % in the previous year, the apparel segment showed weak performance in 2018 with a -4.4 % decline in sales. The main reason behind this negative development was the slump in sales in other outerwear (-5.4 %), which makes up a major share of the apparel-segment. Moreover, the undergarments segment experienced significant declines; sales plummeted by -18.2 %. Even the growth in the workwear (+4.0 %), hosiery (+3.4 %) and warp/weft knitting (+44.0 %) segments was unable to compensate for this decline.



Source: Industry association "textile+ mode", February 2019 market report

Fig. 5: 2018 sales trends in the apparel segment

Employment levels in the German textile and fashion industry declined slightly (-0.5 %) this year due to the economic conditions. The textile segment had 0.9 % more employees, while the apparel segment saw a -3.5 % drop in employment.

Conversely, wage and salary levels rose by +1.3 %. The textile segment paid +2.9 % more than in the previous year, while wages in the apparel segment declined by -1.7 %.

Exports also rose during the year under review (+5.3 %). The export volume in the textile segment remained at the previous year's level (-0.1 %), while the apparel segment's exports climbed by +8.7 %.

2.3. Overview of business performance

The market environment proved to be quite challenging for the Hoftex Group overall during the 2018 fiscal year. The general weakness in the automotive industry had a ripple effect worldwide, particularly on the German economy. Accounting for more than half of our sales, business with the automotive supplier sector is also a key factor in the Hoftex Group's performance.

Our largest division **TENOWO's** 2018 sales were EUR 133.9 million, which translates into a decline of 2 % compared to the previous year's figure of EUR 136.4 million. As a specialist for the development and production of nonwovens, TENOWO has established itself as a key partner for technical applications in the automotive sector over the past few decades. However, weak growth in the US car market in particular meant that the strongest sales segment, automotive, underperformed both in terms of unit sales and sales growth. The decline in demand that began in the US in 2017 continued throughout 2018, causing the Lincolnton location to miss its sales targets. The dampening of German car production in the second half of 2018 also had a noticeable effect at some of our German locations. Nevertheless, the slight dip in the projected sales volumes enabled TENOWO to free up additional production capacities for development and process optimisation. The Chinese location in Huzhou managed to outperform the previous year's and the projected figures.

The traditional interlinings range, which comprises all apparel applications, developed according to plan, seeing its sales rise over the previous year. This market has been in decline in Europe for years but TENOWO continues to enjoy success along with solid sales.

The industrial market segment continued its upward trend. All other divisions also saw growth, not only compared to the previous year's figures but also above unit sales and sales targets. Industrial with its various applications, such as filtration, construction and medical, has now become another important segment for TENOWO. To further strengthen this range the TENOWO Group acquired Italian nonwoven manufacturer Resintex Industriale S.r.l., located in Milan. Resintex Industriale S.r.l. specialises in manufacturing and selling nonwovens for the apparel and medical segments. TENOWO wishes to leverage the acquisition of Resintex Industriale S.r.l. to optimally blend the technical and developmental expertise of both companies and further develop and market Resintex's existing product portfolio.

As part of its future strategic focus TENOWO signed an agreement on 20 April 2018 confirming the sale of its 49 % share in Supreme Nonwoven Industries Pvt. Ltd. to the Indian partners. The TENOWO Group's decision to acquire a share of Supreme in 2006 was a strategic one. The investment in our own production facility in China in 2014 and various investments in the expansion of our facilities in the US location have put TENOWO on a successful path to international growth ever since. As part of TENOWO's division strategy, a decision was made to place strategic focus on the European, Asian and American markets and to sell interests in Supreme to the existing fellow partners.

Moreover, TENOWO also made investments in its existing production locations in Germany and the US and expanded its capacities in stitch-bonding technology.

The **HOFTEX** division's sales during the fiscal year just ended were EUR 22.7 million (previous year: EUR 27.3 million). The decline of 16 % in total resulted from the sales lost as part of the Hoftex Max Süss GmbH asset deal and the decline in sales and unit sales in the two remaining segments, spinning and dyeing. Alongside the immense price pressure that has been building up over the years due to products HOFTEX must compete with from Turkey and Asia, HOFTEX also saw a decrease in demand from various customers in the apparel and decorative fabrics segments. In addition, fluctuations in demand expressed in irregular call-off order cycles with the maximum possible freedom for customers, presented a major challenge to production, engineering and development, which had a negative impact on efficiency and efficacy. The lack of qualified personnel in production in the spinning mill and dyeing plant only exacerbated the situation. The HOFTEX division was unable to meet its sales and earnings targets in 2018 as overall conditions remained challenging.

Consumers remained reluctant even in the second half of 2018, to the detriment of the **NEUTEX** division, which produces and supplies decorative fabrics, internal sun protection and technical fabrics. NEUTEX's total sales were EUR 15.2 million (prior year: EUR 16.8 million). The entire household textile market was unable to buck the downward trend despite the continued construction boom in Germany, and this is also reflected in the industry's figures. NEUTEX also saw a decline in domestic sales in the various segments in 2018. NEUTEX has increasingly focused its sales strategy on international markets for years now. While the NEUTEX division was able to further expand its market share in Western Europe and the US, Russian sales have been in a steady decline for years due to the political situation there and its impact on the Russian economy and consumer behaviour. The cost-containing measures and structural adjustments had a positive impact on the cost side, thereby improving the results of operations compared to the year prior despite the downturn in sales.

Business in both of the real estate divisions developed according to plan. Virtually all office, production and logistics space in the various commercial properties is under lease. The corresponding revenues were EUR 2.2 million (prior year: EUR 2.0 million). Following completion of extensive renovation work at the Hof-Moschendorf location, the results of operations have remained consistent for the most part.

2.4. Business performance

Results of operations

EUR million	2018	2017	Change abs.	in %
Sales	174.1	182.6	-8.5	-4.7
Gross revenue	173.6	181.0	-7.4	-4.1
Gross profit	91.0	91.9	-0.9	-1.0
Cost of materials	-87.2	-92.3	+5.1	-5.5
Personnel expenses	-45.6	-45.8	+0.2	-0.5
Net income for the year	8.0	6.8	+1.2	+17.6
EBITDA	**20.8**	**20.4**	**+0.4**	**2.0**

The Hoftex Group was unable to maintain the strong sales performance of the previous year. Sales fell by around 5 % to EURO 174.1 million. Sales revenues had already dipped below the previous year's levels in the first half of the year. However, counter to our expectations, all of the business divisions were affected by the cool down in business in the target markets. Sales were distributed evenly across the regions: Germany made up the largest share with 40 %, followed by the rest of the world with 31 % and other EU member states with 29 %.

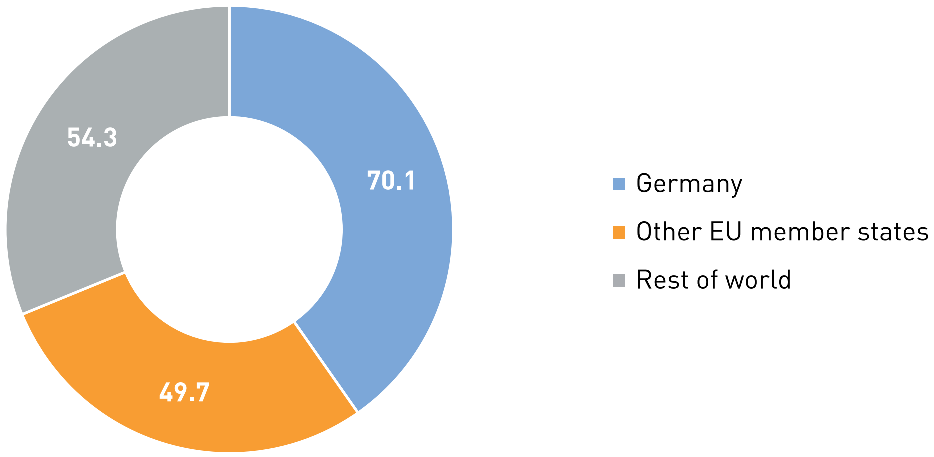


Fig. 6: Classification of sales by region in EUR million

With a gross profit of EUR 91.0 million, the Hoftex Group slightly underperformed compared to the previous year's value of EUR 91.9 million; this is a decline of 1 % and is attributable to the drop in overall performance. The reduction in finished and unfinished goods was EUR -0.5 million in the year under review compared to EUR -1.6 million in 2017. However, the gross profit margin increased from 51 % in 2017 to 52 % in 2018. This development was positively influenced by the reduction in the cost of materials ratio from 51 % in the previous year to 50 % in 2018. We benefited from lower procurement prices in international commodities markets and efficiency gains in production. Beyond this, other operating income increased from EUR 3.3 million in 2017 to EUR 4.6 million in the 2018 reporting year. The one-time effect of the sale of our share in Supreme Nonwoven Industries Pvt. Ltd. in the amount of EUR 1.7 million had a positive impact on income. The fiscal year from 1 April 2017 to 31 March 2018 marked the last time that a result was recorded as part of the at-equity valuation of our interest in Supreme Nonwoven Industries Pvt. Ltd. totalling EUR 0.7 million.

The cost-reduction programmes carried out in the various divisions over the past several years and stable production capacity utilisation in the individual locations had a positive effect on the cost side: Both personnel expenses and other operating expenses decreased slightly. Based on the overall results for the year, depreciation, amortisation and write-downs were just below the previous year's levels at EUR 10.5 million (prior year: EUR 10.6 million) and solely include scheduled depreciation and amortisation of tangible and intangible assets.

Thanks to the Hoftex Group's comfortable financial situation, net interest income improved from EUR -2.1 million to EUR -1.8 million.

Overall, this resulted in consolidated net income for the year of EUR 8.0 million (prior year: 6.8 million and EBITDA of EUR 20.8 million, which was just slightly higher than the previous year's figure of EUR 20.4 million. This constitutes a 2.0 % growth in earnings. Although it was not possible to fully achieve the projected growth for 2018, the defined earnings targets were met.

Financial position

With a balance-sheet equity ratio of 54.5 % as of 31 December 2018, the bonded loan (Schuldscheindarlehen) with a total volume of EUR 50.0 million and the working capital line of credit totalling EUR 14.0 million, the Group has a robust corporate financing structure. This gives the Hoftex Group the flexibility and the financial latitude to finance organic growth in the future along with additional, extensive investments so that it can push ahead with its international growth strategy.

The bonded loans commenced in 2016 with a term of three to seven years are variable/fixed-rate loans. This enables the Hoftex Group to ensure a stable corporate financing structure over the medium term.

Cash inflows from operating activities of EUR 18.4 million rose by EUR 2.1 million over the previous year, above all as a result of the consolidated net income for the year of EUR 8.0 million and the positive effect of the change in working capital and the lower income tax payments due to fewer back payments. This allowed the Group to finance the investments in fixed assets from cash flows from operating activities.

Cash flows from investing activities in 2018 were EUR 4.5 million (prior year: EUR -17.9 million). Payments for the sale of shares in Supreme Nonwoven Industries Pvt. Ltd. amounting to EUR 10.1 million were a major driver of this increase. However, the full repayment of the short-term working capital loans granted to ERWO Holding AG on balance of EUR 9.0 million also impacted cashflows. The payments primarily resulted from the acquisition of Italian nonwoven manufacturer Resintex Industriale S.r.l. amounting to EUR 3.3 million and the investments in intangible assets and in tangible assets totalling EUR 12.4 million.

Cash flows from financing activities in 2018 amounted to EUR -5.7 million (prior year: EUR -5.1 million). This item includes the loan repayment of EUR 2.0 million to affiliated companies.

Liquid assets available to us on 31 December 2018 were EUR 30.9 million. Group-wide net bank debt dropped from EUR 38.6 million in the previous year to EUR 20.7 million in the year under review.

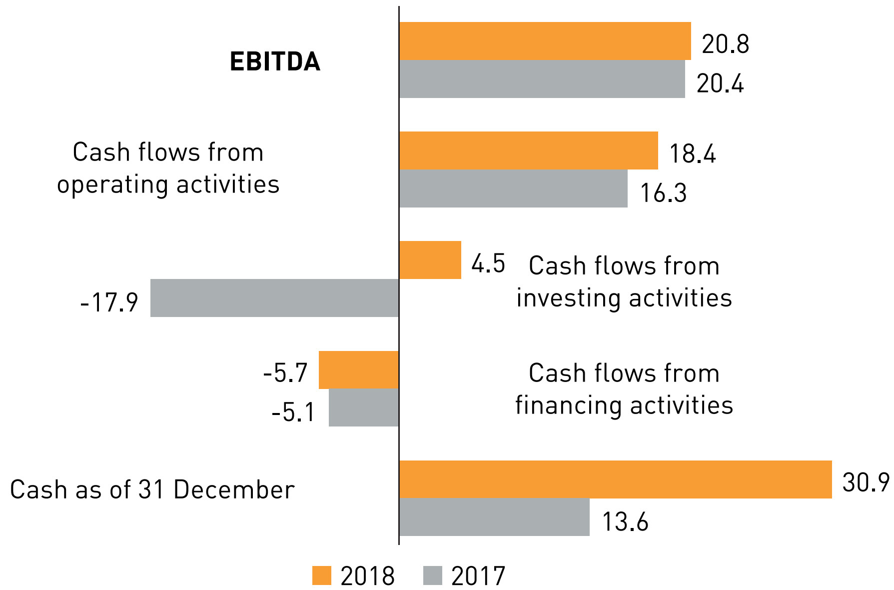


Fig. 7: Cash flow development in the Hoftex Group in EUR million

Net assets

As of 31 December 2018 the balance sheet total increased by EUR 5.7 million compared to the previous year's balance sheet date (prior year: EUR 188.6 million).

Fixed assets fell by EUR 1.8 million to EUR 101.0 million (prior year: EUR 102.8 million). The decline is largely due to scheduled depreciation and amortisation totalling EUR 10.5 million. Investments of EUR 0.6 million in intangible assets, largely related to the optimisation and expansion of the ERP system, had an adverse effect, as did investments of EUR 11.8 million in tangible assets. The latter mainly comprised expansion investments at Tenowo GmbH at the nonwoven location in Mittweida and the US subsidiary Tenowo Inc.

Long-term financial assets decreased by EUR 7.7 million due to the sale of the stake in Supreme Nonwoven Industries Pvt. Ltd.

The dramatic rise in liquid assets to EUR 30.9 million (prior year: EUR 13.6 million is mainly the result of the income earned from the sale of Supreme Nonwoven Industries Pvt. and the repayment of working capital loans by ERWO Holding AG. The repayment of EUR 9.0 million also resulted in a decline in receivables from affiliated companies.

Balance-sheet equity rose from EUR 98.0 million to EUR 105.8 million compared to the previous year. This increase is due to the consolidated net income earned for the year and the currency exchange rate effects recognised. The dividend payment of EUR 1.2 million had an adverse effect.

At EUR 9.1 million, the amount disclosed for pension provisions remains virtually unchanged. The allocable value of claims against insurance companies were deducted from the pension provisions. Tax provisions rose by EUR 0.1 million, while other provisions fell by EUR 1.0 million.

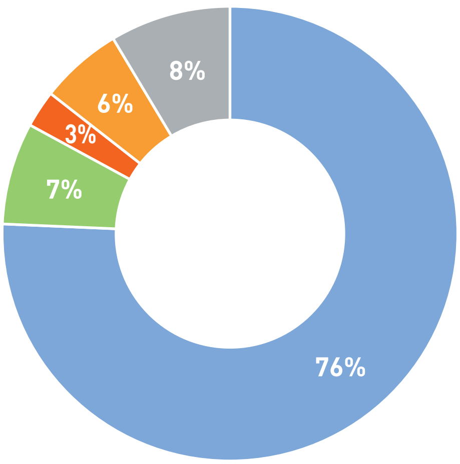
Liabilities totalled EUR 66.0 million (prior year: EUR 67.9 million). The main reason for the decline is the EUR 2.2 million reduction in the remaining liabilities. These also include short-term loans from affiliated companies for the Chinese subsidiary Tenowo Huzhou New Materials Co. Ltd. A cash repayment of the short-term loan was made in the amount of EUR 2.0 million during the year under review. Liabilities to banks fell by EUR 0.6 million. This decrease was chiefly due to the repayment of short-term loans by Tenowo Huzhou New Materials Co. Ltd. Bonded loans with a total volume of EUR 50.0 million are an integral part of the long-term financial obligations. The first cash repayment of the bonded loans will take place in late 2019 as scheduled in the amount of EUR 9.0 million. Comprehensive investment projects have not yet been completed, resulting in a rise in trade payables of EUR 0.9 million.

2.5. Personnel

The number of employees in the Hoftex Group in 2018 fell by 2 % to 1,197. The Group welcomed 32 new employees as a result of the acquisition of Resintex Industriale S.r.l., while 27 employees left the Group due to the Hoftex Max Süss GmbH asset deal. The Group employed a total of 1,213 people as of the balance sheet date on 31 December 2018.

At the end of the year 76 % of our employees worked in Germany.

The largest division of the Hoftex Group, TENOWO, also had the most employees in 2018 with 739 compared to the prior year's figure of 690. The largest location in terms of employees is the headquarters in Hof with 364 employees.



	2018	2017
Germany	918	947
Romania	88	88
Italy	32	0
China	71	74
USA	104	104

Fig. 8: Employees as of the balance sheet date of 31 December 2018 by country

3. Statement on Corporate Governance pursuant to Section 289f(4) of the German Commercial Code for the 2018 fiscal year

Guidelines on promoting the participation of women in leadership positions pursuant to Sections 76(4), 111(5) AktG

The Management Board and Supervisory Board have defined target gender quotas pursuant to the "Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector". The Supervisory Board's target for the gender quota of the two-person Management Board is still 0 %. The Supervisory Board resolved to appoint at least two women members by 31 December 2021. There are currently four women on the Supervisory Board, Renate Dempfle and Melanie Liebert representing the shareholders and Johanna Falasa and Carmen Teismann representing the employees. The Management Board of the HOFTEX GROUP AG has set a target of 20 % for the top management level below the Management Board on or before 31 December 2021. The gender quota for the top management level is currently 40 % 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.

4. Risk and opportunity report

The Hoftex Group is faced with numerous risks every day as part of the commercial undertakings of the individual business sectors and, consequently, the subsidiaries or that arise due to external influences. At the same time it is important for HOFTEX GROUP AG to identify opportunities for the company and to use these to achieve the company's targets and increase the competitiveness of HOFTEX GROUP AG and its subsidiaries.

It is the management's responsibility to identify any risks at an early stage and implement suitable measures to address them. The Hoftex Group established a corresponding risk management system to enable this.

The matrix below shows the risks and opportunities of the Hoftex Group:

Strategic risks and market risks	Operating risks
• Sites and countries • Competition • Price • Market trends and sales • Procurement market	• Production • Purchasing and logistics • Personnel • Project management • Research and development • Sales • Information management
Financial risks	**Compliance risks**
• Currencies and interest • Receivables • Liquidity • Inventory write-downs	• Regulations and laws • Environment • Code of conduct • Information security and data protection • Tax law • Capital markets

We will not go into each item in detail in the following. Instead, we will explain the areas with relevant risks and opportunities.

4.1. Risk management system

The Hoftex Group has a multi-tiered risk management system (RMS) and additional supporting control systems. Central oversight and coordination of the RMS processes is the responsibility of Group's finance and accounting managers and is integrated into the existing planning, controlling and information systems.
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 to the company.

Beyond this, efforts began in the 2018 fiscal year to revise and update the existing internal control system in order to adapt it to current risks and economic challenges.

All of the organisational rules and measures implemented to identify and manage the risks associated with business operations are included in the RMS. With regard to the Group's financial reporting process, structures have been defined at Group level that transfer overall responsibility for the internal control and risk management system to the Management Board. All corporate units and divisions are involved in the RMS via a suitable and defined 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. The following elements are relevant in terms of the internal control and risk management systems 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:

- Identification of key risk and oversight areas in the financial reporting process.
- Monitoring controls designed to oversee the financial reporting process and results at the 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 separation of duties and predefined approval processes.
- 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.

The following section outlines the risks and opportunities that can have a major impact on our results of operations, financial position and net assets. As a rule, reporting on risks and opportunities refers to all of the divisions of the Hoftex Group. Unless a specific company is expressly mentioned, the risks and opportunities affect all Hoftex Group subsidiaries.

4.2. Risks and opportunities

The global economy may for the most part be shaped by governmental policy in the 2019 fiscal year. Global economic growth already began to slow in late 2018. One of the main risks for a further levelling off in the medium term could be an intensification of the American-Chinese trade dispute. Since we operate a production site in China, higher import duties in the US could have a direct impact on us. Further barriers to trade could also have an effect on our value chain. For instance, a "disordered" Brexit poses a risk to us along with many other companies in the European Union and in Great Britain. Reluctance to make new investments could likewise reduce our order intake from Great Britain. To counteract this risk, the management is keeping a constant eye on the Brexit negotiations and crafting and coordinating appropriate measures. In general, the Hoftex Group's global orientation and international positioning is an opportunity and offers numerous options for counteracting global economic risks.

Strategic risks and market risks

The Hoftex Group depends on dynamic markets in a range of industry sectors. In terms of customers, the most important sectors are the automotive industry, the apparel and the household textile industry. In terms of suppliers, the Hoftex Group directly depends on the fibre production industry. A downturn in these industry sectors could pose a risk to the Hoftex Group in general. We are continually adapting our sales and marketing strategy to the current conditions in an attempt to win new markets and customers, counteract the risks mentioned above and further diversify our sales strategy.

We face powerful competitors in the textile industry worldwide. A further increase in competitive pressure, accompanied by rising raw material prices and growing price pressure from customers could have a significant impact on our results of operations and net assets. As a countermeasure, we always strive for close, positive customer relationships and constantly analyse the markets that are relevant to us.

Digitalisation is another global economic driver that should not be underestimated and is thus also important both in the textile industry and especially for us. Our aim is to remain one step ahead of the rest of the industry with digitalisation initiatives in production, administration and sales. We view this as a crucial, forward-looking opportunity to keep pace with market trends and take on a pioneering role in the industry.

Increasing digitalisation of processes and technologies enables us to improve our quality assurance systems and tools along our entire value chain, which can help reduce the risk of complaints.

Operating risks and opportunities

Research and development
Our research and development activities span a wide range of products and applications in the world of textiles. Major investments could increase the risk of losses, which in turn could have an impact on our net assets and results of operations. Nevertheless, our research and development team's innovative and creative work presents a tremendous opportunity for the entire group and is absolutely indispensable in maintaining our competitive edge.

Furthermore, close development partnerships with customers and suppliers help us leverage synergies and explore opportunities that can extend to the purchasing/procurement and sales teams.

Moreover, our research and development team is always exchanging ideas and information with its internal customers in the Group. This offers us the opportunity to network and transfer knowledge within the Group and target the relevant markets, products and solutions to ensure the future success of all of our subsidiaries.

Purchasing/Procurement

The Hoftex Group is highly dependent on raw materials procurement and is therefore exposed to some risks in the procurement market. Fluctuations in quality and price generally pose the greatest risk. In the Hoftex Group's divisions commodity prices are subject to regular fluctuations. The general increase in the global demand for raw materials means that prices are always rising. The Hoftex Group hedges its risk of quality fluctuations by continually monitoring its suppliers. The procurement team works closely with the respective suppliers and is always looking for development opportunities to minimise procurement risks on both sides.

The close collaboration between our procurement team and our suppliers enables us to take advantage of the future opportunities afforded by the growing trend towards transparency as it relates to sustainability in the value chain.

Production

Hoftex Group production depends on detailed, forward-looking planning. Deviations from the plan due to internal or external forces such as supplier delivery delays or change requests received from customers on short notice can lead to the risk of production delays. This in turn can result in overproduction or underproduction in selective cases. Close communication between the respective production facilities and our international positioning enable us to shift production capacities within the Hoftex Group as needed. This allows us to respond swiftly to problems in order to mitigate the risks mentioned above. Furthermore, production must always be able to anticipate quality, safety and environmental risks. We have the right management systems, occupational and environmental safety training courses and corresponding insurance policies to counteract these risks.

New production technologies made even more effective by digitalisation are an incredible opportunity for us. Connecting our production across all of our sites could enable us to use data analysis techniques to produce in an even more efficient and prudent manner, improve quality and achieve cost savings.

Sales

There are many demand-related opportunities and risks that could be significant for the Hoftex Group. Negative reports on textile industry activities in general and the automotive industry in particular could dampen our customers' buying behaviour. At the same time, positive reports in the media could present opportunities for subdivisions and the entire Hoftex Group.

Personnel

The race to recruit highly qualified employees and talent for specialised fields such as digitalisation and automation in production continues unabated in the regions in which we are active and in the textile industry in general. There is a risk of employees leaving the company in general, which would result in a loss of expertise in production and administration. Digitalisation and new technologies give us the opportunity to retain employees by offering them an interesting, modern and flexible working atmosphere, to motivate them and to find new candidates and get them excited about working for us.

IT

The Hoftex Group's system landscape plays a key role in the context of the digitalisation of our business models and processes. As a globally operating company, it is essential for us to ensure information is current, complete and correct and that it can be shared with ease. To ensure this we are always investing in our IT infrastructure and expanding it to adapt to current conditions, both internally and externally. Building on this, our project management will also expand and adapt accordingly.

Due to constantly changing requirements pertaining to the confidentiality and availability of data, the Hoftex Group defined preventative measures to minimise associated risks and possible damages. However, despite all of these precautions, the risk of malfunctions and attacks on our IT systems and improper handling thereof can never be fully mitigated. IT system malfunctions could significantly disrupt operations.

Financial risks and opportunities

Currency and interest

Due to its global operations the Hoftex Group is faced with risks and opportunities related to currency exchange rate fluctuations. These primarily result from fluctuations in the US dollar (USD) and the Chinese Yen (CNY) along with other currencies against the euro (EUR). Risks and opportunities arise in the Group's operations primarily when sales are generated in a different currency than the corresponding costs (transaction risk). The resulting risk is closely monitored and forward exchange derivatives are used to hedge against currency risk as needed. The Group is also exposed to risks and opportunities in relation to the translation of single-entity financial statements for consolidated companies outside the Eurozone into the Group's default currency, the euro (translation risk).

Interest risks and opportunities can arise due to rising or falling financing costs resulting from increases or decreases in interest rates. Interest rate hedges are held and interest rate developments are continuously monitored to mitigate potential risks.

Receivables

Outstanding receivables from customers or other payment obligations of third parties that remain unmet present a material risk to the Hoftex Group. Group financial control counters these risks by strictly monitoring the risk of default. Furthermore, outstanding customer debts and default risks are covered by trade credit insurance. Our customers' creditworthiness is reviewed on a regular basis by trade credit insurers and monitored and controlled by our credit insurance team.

Liquidity

The Hoftex Group can be exposed to liquidity risks if outstanding payment obligations are not met. A rolling liquidity plan and a multi-year financing plan help the Hoftex Group secure long-term credit lines and make cash and cash equivalents available. This also helps guarantee the Group's solvency and financial flexibility.

Capital markets

With our listing on the Munich Stock Exchange, the Hoftex Group is subject to regulatory guidelines and laws, which can also pose risks. We work closely with a law firm that supports our efforts to hedge capital market risks.

Compliance risks

Like other internationally operating companies, the Hoftex Group is exposed to a variety of legal and compliance risks. Risks can arise from potential legal disputes and compliance violations and from failure to meet regulatory requirements. In addition, we are subject to a broad range of public regulations worldwide that govern environmental protection, data protection and other legal guidelines. Non-compliance can lead to substantial fines, claims for damage and reputation loss. We work closely with a law firm and consultancy to mitigate these risks. Furthermore, we have a data protection officer, data protection coordinators and occupational safety officers in our various locations and work closely with external consultants.

5. Closing statement on the subordinate status report

Pursuant to Section 312 AktG, the Management Board of the Hoftex Group compiled a report about the relationships between the Hoftex Group and its affiliates during the 2018 fiscal year and presented it to the Supervisory Board. The final statement of the report declares: "Based on the circumstances known to it at the time the legal transactions were made with these affiliates, the Company received adequate consideration. No measures subject to reporting requirements occurred during the year under review."

6. Forecasts and outlook

6.1. Outlook on macroeconomic condition

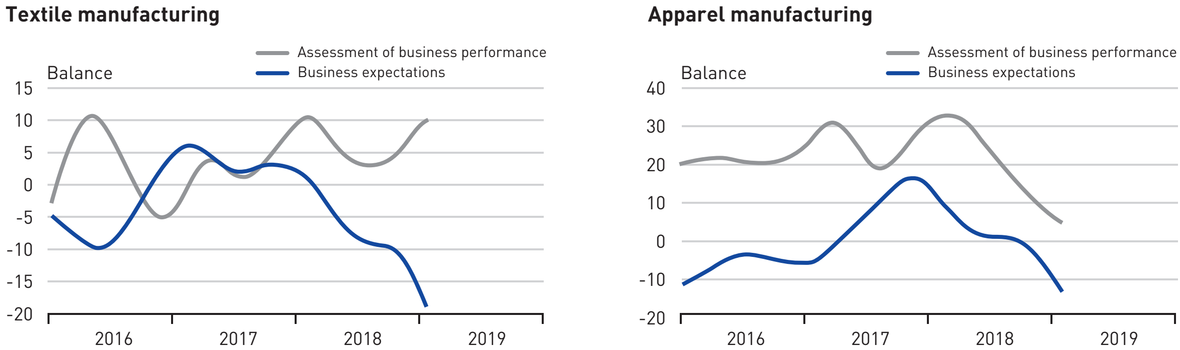
Economic experts expect global economic growth to cool in 2019: The International Monetary Fund forecasts global economic growth of 3.3 % in its most recent outlook. Key influencing factors include ongoing trade conflicts, a political landscape shaped by uncertainties and increasingly strict financial conditions overall.

Economic growth in the Eurozone will remain moderate in 2019 and is expected to slow compared to the previous year. The Brexit situation is still unclear and continues to bring tremendous uncertainties along with material risks for the economic development of Europe. The tax reform passed in the US last year and the temporary fiscal stimulus associated with it will begin to wane. If we also look at the trade conflict with China, the decline in available workers and the slump in capital spending, then the US is likewise headed towards an economic cool down. Overall the IMF predicts that growth in advanced economies will slow down to 1.8 %.

The Chinese economy will not grow as fast in 2019 either. Key factors in the slowdown include the trade conflict with the US, limits to lending growth and the anticipated drop in investments. The IMF also expects emerging and developing economies to cool and is predicting a 4.4 % growth rate.

6.2. Outlook on sector-specific conditions

The results of the ifo economic surveys on the textile and apparel segments indicate an increasingly negative outlook on the future. Possible reasons could lie in the general slowing of the global economy experts are anticipating, the drop in consumer sentiment, political uncertainties such as Brexit or protectionist tendencies in global trade and procurement market prices, which have risen dramatically in some areas.



Source: ifo economic surveys for 2019

Fig. 9: Economic growth in Germany

The preceding year's trend continued in the first quarter of 2018. Neither the apparel nor the textile sector is developing satisfactorily at the moment. Order intake, sales and economic indicators continue to show a downward trend. If consumer confidence remains weak in 2019, the weak growth we saw last year threatens to continue.

6.3. Outlook – business performance

The current market environment and the outlook for global economic growth in 2019 also indicate sluggish or declining development in the textile and apparel industry. The future course of international trade relations between the US and China will influence our sales growth just as much as the development of the automotive sector. The general economic conditions in the automotive industry will remain challenging in 2019 as well: Following the slump in demand for cars in the world's three largest auto markets, this trend is expected to continue in 2019. In addition, efforts to engineer alternative drive technologies and advancements in autonomous driving are the challenges of the future.

The market calming TENOWO experienced in the last quarter of 2018 is still ongoing. Under these circumstances, we now believe it will be very challenging indeed to achieve the unit sales and sales growth projected for 2019, which would essentially be facilitated by further expanding capacity utilisation of our newly installed machine fleet. One of our strategic focuses alongside intensive, personalised customer service is to concentrate our sales activities more on new business sectors and applications. We are strengthening our global sales team specifically for this purpose. Initial successes are already apparent. Nevertheless, these efforts will only have a partial effect in the short term; they should primarily be seen as medium-term measures to secure the success of our company. In addition, the acquisition of Industriale S.r.l. gives us access to new markets that we will focus on intently. In engineering and production we already began realigning and adding staff, not only to maintain existing facilities and manage the planned replacement and expansion investments as effectively as possible, but also to achieve further gains in quality and efficiency. We still see major opportunities and potential for further cost optimisation.

NEUTEX underscored its new positioning as a modern, innovative international household textile supplier at the annual "Heimtextil" trade fair in January 2019. Response was very good and the market reception of the international sales orientation was positive. Despite all of this, NEUTEX cannot escape the market trend; the industry economy will need to recover in order for us to exceed last year's growth as planned. The US market is quite interesting for us, and we see potential there. However, political frictions make it difficult for us to make specific growth projections. Another objective defined for 2019 is operational improvement through the optimisation of procedures, processes and logistics.

Following a less than satisfactory fiscal year in 2018, the HOFTEX division also began the year with a certain level of restraint. Customer call-offs have slowed and statements regarding order quantity forecasts remain cautious. This behaviour clearly reflects the general uncertainty in the economy. The sales teams have worked with engineering and production for years to implement customer demands in the most effective, individualised manner possible while ensuring that processes remain cost effective. Successive investments in new equipment and technology have helped the dyeing plant embrace the trend towards smaller batch sizes and shorter delivery cycles. It is becoming increasingly difficult to find qualified personnel for production, particularly at the Drebach site. Our efforts here include training and qualifying employees from other areas.

Due to the major political uncertainties, the economic situation and the business prospects in the markets and industries relevant to Hoftex Group companies, we anticipate sales to be sluggish overall for the current fiscal year, anywhere from -5 % to +5 % compared to the previous year (EUR 174.1 million). EBITDA is expected to be between EUR 17.0 million to EUR 19.0 million, below that of the year prior.

We are planning on investing EUR 16 million in 2019. The largest share will go to the TENOWO locations in Hof and Mittweida. While Hof is now acting on comprehensive modernisation plans it has had for some time for its facilities, Mittweida is building a new administrative building and technical centre.

The various TENOWO locations have been hiring a steady stream of new employees over the years to keep pace with expansion investments in the TENOWO division. There are no plans to reduce personnel during the 2019 fiscal year, meaning that the number of employees will remain constant.

However, for our expectations to be met it is important that global political frictions do not have a more profound effect on economic conditions than anticipated and therefore do not have a sustained negative effect on the economy.

Hof, 29 March 2019

HOFTEX GROUP AG

The Management Board

Klaus Steger Robert Seibold

HOFTEX GROUP AG
Consolidated balance sheet as of 31 December 2018

Assets in EUR thousand	Notes	31 Dec. 2018	31 Dec. 2017
A. Non-current assets			
I. Intangible assets	6	2,836	2,266
II. Tangible assets	6	98,134	92,769
III. Long-term financial assets	6/7	43	7,756
		101,013	**102,791**
B. Current assets			
I. Inventories	8	37,652	38,213
II. Receivables and other assets	9	23,151	32,473
III. Cash and cash equivalents	10	30,907	13,616
		91,710	**84,302**
C. Accrued and deferred items		**496**	**274**
D. Deferred tax assets	11	**1,107**	**1,195**
Balance sheet total		**194,326**	**188,562**

Equity and liabilities in EUR thousand	Notes	31 Dec. 2018	31 Dec. 2017
A. Equity			
I. Subscribed capital	12	13,920	13,920
II. Capital reserves	14	41,158	41,158
III. Revenue reserves	15	51,454	46,754
IV. Change in equity from currency translation		-2,281	-3,307
V. Consolidated net income (prior year: Consolidated net accumulated losses)	16	1,586	-538
		105,837	**97,987**
B. Provisions	17	**21,809**	**22,656**
C. Liabilities	18	**65,996**	**67,907**
D. Deferred tax liabilities	11	**684**	**12**
Balance sheet total		**194,326**	**188,562**

HOFTEX GROUP AG
Consolidated Income Statement for the 2018 fiscal year

in EUR thousand	Notes	2018	2017
Sales	19	174,103	182,609
Change in inventories of finished and unfinished goods		-485	-1,643
Gross revenue		**173,618**	**180,966**
Other operating income	20	4,626	3,262
Cost of materials	21	-87,207	-92,347
Gross profit		**91,037**	**91,881**
Personnel expenses	22	-45,556	-45,797
Depreciation, amortisation and write-downs	6	-10,545	-10,649
Other operating expenses	23	-24,559	-25,156
Operating result		**10,377**	**10,279**
Investment income expense	24	650	347
Interest income expense	25	-1,770	-2,108
Taxes on income	26	-465	-805
Earnings after tax		**8,792**	**7,713**
Other taxes	27	-770	-877
Consolidated net income for the year		**8,022**	**6,836**

HOFTEX GROUP AG
Consolidated statement of changes in equity as of 31 December 2018

in EUR thousand	Subscribed Capital	Capital reserves	Revenue Reserves	Change in equity from currency translation Consolidated	net accu-mulated gains/ losses	Total
Balance on 1 Jan. 2017	**13,920**	**41,158**	**42,254**	**849**	**-1,785**	**96,396**
2016 dividend payment					-1,089	-1,089
Consolidated net income for 2017					6,836	6,836
Foreign currency translation differences				-4,156		-4,156
Appropriation to revenue reserves pursuant to Section 58(3) AktG			1,200		-1,200	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			3,300		-3,300	0
Balance on 31 Dec. 2017	**13,920**	**41,158**	**46,754**	**-3,307**	**-538**	**97,987**
2017 dividend payment					-1,198	-1,198
Consolidated net income for 2018					8,022	8,022
Foreign currency translation differences				1,026		1,026
Appropriation to revenue reserves pursuant to Section 58(3) AktG			2,000		-2,000	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			2,700		-2,700	0
Balance on 31 Dec. 2018	**13,920**	**41,158**	**51,454**	**-2,281**	**1,586**	**105,837**

HOFTEX GROUP AG
Consolidated cash flow statement for the 2018 fiscal year

in EUR thousand	2018	2017
Consolidated net income for the year	8,022	6,836
+/- Depreciation, amortisation and write-downs of fixed assets/reversals of write-downs of fixed assets	10,545	10,649
+/- Increase/decrease in provisions incl. pension provisions	-1,277	-653
+/- Other non-cash expenses and income	-259	-1,848
-/+ Increase/decrease in trade payables and other assets not attributable to investing or financing activities	1,437	982
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	223	-488
-/+ Gain/loss on disposal of fixed assets	-1,831	-389
+/- Interest expense/interest income	1,434	1,711
- Other investment income	0	-152
+/- Income tax expense/income	465	805
-/+ Income tax payments	-313	-1.157
Cash flows from operating activities	**18,446**	**16,296**
- Payments to acquire intangible fixed assets	-621	-930
+ Proceeds from disposal of tangible fixed assets	994	596
- Payments to acquire tangible fixed assets	-11,743	-8,811
+ Proceeds from disposals of financial assets	10,055	0
- Payments for consolidated group additions	-3,277	0
+ Cash proceeds from short-term loans from the parent company	15,000	0
- Cash repayments of short-term loans to the parent company	-6,000	-9,000
+ Interest received	106	60
+ Dividends received	0	152
Cash flows from investing activities	**4,514**	**-17,933**
+ Cash proceeds from bank loans	130	762
- Cash repayments of bank loans	-1,111	0
- Cash repayments of short-term loans to affiliated companies	-2,000	-3,000
+ Proceeds from grants/subsidies received	36	40
- Interest paid	-1,540	-1,771
- Dividends paid	-1,198	-1,089
Cash flows from financing activities	**-5,683**	**-5,058**
Changes in cash and cash equivalents	**17,277**	**-6,695**
Effect on cash funds of exchange rate movements and remeasurement	14	-145
Cash and cash equivalents as of 1 January	13,616	20,456
Cash and cash equivalents as of 31 December	**30,907**	**13,616**

NOTES TO THE 2018 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 speciality 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 2018 are prepared pursuant to the provisions of the HGB and the AktG prevailing on the balance sheet date.

Section 290 HGB governs the obligation to prepare consolidated annual financial statements. The consolidated financial statements for the preceding fiscal year are to be prepared within five months of the new fiscal year. The consolidated financial statements have been prepared in euros (EUR). 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 2018 fiscal 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 31/12/2018 include 15 (prior year: 16) domestic and 4 (prior year: 3) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and therefore exercises control over these companies. The Hoftex 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 change in the consolidated companies was the result of the acquisition of a 100 % stake in Resintex Industriale S.r.l. The company produces nonwovens for apparel and medical applications and is located in Milan, Italy. There was also an asset deal merging Hoftex Max Süss GmbH with Hoftex GmbH effective 30 September 2018.

With an acquisition agreement dated 20 April 2018, Tenowo GmbH also sold all of its shares in Supreme Nonwoven Industries Private Limited to the Indian principal shareholders. The associated company was deconsolidated on 30 September 2018.

The subsidiaries Hoftex GmbH, Hoftex CoreTech 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 11 companies (prior year: 12), 5 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 2018 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	14,069	(CPTA) [7]
Hof Garn Verwaltungs GmbH	Hof	100.00	Euro	-207	-15
Hoftex CoreTech GmbH	Hof	[2] 100.00	Euro	150	(CPTA)
Hoftex Färberei GmbH	Hof	[2] 100.00	Euro	800	(CPTA)
Hoftex Färberei Betriebs GmbH	Hof	[3] 100.00	Euro	150	(CPTA)
Tenowo GmbH	Hof	100.00	Euro	63,171	(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 [8]	10,799	1,240
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	[4] 100.00	CNY [9]	47,691	-12,571
Resintex Industriale S.r.l. [12]	Milan, Italy	[4] 100.00	Euro	2,620	-140
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 [10]	13,278	2
Textil Hof Immobilien Geschäftsführungs GmbH [11]	Hof	100.00	Euro	85	7
Hoftex Immobilien II GmbH & Co. KG	Hof	100.00	Euro	12,821	1,243
Feinspinnerei Hof GmbH	Hof	100.00	Euro	45	-5
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	Euro	-	-
Non-consolidated companies as defined in Section 296(2) HGB					
HBD Textil-GmbH	Hof	100.00	Euro	4	-2

[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] This figure is reported including the result for the year.
[7] CPTA = Control and profit transfer agreement
[8] Spot rate on the closing date 31 December 2018: 1 Euro = 1.1450 USD
[9] Spot rate on the closing date 31 December 2018: 1 Euro = 7.8751 CNY
[10] Spot rate on the closing date 31 December 2018: 1 Euro = 4.6635 RON
[11] General partner of Hoftex Immobilien II GmbH & Co. KG.
[12] This fiscal year marked the first time that Resintex Industriale S.r.l., Milan, Italy, was included in the consolidated companies.

(3) Consolidation principles

For first-time consolidations before 1 January 2010, 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.

The first-time consolidation of the Italian subsidiary Resintex Industriale S.r.l. on 30 September 2018 resulted in an asset-side difference of EUR 566 thousand, which will be capitalised as goodwill and amortised over a period of five years. The useful life is chiefly defined by short-term contracts with customers.

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 2010 was 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. The entitlement of the exemption outlined in Section 313 (3) sentence 4 HGB is exercised here.

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 was amortised using the straight-line method over a period of five years, provided it was 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.

Taxes are deferred on the basis of the temporary concept. The single-entity financial statements of the companies included in consolidation recognise deferred tax liabilities 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 fiscal years and result in a tax charge. If the differences result in a tax savings in subsequent fiscal years, it is only recognised up a maximum of the deferred tax liabilities from other temporary differences. Where there is an excess of deferred tax assets over deferred tax liabilities, the resulting net deferred tax assets are not recognised. Deferred tax assets are not recognised for tax loss carry-forwards. Deferred tax assets for domestic Group companies are calculated using an income tax rate of 29 % (corporate tax rate 15 %, trade tax 14 %). The relevant income tax rate in the country in question is used for subsidiaries outside Germany and ranges between 16 % and 28 %.

If consolidation rules (Sections 300 to 307 HGB) 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 fiscal 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, which are both calculated with the flat tax rate of 29 %. Deferred tax assets and liabilities are netted in accordance with the option provided in Section 306 HGB.

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 3,088 thousand (prior year: EUR 3,189 thousand), and the settlement amount of the offset obligations amounts to EUR 4,447 thousand (prior year: EUR 4,430 thousand), resulting in a net post-employment benefit liability (provision) of EUR 1,359 thousand (prior year: EUR 1,241 thousand). In the interest income/expense item, expenses for the reversal of discounting on pension obligations are offset against the expected return on pension plan assets. Expenses for the reversal of discounting on pension obligations amounting to EUR 366 thousand (prior year: EUR 426 thousand) are offset against the expected return on pension plan assets of EUR 31 thousand (prior year: EUR 29 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 3.21 % 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 fiscal 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). The excess amount on 31 December 2018 resulting from exercising the option to choose between a seven and a ten-year average discount rate is EUR 703 thousand (prior year: EUR 725 thousand). The corresponding amount for HOFTEX GROUP AG of EUR 569 thousand (prior year: EUR 585 thousand) falls short of the dividend pay-out threshold.

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 2018 G Standard Tables published in 2018 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 insurance companies is EUR 1,816 thousand (prior year: EUR 1,921 thousand). Post- retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,694 thousand (prior year: EUR 2,717 thousand). The net liability of EUR 878 thousand (prior year: EUR 796 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 ongoing transactions. Provisions must also be set aside for deferred maintenance, which is to be completed within three months after the start of the subsequent fiscal 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 fiscal 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) Changes in comprehensive income for the period from 1 January to 31 December 2018

in EUR thousand	Acquisition and production costs						
	Balance on 1/1/2018	Currency translation	Changes in consolidated companies	Additions	Reclassifications	Disposals	Balance on 31/12/2018
I. Intangible assets							
1. Purchased software and other rights	5,000	3	0	621	0	66	5,558
2. Goodwill	0	0	566	0	0	0	566
	5,000	**3**	**566**	**621**	**0**	**66**	**6,124**
II. Tangible assets							
1. Land and buildings	127,703	356	3,655	800	2,732	2,614	132,632
2. Machines and equipment	206,814	1,158	1,910	4,609	850	3,559	211,782
3. Other equipment, furniture and fittings	54,526	24	68	965	0	665	54,918
4. Prepayments and assets under construction	2,365	13	0	5,369	-3,582	59	4,106
	391,408	**1,551**	**5,633**	**11,743**	**0**	**6,897**	**403,438**
III. Long-term financial assets							
1. Equity interest in affiliated companies	26	0	0	0	0	0	26
2. Equity interest in associates	10,495	0	0	0	0	10,495	0
3. Investments	16	0	0	0	0	0	16
4. Other loans	1	0	0	0	0	0	1
	10,538	**0**	**0**	**0**	**0**	**10,495**	**43**
	406,946	**1,554**	**6,199**	**12,364**	**0**	**17,458**	**409,605**

Cumulative depreciation amounts						Net carrying amounts	
Balance on 1/1/2018	**Currency translation**	**Changes in consolidated companies**	**Additions**	**Disposals**	**Balance on 31/12/2018**	**Balance on 31/12/2018**	**Balance on 31/12/2017**
0	0	0	38	0	38	528	0
2,734	**3**	**0**	**617**	**66**	**3,288**	**2,836**	**2,266**
83,035	162	177	1,741	2,041	83,074	49,558	44,668
165,257	807	1,558	7,188	3,383	171,427	40,355	41,557
0	0	0	0	0	0	4,106	2,365
298,639	**991**	**1,789**	**9,928**	**6,043**	**305,304**	**98,134**	**92,769**
0	0	0	0	0	0	26	26
2,782	0	0	0	2,782	0	0	7,713
0	0	0	0	0	0	16	16
0	0	0	0	0	0	1	1
2,782	**0**	**0**	**0**	**2,782**	**0**	**43**	**7,756**
304,155	**994**	**1,789**	**10,545**	**8,891**	**308,592**	**101,013**	**102,791**

(7) Equity interest in associates

In May 2006 Tenowo GmbH signed an interest acquisition agreement with an Indian group of compa nies 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".

Additional equity interest acquired in the company brought the equity share up to 44.9 % in 2008 and to 49.0 % in 2010. The associate's fiscal year runs from 1 April to 31 March of the subsequent year.

With an acquisition agreement dated 20 April 2018, Tenowo GmbH sold all of its shares in Supreme Nonwoven Industries Private Limited to the Indian principal shareholders. The equity interest was deconsolidated on 30 September 2018.

Offset goodwill of EUR 3,536 thousand with no impact on income was also treated as not having an impact on income as part of the first-time consolidation.

The financial statements issued for the fiscal year ending 31 March 2018 value the Group's share 49.0 %) as part of the final at-equity valuation for the year at EUR 650 thousand (prior year: EUR 347 thousand) less EUR 0 thousand (prior year: EUR 152 thousand) in dividends paid out, which is recorded on the balance sheet as EUR 650 thousand (prior year: EUR 195 thousand).

(8) Inventories

	31 Dec. 2018	31 Dec. 2017
Raw materials, consumables and supplies	17,111	17,349
Unfinished goods, services in progress	3,291	5,171
Finished goods and merchandise	17,250	15,619
Advance payments	0	74
	37,652	**38,213**

(9) Receivables and other assets

	31 Dec. 2018	31 Dec. 2017
Trade receivables	20,036	20,335
Receivables from affiliated companies	68	9,033
Other receivables and other assets	3,047	3,105
	23,151	**32,473**

As in the previous year, all receivables and other assets are due within one year.

The receivables from affiliated companies are all trade receivables (prior year: EUR 33 thousand). The short-term loan to ERWO Holding AG of EUR 9,000 thousand disclosed in the prior year was fully repaid during the year under review.

(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

Temporary differences between the book value and the tax base are recognised primarily for tangible fixed assets, receivables and other assets, long-term financial assets, other provisions and pension provisions. Tax loss carry-forwards are also recognised.

Deferred tax assets and liabilities are only recognised in the annual financial statements of the Group companies where deferred tax liabilities exceed deferred tax assets. The increase in deferred tax liabilities of EUR 672 thousand is attributable to the expansion in the consolidated companies. EUR 1,107 thousand in deferred tax assets were also recognised for consolidation entries during the 2018 fiscal year.

The following table shows the development of deferred tax assets and liabilities during fiscal 2018:

	2018	2017	Change
Deferred tax assets	1,107	1,195	-88
Deferred tax liabilities	684	12	672

(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

	2018	2017
Revenue reserves on 1 Jan.	46,754	42,254
Allocations pursuant to Section 58(3) AktG	2,000	1,200
Allocations pursuant to Section 58(2) AktG	2,700	3,300
Revenue reserves on 31 Dec.	**51,454**	**46,754**

(16) Appropriation of net profit

	2018	2017
Consolidated net losses on 1 January	-538	-1,785
Allocation to other revenue reserves by the Annual General Meeting pursuant to Section 58(3) AktG	-2,000	-1,200
Dividend payment	-1,198	-1,089
Accumulated consolidated losses brought forward	-3,736	-4,074
Consolidated net income for the year	8,022	6,836
Allocation to other reserves by the Annual General Meeting pursuant to Section 58(2) AktG	-2,700	-3,300
Consolidated net gains/losses on 31 December	**1,586**	**-538**

(17) Provisions

	31 Dec. 2018	31 Dec. 2017
Provisions for pensions and similar obligations	10,421	10,413
Excess of plan assets over pension liability	-1,272	-1,268
Disclosure of pension provisions	9,149	9,145
Tax provisions	870	742
Other provisions	11,790	12,769
	21,809	**22,656**

Other provisions are mainly obligations towards members of staff, guarantees, legal and consultation costs as well as outstanding invoices.

(18) Liabilities

	31 Dec. 2018	31 Dec. 2017
Liabilities to banks	51,587	52,225
Trade payables	6,800	5,872
Liabilities on bills accepted and drawn	134	394
Liabilities to affiliated companies	6,179	116
Other liabilities	1,296	9,300
of which taxes	(341)	(557)
of which social security	(144)	(75)
	65,996	**67,907**

Liabilities to affiliated companies include EUR 6,174 thousand (prior year: EUR 109 thousand) in liabilities to the principal shareholder ERWO Holding AG and other companies of the ERWO affiliated group. Of that amount, EUR 4,354 thousand relates to temporary working capital loans granted by China-based Zhangjiagang Yangtse Spinning Co. (ZYS) to Tenowo Huzhou Ltd., which bear interest at current rates. Due to a merger at the level of ERWO Holding AG with economic effect from 1 January 2018, ZYS is considered an affiliated company this year, while it was not last year. The EUR 6,343 thousand under other liabilities has thus changed accordingly. At EUR 205 thousand (prior year: EUR 116 thousand), liabilities to affiliated companies relate to delivery and service transactions, while EUR 1,620 thousand (prior year: EUR 0 thousand) relate to other liabilities.

Residual maturity	31.12.2018			31.12.2017		
	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	10,399	41,188	0	2,225	40,000	10,000
Trade payables	6,800	0	0	5,872	0	0
Liabilities on bills accepted and drawn	134	0	0	394	0	0
Liabilities to affiliated companies	6,179	0	0	116	0	0
Other liabilities	1,296	0	0	9,300	0	0
of which taxes	(341)	(0)	(0)	(557)	(0)	(0)
of which social security	(144)	(0)	(0)	(75)	(0)	(0)
	24,808	**41,188**	**0**	**17,907**	**40,000**	**10,000**

As a group, HOFTEX GROUP AG and its subsidiaries are jointly and severally liable for all debts to their lending banks.

(19) Classification of sales

	2018	2017
By division		
Hoftex	22,735	27,279
Neutex	15,243	16,818
Tenowo	133,871	136,443
Other	2,254	2,069
	174,103	**182,609**
By region		
Germany	70,056	71,255
Other EU member states	49,742	52,531
Rest of world	54,305	58,823
	174,103	**182,609**

(20) Other operating income

	2018	2017
Income from the reversal of provisions	1,641	1,155
Foreign exchange/currency gains	336	1,122
Income from the disposal of fixed assets	1,972	398
Income from the recovery of receivables written off in prior periods and income from reduction in valuation allowances	288	195
Other prior-period income	164	210
Other operating income	225	182
	4,626	**3,262**

The income from the disposal of fixed assets includes EUR 1,691 thousand in cumulative currency gains relating to the deconsolidation of a subsidiary..

(21) Cost of materials

	2018	2017
Cost of raw materials, consumables and supplies, and of purchased merchandise	84,244	88,515
Cost of purchased services	2,963	3,832
	87,207	**92,347**

The cost of materials ratio based on the operating income/loss (excluding other operating income) amounts to 50.2 % (prior year: 51.0 %).

(22) Personnel expenses

	2018	2017
Wages and salaries	37,116	37,648
Social security, post-employment and other employee benefit costs	8,440	8,149
of which for post-employment benefits	(453)	(-67)
	45,556	**45,797**

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

	2018	2017
Industrial employees	830	850
Salaried employees	323	330
Apprentices	44	40
	1,197	**1,220**

(23) Other operating expenses

	2018	2017
Addition to valuation allowances, derecognition of receivables	250	352
Currency translation losses	462	824
Other prior-period expenses	192	134
Other general and administrative expenses	5,694	5,281
Operating costs	8,732	8,653
Selling expenses	7,943	7,978
Other operating expenses	1,286	1,934
	24,559	**25,156**

(24) Investment income/expense

	2018	2017
Income from associate companies	650	347

(25) Interest income/expense

	2018	2017
Other interest and similar income	136	89
of which from affiliated companies	(92)	(22)
Interest and similar expenses	-1,906	-2,197
of which to affiliated companies	(-250)	(0)
of which from the reversal of discounting on pension obligations	(-366)	(-426)
	-1,770	**-2,108**

The excess of plan assets over pension obligations amounts to EUR 31 thousand (prior year: EUR 29 thousand).

(26) Taxes on income

	2018	2017
Corporate income tax financial year	-386	-457
Release of prior-year tax provisions	137	9
Corporate income tax refunds	52	38
Additional corporate tax payments	-100	0
Trade tax fiscal year	-292	-412
Release of prior-year tax provisions	250	32
Trade tax refund	0	30
Trade tax arrears	-50	-33
Changes in deferred taxes	-76	-12
	-465	**-805**

(27) Other taxes

		2018		2017
Property tax		-581		-585
Motor vehicle tax		-15		-18
Other taxes				
- in Germany	-73		-100	
- in the US	-20		-140	
- in China	-51		-42	
		-144		-282
Wage taxes and VAT from tax audit		-30		8
		-770		**-877**

(28) Auditors' fees

Our Munich-based auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft charged fees totalling EUR 344 thousand (prior year: EUR 335 thousand).

The following table provides a breakdown of the fees:

	2018	2017
Auditing services	205	189
Other certification services	30	27
Tax consultancy services	74	112
Other services	35	7
	344	**335**

(29) 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 90 thousand (prior year: EUR 89 thousand).

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 332 thousand (prior year: EUR 382 thousand). Provisions totalling EUR 3,309 thousand (prior year: EUR 3,509 thousand) have been recognised for pension obligations to former members of the Management Board and their survivors.

(30) 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 income 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. Due to changes in consolidated companies the consolidated balance sheet is only comparable with the cash flow statement to a limited extent.

(31) Contingent liabilities

	2018	2017
Bills of exchange	0	81
Guarantee obligations	120	120

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

(32) Other financial commitments

The other financial commitments include EUR 5,513 thousand (prior year: EUR 6,123 thousand) resulting from leasing contracts and purchase commitments.

(33) Derivative financial instruments

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. For the purpose of hedging against the interest rate risk on variable-interest long-term loans, the Company entered into six interest swaps with a combined value of EUR 28,500 thousand to minimise the risk of future interest rate increases. With a term of 9 months and 36 months, the interest rate hedges currently held have a term less than those of the underlying transactions and 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; in other words, the Company was able to avoid setting aside provisions for contingent losses on pending transactions, corresponding to the negative fair values in the amount of EUR 350 thousand.

On 31 December 2018, the fair value of the Group's interest rate hedges is as follows:

Fair value	Nominal value	Carrying value	Fair value	Swap rate
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -39 thousand	1.3950 %
30 Sept. 2019	EUR 4.0 million	EUR 0 thousand	EUR -50 thousand	1.3600 %
30 Sept. 2019	EUR 2.0 million	EUR 0 thousand	EUR -26 thousand	1.4100 %
30 Sept. 2019	EUR 3.0 million	EUR 0 thousand	EUR -39 thousand	1.4200 %
30 Sept. 2021	EUR 10.0 million	EUR 0 thousand	EUR -121 thousand	0.5225 %
30 Sept. 2021	EUR 6.5 million	EUR 0 thousand	EUR -75 thousand	0.5000 %

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

(34) Report on events after the balance sheet date

There were no significant events after the balance sheet date.

(35) Members of the Supervisory Board

Waltraud Hertreiter (until 6 July 2018) Chairperson Independent management consultant Neubeuern
Tom Steger Chairman (since 6 July 2018) Independent attorney Nuremberg
Martin Steger Deputy Chairman Independent property developer Nuremberg
Werner Berlet IT-Manager Bad Homburg
Renate Dempfle Managing Director of PDV Inter-Media GmbH Augsburg
Johanna Falasa* Commercial employee Münchberg
Melanie Liebert (since 6 July 2018) Independent auditor and tax consultant Augsburg
York Riedel Independent attorney Nuremberg
Wolfgang Schmidt* Chairman of the works council at Tenowo Hof and Reichenbach Hof
Carmen Teismann* Laboratory technician Schwarzenbach/Saale

* elected by employees

(36) Members of the Management Board

Klaus Steger Chairman of the Management Board, Chief Executive Officer Nuremberg
Jacques van den Burg (until 31July 2018) Chief Financial Officer Wendelstein
Robert Seibold (since 1 August 2018) Chief Financial Officer Abenberg

(37) 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.

(38) 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 follows:

Distribution of a dividend of EUR 0.25 per share on the subscribed capital of EUR 13,919,988.69 (= 5,444,800 no-par value shares)	¤ 1,361,200.00
Allocation to the revenue reserves pursuant to Section 58(3) AktG	¤ 1,500,000.00
Carry forward to new account	¤ 107,008.05
Net retained profits	**€ 2,968,208.05**

Hof, 29 March 2019

HOFTEX GROUP AG

The Management Board

Steger Seibold

Auditor's Report

for HOFTEX GROUP AG, Hof/Saale

Audit opinion

We have audited the consolidated annual financial statements of the HOFTEX GROUP AG, Hof/Saale, and its subsidiaries (the Group) – comprising the balance sheet as of 31 December 2018, the consolidated income statement, the statement of changes in equity, cash flow statement and notes for the fiscal year from 1 January 2018 to 31 December 2018, including the notes to the consolidated annual financial statements for the fiscal year from 1 January 2018 to 31 December 2018, including a presentation of the accounting policies. We also audited the Group management report of HOFTEX GROUP AG, Hof/Saale, for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with applicable German law, we did not audit the content of the Statement on Corporate Governance pursuant to Section 289f(4) HGB included in Section 3 of the Group management report.

In our opinion, based on the results of our audit,

- the enclosed consolidated financial statements comply with all German commercial laws and provide a true and fair view of the Group's net assets and financial position in accordance with German principles of proper accounting as of 31 December 2018 and the results of its operations for the fiscal year from 1 January 2018 to 31 December 2018 and
- the enclosed Group management report provides a true and fair view of the Group's situation. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German statutory provisions and accurately reflects the opportunities and risks of future growth. Our audit opinion on the Group management report does not extend to the content of the Statement on Corporate Governance.

In accordance with section 322 (3) sentence 1 HGB, we declare that our audit of the consolidated financial statements has not led to any reservations.

Basis for our audit opinion

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 HGB and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility in accordance with these regulations and principles is further outlined in the "Responsibility of the auditor for auditing the consolidated financial statements and Group management report" in our auditor's report. We are independent of the company in compliance with German commercial and labour laws and have performed all of our other professional duties under German law in accordance with these provisions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and the Group management report.

Other information

All other information is the responsibility of the Management Board. Other information includes:

- the statement on corporate governance in Section 3 of the Group management report under section 289f (4) HGB.
- the annual report, with the exception of the audited consolidated financial statements and our auditor's report.

Other information is beyond the scope of our audit opinion on the consolidated financial statements and the Group management report. As such, we are not providing an audit opinion or any other form of audit conclusions related thereto.

In conjunction with our audit of the consolidated financial statements, we are responsible for reading other information and determining whether this other information

- substantially deviates from the consolidated financial statements, the Group management report or our knowledge gained during the audit or
- in any other way appears to have been presented incorrectly.

Responsibility of the Management Board and the Supervisory Board for the consolidated financial statements and Group management report

The Management Board is responsible for preparing the consolidated financial statements, which comply with German commercial law in all material respects, and ensuring that they provide a true and fair view of the Group's net assets, financial position and results of operations, in accordance with German principles of proper accounting. Management is also responsible for the internal controls it deems necessary in accordance with German principles of proper accounting to enable the preparation of consolidated financial statements that are free from material misstatement – whether intentional or unintentional.

When preparing the consolidated financial statements, the Management Board is responsible for determining the Group's ability to continue as a going concern. It is also responsible for disclosing matters related to its business activities as a going concern provided these are relevant. Beyond this, the Management Board is responsible for balancing the activities of a going concern based on accounting principles, insofar as this does not conflict with actual or legal circumstances.

Moreover, the Management Board is responsible for preparing the Group management report, which provides a true and fair view of the Group's situation, is consistent with the consolidated financial statements in all material respects, complies with German statutory provisions and accurately reflects the opportunities and risks of future growth. Furthermore, the Management Board is responsible for enabling precautions and measures (systems) it deems necessary to prepare the Group management report in accordance with applicable German legal regulations and the ability to provide sufficient, suitable proof of the statements made in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for preparing the consolidated financial statements and the Group management report.

Responsibility of the auditor for auditing the consolidated financial statements and the Group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement – whether intentional or unintentional – and whether the Group management report as a whole provides a suitable view of the Group's position and is consistent in all material respects with the consolidated financial statements and the findings of our audit, complies with German legal regulations and accurately reflects the opportunities and risks of future growth, and to express an opinion that includes our audit opinion on the consolidated financial statements and the Group management report.

Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected for them to individually or collectively influence the business decisions of addressees made on the basis of these consolidated financial statements and the Group management report.

During the audit, we exercise due diligence and maintain a critical view. In addition

- we identify and assess the risk of material misstatements – whether intentional or unintentional – in the consolidated financial statements and the Group management report, plan and perform auditing activities in response to these risks and obtain evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of material misstatements not being detected is higher for violations than for inaccuracies, as violations may include fraudulent collusion, falsification, intentional incompleteness, misrepresentation or the overriding of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the Group management report to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the efficacy of these systems.
- we assess the appropriateness of the accounting policies used by the Management Board and the reasonableness of the estimates made by the Management Board and related disclosures.
- we draw conclusions on the appropriateness of the accounting principle applied by the Management Board for the continuation of the company's activities and, on the basis of the audit evidence obtained, whether there is any material uncertainty in connection with events or circumstances that could cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to express an opinion on the consolidated financial statements and on the Group management report based on the information contained therein.

  or,

if such information is inappropriate, to modify our respective opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Group no longer being able to continue as a going concern.

- we express an opinion on the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and on whether the consolidated financial statements present the underlying transactions and events in such a way that the they provide a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting.
- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the Group management report. We are responsible for directing, monitoring and performing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinion.
- we assess whether the Group management report is consistent with the consolidated financial statements, whether it conforms to applicable laws and the picture it presents of the Group as a whole.
- we perform audit procedures on the forward-looking statements presented by the Management Board in the Group management report. On the basis of sufficient, suitable audit evidence, we verify in particular the material assumptions underlying the forward-looking statements made by the Management Board and assess proper inferences made based on the assumptions from these forward-looking statements. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. There is a significant, unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss the planned scope and timing of the audit and significant findings of the audit, including any deficiencies in the internal control system that we identify during our audit with the individuals who are responsible for oversight.

Munich, 30 April 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Löffler Auditor	Tanja Markert Auditor

HOFTEX GROUP AG, Hof/Saale
Balance Sheet as of 31 December 2018

Assets in EUR thousand	31 Dec. 2018	31 Dec. 2017
Fixed assets		
Intangible fixed assets	2,212	2,156
Tangible fixed assets	1,241	1,388
Long-term financial assets	104,596	116,353
	108,049	**119,897**
Current assets		
Accounts receivable and other assets	55,366	65,283
Cash and cash equivalents	27,136	10,213
	82,502	**75,496**
Accrued and deferred items	**84**	**82**
Balance sheet total	**190,635**	**195,475**

Equity and liabilities in EUR thousand	31 Dec. 2018	31 Dec. 2017
Equity		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	54,415	49,715
Net retained profits	2,968	3,445
	112,461	**108,238**
Provisions	**8,768**	**9,256**
Liabilities		
Liabilities to banks	50,000	50,000
Trade payables	315	225
Liabilities to affiliated companies	18,999	27,420
Other liabilities	92	336
	69,406	**77,981**
Balance sheet total	**190,635**	**195,475**

HOFTEX GROUP AG, Hof/Saale
Income Statement for the 2018 fiscal year

in EUR thousand	2018	2017
Sales	4,146	3,745
Other operating income	349	22
Personnel expenses	-3,052	-3,004
Depreciation, amortisation and write-downs	-722	-380
Other operating expenses	-2,033	-1,843
Net investment income	6,561	7,187
Net interest income	666	1.819
Taxes on income	-381	-792
Earnings after tax	**5,534**	**6,754**
Other taxes	-113	-109
Net income for the fiscal year	**5,421**	**6,645**
Retained profits brought forward	247	100
Appropriation to revenue reserves	-2,700	-3,300
Net retained profits	**2,968**	**3,445**

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