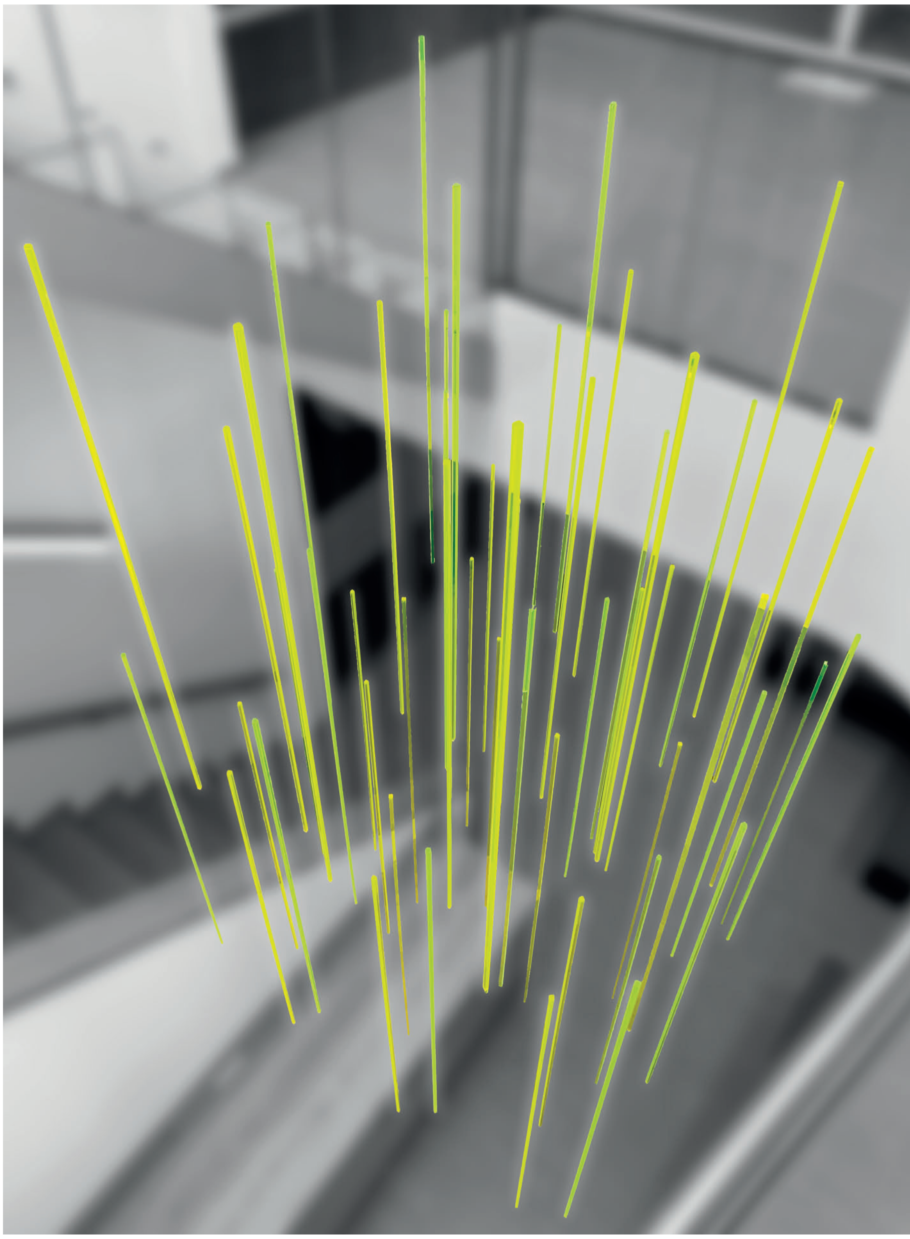
ANNUAL REPORT 2019



HOFTEX GROUP

TEXTILE TECHNOLOGIES

Key figures for the Hoftex Group

		2019	2018	2017	2016	2015
External sales	EUR million	171.1	174.1	182.6	181.4	175.4
Gross revenue	EUR million	166.8	173.6	181.0	182.4	170.7
Gross profit [1]	EUR million	83.0	86.4	88.7	89.3	83.5
Cash flows from operating activities	EUR million	19.2	18.4	16.3	21.7	23.2
Employees		1,136	1,197	1,220	1,206	1,221
Capital expenditure on tangible fixed assets	EUR million	14.6	11.7	8.8	16.0	24.8
Depreciation, amortisation and write-downs	EUR million	11.3	10.5	10.6	11.6	10.0
Result current year	EUR million	2.7	8.0	6.8	7.8	6.1
Earnings per share	EUR	0.5	1.5	1.3	1.4	1.1
Cash flows	EUR million	11.5	17.0	15.0	18.9	18.2
EBITDA	EUR million	15.4	20.8	20.4	22.2	19.0
Net senior debt to EBITDA ratio	x-fold	1.2	1.0	1.9	1.4	1.1
Dynamic debt-equity ratio [2]	Years	4.5	3.4	5.1	3.9	3.5
Balance sheet total	EUR million	182.8	194.3	188.6	191.2	180.1
of which tangible fixed assets	EUR million	102.7	98.1	92.8	97.4	94.7
balance-sheet equity	EUR million	107.8	105.8	98.0	96.4	89.5
economic equity [3]	EUR million	107.0	104.4	96.8	95.3	103.3
Equity ratio [4]	%	58.5	53.7	51.3	49.9	57.3

[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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Supervisory Board

During the 2019 fiscal year, the Supervisory Board played an advisory and supervisory role for the Management Board in all key transactions and strategic decisions relating to the Company and the Group, as stipulated in the German Stock Corporation Act, the Articles of Association and the Board's internal rules and procedures. With comprehensive written and oral reports, the Management Board regularly updated the Supervisory Board on the Group's business developments and financial position as well as its divisions, principal subsidiaries and key projects. The Supervisory Board also played a key role in the Group's investment, financial and personnel planning through regular reporting on issues such as order intake, staff development, sales, cash flows, earnings performance, variance analyses (forecasts vs. actual results) and the current cash position, 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, the Chairperson of the Supervisory Board was in regular contact with the Management Board and received updated information on current conditions and all key transactions.

During the year under review, the Supervisory Board met for four regular meetings. No extraordinary meetings were convened. With the exception of two meetings, for each of 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 Supervisory Board also addressed updates to the Management Board's internal rules and procedures during its meeting on 25 March 2019. The matter was resolved following a thorough Supervisory Board debate. The agenda also included the Management Board's report on the current performance of Italian nonwoven manufacturer Resintex Industriale S.r.l., which belongs to Tenowo, as well as measures for optimising production at the nonwoven locations in Hof and Mittweida.

At the 20 May 2019 meeting, the Supervisory Board performed an in-depth review of the annual financial statements and audit reports as of 31 December 2018 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 reporting regarding current business development, the Management Board informed the Board of the latest status of sales negotiations for the Hoftex division's spinning mill Hoftex CoreTech at the Drehbach location.

Along with a presentation of the key figures for the Group as of July 2019, the Management Board explained in its meeting on 16 September 2019 the various activities regarding the strategic further development of Neutex and the current status of investments in the Group.

In the final meeting of the fiscal year on 9 December 2019, the Management Board presented the Group's current business performance as of October 2019, the 2019 forecast, the Group's plans for the 2020 fiscal year and the investment budget for 2020 to 2023. 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 2020 fiscal year. Moreover, the Board received comprehensive information concerning the NEUTEX division. Based on a 10-point plan to be implemented, the Management Board outlined the future strategic direction and optimisation of Neutex.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2019. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2019 as well as the Group management report, the accounting system and the accounting-related 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 18 May 2020 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 2019, 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 2019. 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 2019 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 members of the Supervisory Board would like to thank the Management Board and the entire Group staff for their dedicated and successful efforts during the 2019 fiscal year.

Hof, May 2020

The Supervisory Board of HOFTEX GROUP AG

Tom Steger
Chairman of the Supervisory Board

Group Management Report for the 2019 Fiscal Year

1. Group fundamentals

1.1. Business model

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 six 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 dyed yarns and threads with a focus on applications for technical fabrics and apparel. Tailored to meet the needs of its customers, HOFTEX develops and dyes both traditional yarns and threads and numerous specialised yarns. The central location of its production and development facilities in Germany guarantees short lead times and on-schedule deliveries.

The NEUTEX division includes segments for weaving, dyeing and finishing of decorative fabrics. For over 50 years it has maintained a strong position in a sector where the critical success factors are 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. 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, for medical applications and 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), 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.

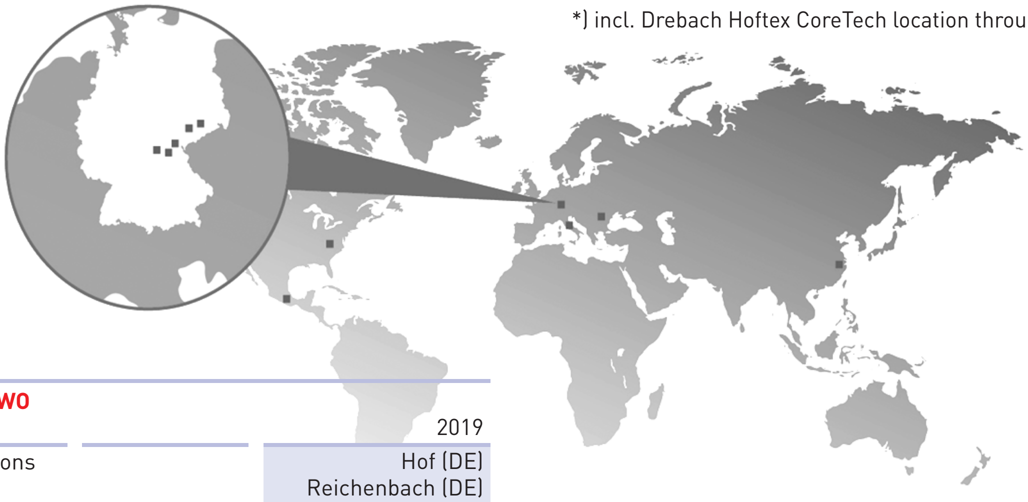
The Management Board comprises two members, while the divisions in the individual subsidiaries are run by their respective managing directors. The managing directors receive support from a management team that includes staff for sales, production/engineering and finance.

As of 31 December 2019 the Hoftex Group comprised 14 domestic (prior year: 15) and 5 foreign (prior year: 3) subsidiaries. The following chart presents an overview of the divisions and their locations:

HOFTEX

		2019
Locations		Hof (DE) Selbitz (DE)
Sales *)	in EUR million	20.5
Unit sales *)	million kg	2.4
Employees	Ø 2019	95

*) incl. Drebach Hoftex CoreTech location through 8/19



TENOWO

		2019
Locations		Hof (DE) Reichenbach (DE) Mittweida (DE) Lincolnton (USA) Huzhou (CN) Milan (IT) San Luis de Potosi (MX)
Sales	in EUR million	134.9
Unit sales	million m^2	272.3
Employees	Ø 2019	751

NEUTEX

		2019
Locations		Münchberg (DE) Targu Mures (RO)
Sales	in EUR million	13.4
Unit sales	million m^2	3.5
Employees	Ø 2019	243

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 HOFTEX GROUP AG along with its 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. Control system

The financial performance indicators decisive for corporate management include sales, EBITDA and total investments. The financial control system enables us to measure the achievement of division targets. The divisions provide the Management Board with detailed reports on business performance in regular Board meetings. 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 complaints received, energy consumption and on-time deliveries.

1.5. 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 collaboration partners include the Hof University of Applied Sciences, the University of Bayreuth, 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, developing new products, 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 uses recycled carbon fibres to create nonwovens, thereby offering a sustainable solution strategy for further processing this high-performance material. New types of nonwovens are developed from recycled carbon fibres using special manufacturing processes. The newly created products feature unique material properties in terms of strength and further processability and open up new fields of application and markets for TENOWO. The NEUTEX division focuses on creating new designs and additional product features using novel weaving techniques or new materials. This has led to new products made of natural fibres, such as wool blends.

To further expand our technology expertise in nonwoven production, the technology centre for stitch-bonded fabrics that opened at our Mittweida location in 2019 will be equipped with additional systems. Concentrating product and process development in this location helps shorten development times and rapidly transfer the insights gained there to series production in the various locations.

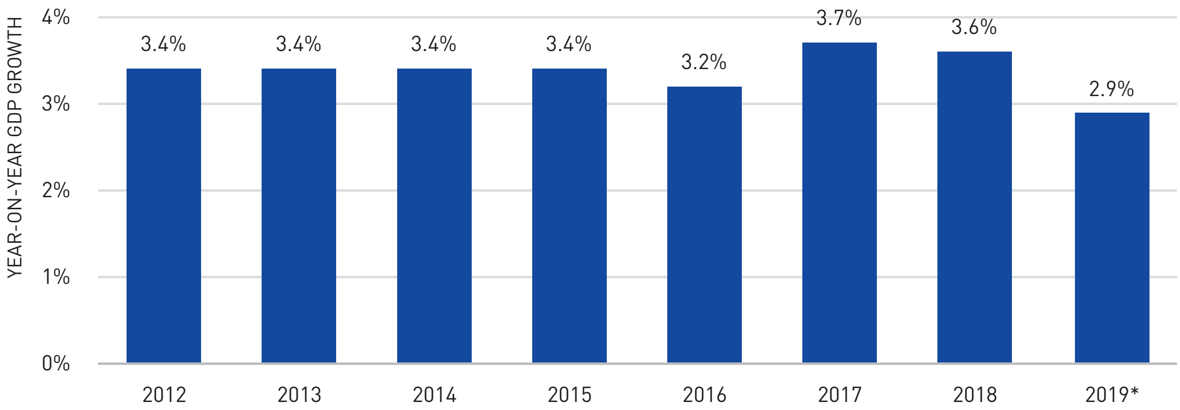
During the fiscal year just ended a total of EUR 1.4 million (prior year: EUR 1.4 million) was spent on research and development. A total of 25 staff are employed in this division. Research and development activities are performed exclusively at Hoftex Group subsidiaries.

2. Economic report

2.1. Overall economic development

There was slight decline in the global economy during the prior year and this trend continued in 2019. However, the economy cooled even further than predicted with a growth rate of 2.9% (IMF forecast for 2019: 3.3%):

Growth in global gross domestic product (GDP) from 2012 to 2019 (year-on-year)



Source: Proprietary chart based on figures published by the IMF (WEO from Jan. 2020) *) Estimate

Fig. 2: Growth in global gross domestic product (GDP) from 2012 to 2019

In the advanced economies, dynamics slowed as expected – industrialised economies reported 1.7% growth. Compared to the prior year the picture regained balance at the geographic level (with the exception of Japan). The Eurozone economy continued to cool again in 2019, while the growth rate dropped to 1.2% (prior year: 1.8%): Germany in particular witnessed a major drop in its growth rate to 0.5% (prior year: 1.5%): The US was unable to continue the positive trend seen during the prior year; the growth rate of 2.3% nearly returned to the level of 2017 (prior year: 2.9%): In contrast, the Japanese economy was able to recover somewhat from the stark decline in 2018 with a growth rate of 1.0% (prior year: 0.3%):

Growth also slowed in the Chinese market in 2019. The growth rate was 6.1% (2018: 6.6%), the slowest China has experienced in nearly 30 years. The Association of South-East Asian Nations (ASEAN) also saw a drop from 5.2% in 2018 to 4.7% in 2019. The Indian economy cooled dramatically, lagging far behind 2018 with a growth rate of 4.8% (prior year: 6.8%): Russia was unable to continue its recovery, which began in 2016, experiencing a growth rate of just 1.1% in 2018 (prior year: 2.3%): The drop in economic growth also continued in Eastern European countries this year. However, the slump was not as pronounced as predicted, making a growth rate of 1.8% possible (prior year: 3.1%).

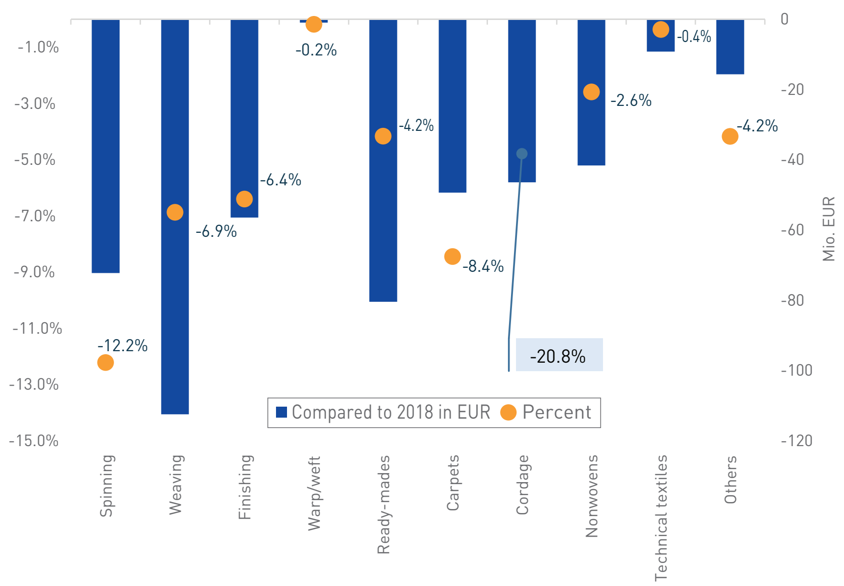
2.2. Sector trends

Contrary to expectations, the business climate in the textile and apparel industry further worsened. Total sales in the German textile and apparel sector (for companies with 50 employees or more) were EUR 16.8 billion in 2019. The market report published by the "textile + mode" trade association once again revised revenues down by -3.2% (prior year: -1.9%):

Fig. 3: Sales, employment and export trends in the textile and apparel sector in 2019

The textile segment continued to fall below expectations with a major decline in sales of -4.4% (prior year: -0.4%). The prepress areas spinning mill (-12.2%), weaving mill (-6.9%) and finishing (-6.4%) along with the home and household textiles (ready-mades -4.2%, carpets -8.4%) sector were especially affected. Unlike the previous year, no positive development was observed in any of the segments. Following a drop of -5.4% in nonwoven sales, this segment was also unable to recover appreciably this year (decline of -2.6%). Technical textiles dipped slightly into the red in 2019, recording a -0.4% drop in sales. Negative development in both segments is largely due to the cooling industrial economy, as many textile manufacturers are also suppliers and are highly dependent on other sectors like the automotive industry.

2019 sales trends – textile segments



Source: Industry association "textile+ mode", February 2020 market report

Fig. 4: 2019 sales trends – textile segments

Employment levels in the German textile and fashion industry declined overall (-2.2%) this year due to the prevailing economic conditions. The textile segment saw a -3.3% drop in employment, while the apparel segment held steady (+0.1%).

Wage and salary levels rose counter to employment levels. The textile segment paid -0.4% less than the previous year, while wages in the apparel segment rose by +2.7%.

Exports also rose during the year under review (+2.5%). The export volume in the textile segment remained below the previous year's level at -2.9%, while the apparel segment's exports climbed by another +5.6% this year.

2.3. Overview of business performance

Like the entire German economy, the Hoftex Group experienced a difficult fiscal year in 2019. As an internationally operating, export-centric corporation, divisions were particularly negatively impacted by international trade conflicts and Great Britain's decision to leave the EU. Uncertainties among customers and suppliers ultimately resulted in weakening global demand. The threat and imposition of punitive tariffs for a variety of goods also distorted competitive trade conditions for companies in the Hoftex Group. These developments were exacerbated by the fundamental structural shift in the German automotive sector – Germany's key industry and, responsible for well over half of sales generated, the Hoftex Group's largest buyer. Once the negative trend became clear during the second half year, we communicated this and adjusted our 2019 financial targets accordingly.

TENOWO Division

Our largest division's sales increased by 0.7% to EUR 134.9 million in 2019 (prior year: EUR 133.9 million). TENOWO was thus able to maintain a solid position in the marketplace despite the difficult conditions overall. As early as the third quarter of 2019, it was clear that the division would not be able to achieve its unit sales and sales growth targets for 2019. The weakening automotive economy was the main driver behind this lack of growth. TENOVO's nonwovens make it an established supplier among domestic and international automotive suppliers. Thus, the division was considerably affected by the sluggish global demand. Worldwide vehicle demand dropped by 5% in 2019, primarily influenced by demand in China plummeting by nearly 10%. Demand also declined in India, Japan, Russia and the US. The European car market reached levels slightly higher than the prior year (source: https://www.vda.de/en/services/facts-and-figures). The lack of buyer interest in 2019 resulted in a global decline in vehicle production. TENOWO's international locations also felt the effects of the weakened demand. Automotive sector sales slowed at the international locations in the US and China and at TENOWO's German sites. The US and Chinese locations faced the greatest drops in sales, which ultimately led to imbalances and fluctuations in capacity utilisation. Due to the versatility of their systems and special applications, the German locations were able to avoid greater declines in unit sales in the automotive segment.

TENOWO experienced positive effects during the fiscal year just ended as a result of many years of strategic focus on new markets and applications in the industrial segment. Industrial was able to add sales revenues and unit sales with its business sectors, thus compensating for the dip in sales in the automotive segment. Above all the Hof and Reichenbach locations are increasingly growing into competence centres for filtration, medical and construction applications.

Accordingly, the investments are currently aimed at the industrial segment, including plant and equipment investments at the Hof location. The Italian sales and production site in Milan, which was acquired by the TENOWO Group in autumn of 2018, adds a tremendous amount of value to the strategic business sector medical thanks to its product and market expertise.

Performance in the traditional interlinings segment, which comprises all apparel applications, remained stable. This market has been in decline in Europe for years now, but TENOWO has kept its market shares stable throughout this time. This sector currently only makes up around 8% of the total sales within the TENOWO portfolio.

Unit sales and sales in the various segments, above all in the international locations, made continuous machine capacity utilisation impossible. The shift in the product mix at the German locations and the implementation of a range of investment projects led to a change in cost structures. A variety of process optimisation programs were launched in 2018 that already bore fruit during the year under review and led to substantial efficiency gains in China in particular.

Alongside the completion of the administrative building and technical centre in Mittweida, spending centred on both production locations in Hof, where investments were made in replacements and expansions as well as building renovations. Some of these projects have been completed, while others will continue to have an impact through the 2020 and 2021 fiscal years.

Overall, TENOWO performed well in a difficult market environment in 2019 and was able to push ahead with its strategic direction. However, TENOWO was unable to maintain the previous year's sales performance due to the market situation.

NEUTEX Division

In 2019 sales in the NEUTEX division, which produces and supplies decorative fabrics, interior sun protection solutions and technical textiles, fell by 11.8% to EUR 13.4 million (prior year: EUR 15.2 million); unit sales dropped accordingly. All of the divisions in the domestic market and the export markets were affected by the sales slump. As early as the first half year sector performance data clearly indicated a downward trend in unit sales, sales and apparel and textile production figures. The decline persisted throughout the entire 2019 fiscal year. Business development at NEUTEX was equally impacted by a less dynamic core business. Sustained import pressure from Asia aggravated the business situation even further. The weak sector made it difficult to position new products in the market, which delayed the establishment and expansion of market shares, above all in the SUN and CONTRACT divisions. A slump in demand for READY products also affected ready-mades in Romania. However, Textor's tremendous flexibility has enabled it to quickly respond to the changes in capacity utilisation and adapt accordingly.

On the operational front, performance enhancing programmes that had been initiated were continued while observing strict cost discipline. Nevertheless, the resulting savings were unable to make up for the decline in sales and the corresponding underutilisation in production, negatively impacting the results of operations and earnings.

HOFTEX Division

The HOFTEX division's sales decreased by 10% to EUR 20.5 million in 2019 (prior year: EUR 22.7 million). Sales declined both in the spinning and doubling segment and in the dyeing segment.

Over the years the dyeing plant's spectrum of of services has seen a shift towards contract dyeing. Thus, the plant was able to maintain the same sales volumes and capacity utilisation rates as the previous year despite sluggish sales. In a market still shaped by intense competitive pressure from Turkey and Asia, the dyeing plant was able to defend its market share as a reliable partner for German and European customers in the apparel and automotive supplier sector. The production location in Selbitz is a modern, efficient and resource-friendly dyeing operation that is able to respond quickly and flexibly to individual customer wishes thanks to its specialised equipment and qualified personnel. Investments made in recent years facilitated these developments. Once again in 2019 they focused on optimisations and increases in production flexibility.

Moreover, HOFTEX division sales were impacted by the loss of the spinning and doubling segment. On 18 June 2019 Hoftex GmbH signed an agreement on the sale of the spinning mill in Drebach, Hoftex CoreTech GmbH, to Filidea S.r.l., Biella/Italy. Following conclusion of the transaction all participating interests and all non-current and current assets were transferred to Filidea effective 31 August 2019. Land and buildings remain the property of Hoftex GmbH. Filidea S.r.l., a joint venture between Italian Marchi & Fildi SpA and Turkish Abalıoğlu Holding A.Ş, has been a HOFTEX business partner for years and produces and sells yarns and threads for a wide range of applications including safety apparel, furniture manufacturing and circular and flat knitting. The sale has no effect on other activities in the HOFTEX division or in the TENOWO and NEUTEX divisions. The sale has no material impact on the balance sheet.

The HOFTEX division also failed to meet earnings targets in 2019. The sale of the Drebach location marks a retreat from traditional spinning mill production for the Hoftex Group, which was no longer able to deliver positive earnings contributions within the Group, and a continued strategic focus on developing and producing nonwovens.

Other

Business in both of the real estate companies developed according to plan. External leasing revenues remained constant at the previous year's level of EUR 2.2 million thanks to the stable leasing situation. TENOWO is a key anchor tenant at the Moschendorf location and expanded its production footprint by installing additional machines and equipment. A number of technical and construction-related measures were performed in the process. The results of operations remained consistent for the most part during the fiscal year.

2.4. Business performance

Results of operations

in EUR million	2019	2018	Change abs.	in %
Sales	171.1	174.1	-3.0	-1.7
Gross revenue	166.8	173.6	-6.8	-3.9
Gross profit	86.5	91.0	-4.5	-4.9
Cost of materials	-83.8	-87.2	+3.4	-3.9
Personnel expenses	-46.3	-45.6	-0.7	+0.9
Net income for the fiscal year	2.7	8.0	-5.3	-66.3
EBITDA	**15.4**	**20.8**	**-5.4**	**-26.0**

Sales in the HOFTEX Group sank by 1.7% to EUR 171.1 million. Despite the difficult market environment, TENOWO was able to build on the previous year's figures, but was unable to reach its targets. The HOFTEX and NEUTEX divisions saw major declines in revenues in their target markets. We generate a far greater share of sales abroad. Sales generated with other countries during the 2019 fiscal year totalled EUR 102.1 million (prior year: EUR 104.0 million). Sales in the EU region and third countries made up 30% each. Domestic sales were similar to the previous year's levels at 40%.

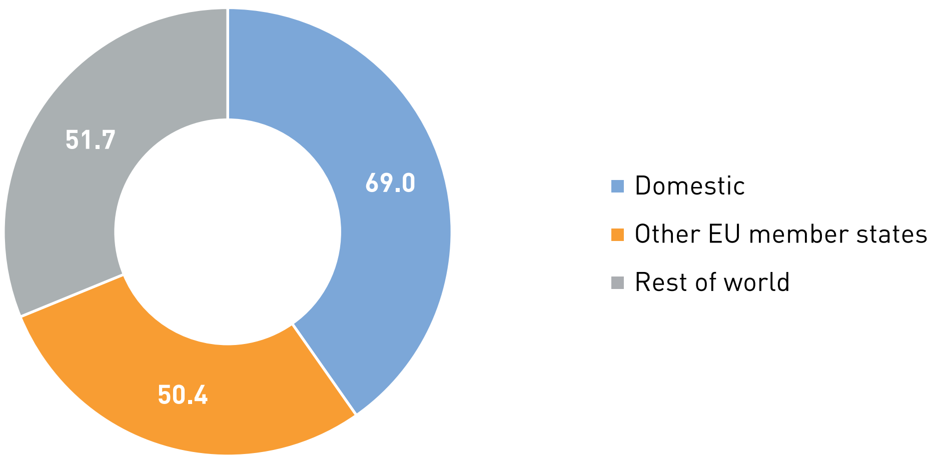


Fig. 5: Classification of sales by region in EUR million

The decline in inventory levels for finished goods and unfinished goods resulted in a reduction in inventory levels of EUR -4.3 million (prior year: EUR -0.5 million). Lower inventory levels are primarily a result of the sale of the Hoftex CoreTech GmbH spinning mill and the associated sale of its stock. The gross profit margin calculated as gross profit to gross revenue remained unchanged over the previous year at 52%. Similarly, the cost of materials ratio of 50% remained the same. Other operating income fell to EUR 3.5 million (prior year: EUR 4.6 million). One key reason for this was lower income from the disposal of fixed assets, as income from the sale of a foreign minority share had a strong positive effect.

In terms of gross revenue, the share of personnel expenses grew from 26% to 28%, chiefly caused by rising personnel costs in the TENOWO Division. To accelerate the establishment of new business sectors, new organisational structures were implemented in 2019 and investments were made in qualified personnel with industry and technology expertise.

Fixed cost depreciation and amortisation grew by EUR 0.8 million compared to the prior year to EUR 11.3 million. The increase is mainly the result of investments in the TENOWO division.

Other operating expenses decreased to EUR 23.7 million (prior year: EUR 24.6 million), primarily attributable to a EUR 0.4 million reduction in selling expenses, EUR 0.3 million less in currency losses and a EUR 0.1 million drop in administrative costs.

The net interest result of EUR -1.6 million (prior year: EUR -1.8 million) and taxes on income of EUR 0.1 million (prior year: EUR -0.5 million) resulted in EUR 3.4 million in earnings after taxes compared to EUR 8.8 million the year before. The lower tax burden in 2019 is largely influenced by refund claims for the 2019 year under review.

At EUR 2.7 million, the consolidated earnings for the 2019 year under review (prior year: EUR 8.0 million) correspond to earnings per share of EUR 0.50 (prior year: EUR 1.47). We are proposing a dividend of EUR 0.15 per share to the Annual General Meeting. This corresponds to a dividend rate of 30% on consolidated earnings.

Financial position

With an excellent equity ratio of 59% as of 31 December 2019, promissory note loans (*Schuldscheindarlehen*) and working capital lines, the Hoftex Group has a robust corporate financing structure.

The *Schuldscheindarlehen* issued in financial year 2016 with a term of three to seven years and a total volume of EUR 50 million are variable/fixed-rate loans. The first cash repayment of EUR 9 million was made in late 2019.

Cash inflows from operating activities of EUR 19.2 million rose by EUR 0.8 million compared to the previous year, above all as a result of the positive effect of the change in working capital. Specifically, the decline in inventories as a result of the sale of the Hoftex CoreTech GmbH spinning mill that belonged to the HOFTEX division contributed to the improvement.

Negative cash flows from investing activities of EUR -14.3 (prior year: EUR 4.5 million) are mainly attributable to payments for acquisitions of tangible fixed assets in the amount of EUR 14.6 million.

Cash flows from financing activities in 2019 amounted to EUR -13.0 million (prior year: EUR -5.7 million). Particularly, the first cash repayment of the *Schuldscheindarlehen*, interest – mainly from the *Schuldscheindarlehen* – and the dividend payment are reflected in the negative cash flows.

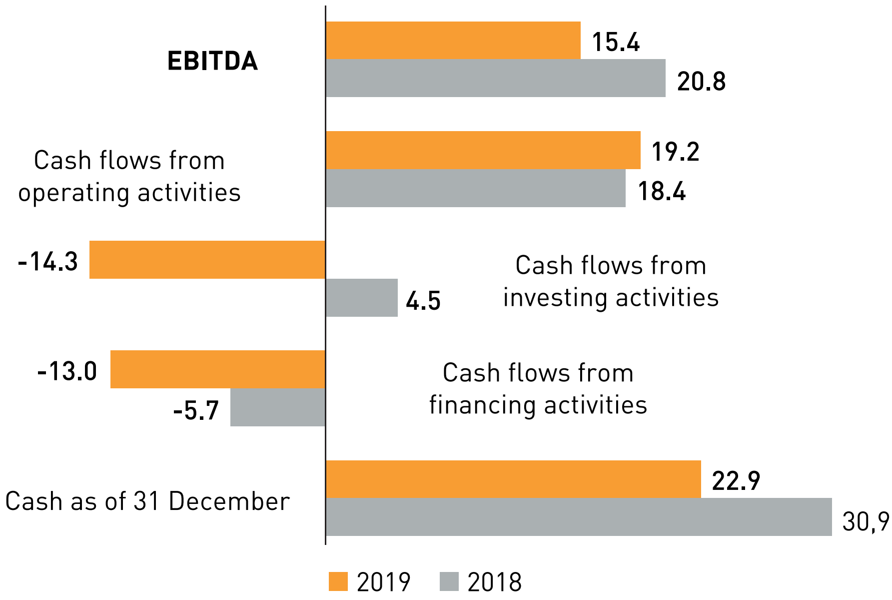


Fig. 6: Cash flow development in the Hoftex Group in EUR million

Net assets

Total assets of the Hoftex Group fell to EUR 182.8 million as of 31 December 2019. This is EUR 11.5 million less than the previous year's value of EUR 194.3 million.

With low intangible fixed assets of EUR 2.4 million (prior year: 2.8 million), tangible assets rose from EUR 98.1 million to EUR 102.7 million. Investments of EUR 15 million were primarily related to the construction of the new Tenowo GmbH administrative building and technical centre at the nonwoven location in Mittweida, investments in further efficiency gains in production at the Lincolnton, USA location and expansion and replacement investments for widening the industrial business sector at the Hof location. Scheduled depreciation and amortisation totalled EUR 11.3 million during the year under review (prior year: EUR 10.5 million).

In current assets, there was a release of funds for inventories in the amount of EUR 8.0 million. This was chiefly attributable to the sale of all shares of Hoftex CoreTech GmbH, with economic effect as of 31 August 2019, the movable fixed assets owned by Hoftex GmbH and current assets to the buyer.

Receivables and other assets rose slightly from EUR 23.2 million to EUR 23.6 million. Other assets increased by EUR 1.8 million. Trade receivables declined by EUR 1.3 million.

Cash equivalents decreased from EUR 30.9 million to EUR 22.9 million. The decline is mainly due to the first cash repayment of the Schuldscheindarlehen of EUR 9 million.

The Hoftex Group's equity rose from EUR 105.8 million to EUR 107.8 million as of 31 December 2019. This increase was due to the consolidated net income earned plus offsetting of currency differences not affecting net income with equity, with the dividend payment of EUR 1.4 million having an adverse effect. The balance-sheet equity ratio is 59% compared to 54.5% in the previous year.

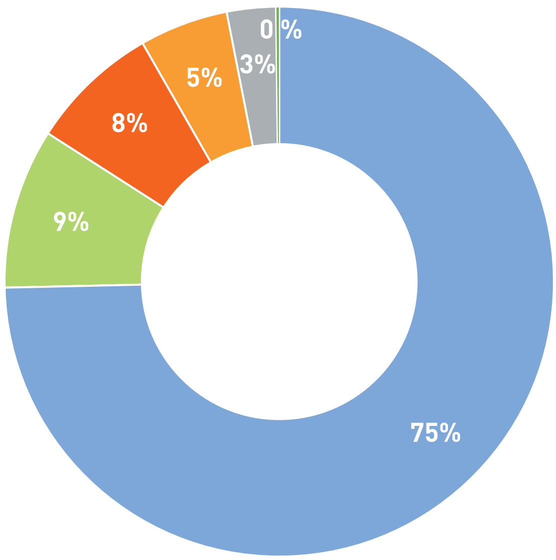
Provisions were EUR 19.6 million, falling below the past year's value of EUR 21.8 million. Pension obligations are listed with their full values, using an interest rate of 2.71% (prior year: 3.21%). The allocable value of claims against insurance companies were deducted from this. Disclosure of pension obligations dropped by a total of EUR 0.2 million. Among other provisions, tax provisions decreased by EUR 0.6 million and other provisions decreased by EUR 1.3 million.

Liabilities totalled EUR 54.7 million (prior year: EUR 66.0 million). The main reason for the decline is the EUR 10.4 million reduction in bank liabilities due to the scheduled repayment of the *Schuldscheindarlehen* in late 2019 in the amount of EUR 9 million and the repayment of a short-term loan of EUR 1.1 million by Tenowo Huzhou New Materials Co. Ltd. Trade payables and liabilities on bills accepted and drawn in the amount of EUR 5.7 million decreased by EUR 1.2 million. Other liabilities of EUR 7.7 million remained virtually unchanged (prior year: EUR 7.5 million).

2.5. Employees

Compared to the previous year, the number of employees in the Hoftex Group decreased to 1,136 (prior year: 1,197). 106 employees left the Group as a result of the sale of Hoftex CoreTech GmbH effective as of 31 August 2019. The Group employed a total of 1,071 people as of the balance sheet date on 31 December 2019 (prior year: 1,213), 799 of whom worked in Germany. This makes up 75% of all employees.

The largest division of the Hoftex Group, TENOWO, also had the most employees in 2019 with 751 compared to the prior year's figure of 739. The largest location in terms of employees is the headquarters in Hof with 371 employees (prior year: 364)



	2019	2018
Germany	799	918
USA	101	104
Romania	82	88
China	56	71
Italy	31	32
Mexico	2	0

Fig. 7: Employees as of the balance sheet date of 31 December by country

3. Statement on Corporate Governance pursuant to Section 289f(4) of the German Commercial Code for the 2019 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 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 33% 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. Strategic and market-driven risks and opportunities

HOFTEX GROUP AG depends on dynamic markets in a range of industry sectors. In terms of customers, the most important sectors are the automotive industry and the household textile industry. In terms of suppliers, HOFTEX GROUP AG 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 to counteract the risks mentioned above and further diversify our sales strategy.

We face strong competition in the textile industry worldwide, with the most imminent threat coming from Chinese competitors making inroads into the European market. A further increase in competitive pressure, exacerbated 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.

More and more digitalised processes and technologies could enable us to more fully leverage our quality assurance systems and tools along our entire value chain, which in turn could help reduce the risk of complaints. Moreover, we are constantly seeking potential new suppliers and will strive for new developments with our suppliers in the future to increase loyalty and find new types of raw materials for our products and customers.

The spread of novel coronavirus (SARSCoV-2) poses risks to the Hoftex Group both in terms of procurement and sales. The measures devised by governments around the world to combat coronavirus have brought customer and supplier production to a halt. The actions impact the entire value chain, from the availability of raw materials to the sale of finished goods to continuing investment projects all the way to maintaining production amid staffing constraints. The global sourcing methods developed over the years enable the Hoftex Group to switch to alternative supply sources. Production facilities in various regions and countries enable us to produce goods for local markets, thereby reducing international transport routes. Nonetheless, this pandemic will have a negative impact on the Hoftex Group’s business and earnings situation.

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 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 tend to rise over time. HOFTEX GROUP AG 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 AG 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 through 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 anticipate continuous 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 manner, improve quality and achieve cost savings.

Sales/Marketing
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 AG.

Personnel
The race to recruit highly qualified employees and talent for specialised fields such as digitalisation and division of production tasks 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 and a negative impact on business in production and administration. HR development programs allow our employees to receive regular training along with the opportunity to take on exciting additional responsibilities in the corporate group. Digitalisation and new technologies in particular help us retain employees by offering them an interesting, modern and flexible working atmosphere and working methods and recruit 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, HOFTEX GROUP AG 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 HOFTEX GROUP AG 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 for HOFTEX GROUP AG 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 HOFTEX GROUP AG. 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 customers do not meet their outstanding payment obligations. A rolling liquidity plan and a multi-year financing plan help HOFTEX GROUP AG 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, HOFTEX GROUP AG 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, HOFTEX GROUP AG 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 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. Forecasts and outlook

5.1. Outlook on macroeconomic conditions

According to the most recent statements from the International Monetary Fund IMF, the coronavirus pandemic will cause the global economy to contract dramatically in 2020. Following a forecast of 3.3% economic growth before the outbreak, now experts predict a -3% decline. The IMF anticipates even more drastic effects on the Eurozone economy, forecasting a drop of -7.5% (forecast in January 2020: +1.3 %). The growth forecast for China is 1.2% following their evident success at containing the pandemic. Assuming that the pandemic is brought under control during the second half year of 2020, the IMF predicts a dramatic recovery in 2021, with a potential worldwide growth rate of 5.8% and Eurozone growth of 4.7%. However, as there are currently a number of uncertainties regarding how the coronavirus crisis will continue to unfold and which measures governments will impose in response to ongoing events, the forecast is extremely vague. What is decisive for a rapid recovery is government support for the economy via assistance packages, loans and funding.

5.2. Outlook on sector-specific conditions

As late as January 2020 the Industry association "textile+ mode" predicted a slight upturn in the market with moderate gains in revenues based on the ifo Business Climate Index for the textile and apparel segments. This forecast was based on sector economy figures, which had been growing more stable since mid-2019, and the positive outlook of textile companies.

Considering the current situation, it is difficult to quantify the impact the globally spreading coronavirus crisis will have on the different sectors of the economy. One thing is certain, however: the effect is already intense – the latest figures indicate that stationary fashion retailers experienced a nearly 26% downturn in sales during the first quarter of 2020 – and this trend will continue throughout the 2020 fiscal year. Public life and consumption have both been reduced to a minimum due to the various government safety precautions. It is unclear how long these restrictions will remain in place. But even if the situation normalises during the second half of the year, there is no reason to expect an instant economic recovery or a surge in consumer demand.

5.3. Outlook – business performance

At the beginning of 2020 the world was shaped by trade conflicts between the largest nations and regions. Society is in the process of taking serious measures to counteract climate change. The automotive sector is facing a major transition unlike any the industry or its customers have ever seen. Nevertheless, the global economy and its robust national economies remain on a course for growth, albeit at a low level.

The Hoftex Group anticipated numerous challenges in 2020, precisely because of its international character and the significant share of revenue coming from the automotive industry. We had an optimistic outlook for 2020 and planned on generating EUR 160 million in sales. Compared to the previous year's revenues, adjusted for effects resulting from the sale of Hoftex CoreTech GmbH, this corresponds to a slight increase of 2%.

Comprehensive investment projects were already launched in 2019 to develop a strategic focus on new business sectors. These projects will continue to have an impact in 2020. We are planning on investing a total of EUR 10 million in 2020. The largest share will go to the TENOWO locations Hof and Mittweida. While in Hof the emphasis is on replacement and expansion investments for the industrial, medical and new applications divisions, investments in Mittweida will go to furnishing the Malimo technical centre with equipment.

At the same time the divisions are building organisational structures to address the new challenges, investing in qualified personnel and projects in IT and digitalisation. The NEUTEX division relies heavily on digital marketing and sales concepts and even presented these to customers and industry experts at the Heimtextil trade fair in January 2020. Digital support enables us to make the NEUTEX collections available to customers faster and in a more personalised way. In addition, another new application makes it possible to digitally configure and order products tailored to customer needs. The product launch of Ready 3.0 is planned for the second quarter of 2020.

The costs for these future projects will impact the results in the short term, but are essential investments to assure the Group's long-term success.

Based on these basic conditions for 2020, we expect an EBITDA between EUR 14 million and EUR 16 million, which is close to 2019 levels (actual 2019: EUR 15.4 million). Overall, we had reached planned levels both in terms of sales and EBITDA by mid-March.

In light of the global coronavirus crisis and the latest forecast by the IMF, however, we must anticipate far-reaching changes in the economic environment. The companies in the Hoftex Group are also currently impacted and have adjusted their production capacities accordingly. The Management Board does not expect the economy to recover and stabilise until the third quarter of 2020 at the earliest. This is why we are predicting much lower sales for the 2020 financial year than originally planned, which will result in a lower EBITDA than that indicated in earlier forecasts. The Hoftex Group Management is continuously monitoring the ongoing developments and impacts of the corona pandemic on business and examining measures to support the Group.

We will continue with our investment projects. However, there may be delays in the delivery and installation of system components.

Hof, 30 April 2020

HOFTEX GROUP AG

The Management Board

Klaus Steger Robert Seibold

HOFTEX GROUP AG
Consolidated balance sheet as of 31 December 2019

Assets in EUR thousand	Notes	31 Dec. 2019	31 Dec. 2018
A. Non-current assets			
I. Intangible assets	6	2,408	2,836
II. Tangible assets	6	102,654	98,134
III. Long-term financial assets	6	43	43
		105,105	**101,013**
B. Current assets			
I. Inventories	7	29,701	37,652
II. Receivables and other assets	8	23,649	23,151
III. Cash and cash equivalents	9	22,856	30,907
		76,206	**91,710**
C. Accrued and deferred items		**370**	**496**
D. Deferred tax assets	10	**1,092**	**1,107**
Balance sheet total		**182,773**	**194,326**

Equity and liabilities in EUR thousand	Notes	31 Dec. 2019	31 Dec. 2018
A. Equity			
I. Subscribed capital	11	13,920	13,920
II. Capital reserves	13	41,158	41,158
III. Revenue reserves	14	54,254	51,454
IV. Change in equity from currency translation		-1,667	-2,281
V. Net retained profits	15	133	1,586
		107,798	**105,837**
B. Provisions	16	**19,635**	**21,809**
C. Liabilities	17	**54,656**	**65,996**
D. Deferred tax liabilities	10	**684**	**684**
Balance sheet total		**182,773**	**194,326**

HOFTEX GROUP AG
Consolidated Income Statement for the 2019 fiscal year

in EUR thousand	Notes	2019	2018
Sales	18	171,051	174,103
Change in inventories of finished and unfinished goods		-4,279	-485
Gross revenue		**166,772**	**173,618**
Other operating income	19	3,490	4,626
Cost of materials	20	-83,767	-87,207
Gross profit		**86,495**	**91,037**
Personnel expenses	21	-46,256	-45,556
Depreciation, amortisation and write-downs	6	-11,329	-10,545
Other operating expenses	22	-23,749	-24,559
Operating result		**5,161**	**10,377**
Net investment income	23	0	650
Net interest income	24	-1,614	-1,770
Taxes on income	25	-143	-465
Earnings after tax		**3,404**	**8,792**
Other taxes	26	-696	-770
Consolidated net income for the year		**2,708**	**8,022**

HOFTEX GROUP AG

Consolidated statement of changes in equity as of 31 December 2019

in EUR thousand	Subscribed Capital	Capital reserves	Revenue reserves	Change in equity from currency translation	net accu-mulated gains/ losses	Total
Balance on 1 Jan. 2018	**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**
2018 dividend payment					-1,361	-1,361
Consolidated net income for 2019					2,708	2,708
Foreign currency translation differences				614		614
Appropriation to revenue reserves pursuant to Section 58(3) AktG			1,500		-1,500	0
Appropriation to revenue reserves pursuant to Section 58(2) AktG			1,300		-1,300	0
Balance on 31 Dec. 2019	**13,920**	**41,158**	**54,254**	**-1,667**	**133**	**107,798**

HOFTEX GROUP AG
Consolidated cash flow statement for the 2019 fiscal year

in EUR thousand	2019	2018
Consolidated net income for the year	2,708	8,022
+/- Depreciation, amortisation and write-downs of fixed assets/reversals of write-downs of fixed assets	10,970	10,545
+/- Increase/decrease in provisions incl. pension provisions	-2,278	-1,277
+/- Other non-cash expenses and income	93	-259
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	8,136	1,437
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	-995	223
-/+ Gain/loss on disposal of fixed assets	-226	-1,831
+/- Interest expense/interest income	1,337	1,434
+/- Income tax expense/income	143	465
+/- Income tax payments	-656	-313
Cash flows from operating activities	**19,232**	**18,446**
- Payments to acquire intangible fixed assets	-369	-621
+ Proceeds from disposal of tangible fixed assets	540	994
- Payments to acquire tangible fixed assets	-14,603	-11,743
+ Proceeds from disposals of financial assets	0	10,055
+ Proceeds from disposals from the consolidated companies	75	0
- Payments for consolidated group additions	0	-3,277
+ Cash proceeds from short-term loans from the parent company	0	15,000
- Cash repayments of short-term loans to the parent company	0	-6,000
+ Interest received	17	106
Cash flows from investing activities	**-14,340**	**4,514**
+ Cash proceeds from bank borrowings	0	130
- Cash repayments of bank loans	-10,375	-1,111
- Cash repayments of short-term loans to affiliated companies	0	-2,000
+ Proceeds from grants/subsidies received	86	36
- Interest paid	-1,354	-1,540
- Dividends paid	-1,361	-1,198
Cash flows from financing activities	**-13,004**	**-5,683**
Changes in cash and cash equivalents	**-8,112**	**17,277**
Effect on cash funds of exchange rate movements and remeasurement	61	14
Cash and cash equivalents as of 1 January	30,907	13,616
Cash and cash equivalents as of 31 December	**22,856**	**30,907**

NOTES TO THE 2019 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 HOFTEX GROUP AG for the year ending 31 December 2019 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 2019 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 December 2019 include 14 (prior year: 15) domestic and 5 (prior year: 4) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and therefore exercises control over these companies. The 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 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 a sale of a 100% stake in Hoftex CoreTech GmbH to Filidea S.r.l., Biella, Italy during the fiscal year. The associated subsidiary was deconsolidated on 31 August 2019. Effective 1 January 2019, Tenowo de Mexico S. de R.L. de C.V., located in San Luis Potosi, Mexico, which was not included in 2018, the year of establishment due to its insignificance for the Group's assets pursuant to Section 296(2) HGB, was consolidated for the first time. The purpose of the business is to deliver nonwoven items to automotive customers in Mexico.

HOFTEX GROUP AG's consolidated companies for the year ending 31 December 2019 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) [8]
Hof Garn Verwaltungs GmbH	Hof		100.00	Euro	-214	-7
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 [9]	8,381	-2,418
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	[4]	100.00	CNY [10]	43,646	-4,046
Resintex Industriale S.r.l.	Milan, Italy	[4]	100.00	Euro	2,323	-297
Tenowo de Mexiko S. de R.L. de C.V. [14]	San Luis de Potosi, Mexico	[5]	100.00	MXN [11]	-3,084	-3,134
Neutex Home Deco GmbH	Münchberg		100.00	Euro	7,536	(CPTA)
Neutex Betriebs GmbH	Münchberg	[6]	100.00	Euro	150	(CPTA)
SC Textor S.A.	Targu Mures, Romania	[6]	100.00	RON [12]	13,250	-28
Textil Hof Immobilien Geschäftsführungs GmbH [13]	Hof		100.00	Euro	87	2
Hoftex Immobilien II GmbH & Co. KG [15]	Hof		100.00	Euro	13,719	897
Feinspinnerei Hof GmbH	Hof		100.00	Euro	43	-2
Hoftex Immobilien I GmbH	Hof		100.00	Euro	4,472	(CPTA)
Fully consolidated companies as defined in Section 290(2) no. 4 HGB						
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof		0.00	Euro	-	-
Non-consolidated companies as defined in Section 296(2) HGB						
HBD Textil-GmbH	Hof		100.00	Euro	2	-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] 90% of all shares held by Tenowo GmbH; 10% Tenowo Inc.
[6] 100% of all shares held by Neutex Home Deco GmbH.
[7] This figure is reported including the result for the year.
[8] CPTA = Control and profit transfer agreement; the Company exercises its rights under the exemption clause pursuant to section 264(2) HGB.
[9] Spot rate on the closing date 31/12/2019: 1 Euro = 1.1234 USD
[10] Spot rate on the closing date 31/12/2019: 1 Euro = 7.8205 CNY
[11] Spot rate on the closing date 31/12/2019: 1 Euro = 21.2202 MXN
[12] Spot rate on the closing date 31/12/2019: 1 Euro = 4.7830 RON
[13] General partner of Hoftex Immobilien II GmbH & Co. KG.
[14] First included in the consolidated companies in the 2019 fiscal year.
[15] The Company exercises its rights under the exemption clause pursuant to section 264 b HGB.

(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.

Goodwill capitalised in the 2018 fiscal year will be amortised over an anticipated period of five years. The useful life is chiefly defined by short-term contracts with customers.

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.

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 30%.

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 financial years, the net tax charge must be recognised as a deferred tax liability and the net tax saving must be recognised as a deferred tax asset, 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 2,835 thousand (prior year: EUR 3,088 thousand), and the settlement amount of the offset obligations is EUR 4,475 thousand (prior year: EUR 4,447 thousand), resulting in a net post-employment benefit liability (provision) of EUR 1,641 thousand (prior year: EUR 1,359 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 312 thousand (prior year: EUR 366 thousand) are offset against the expected return on pension plan assets of EUR 34 thousand (prior year: EUR 31 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 2.71% 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 2019 resulting from exercising the option to choose between a seven and a ten prior year average discount rate is EUR 560 thousand (prior year: EUR 703 thousand). The corresponding amount for HOFTEX GROUP AG of EUR 453 thousand (prior year: EUR 569 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 1,562 thousand (prior year: EUR 1,816 thousand). Post- retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,708 thousand (prior year: EUR 2,694 thousand). The net liability of EUR 1,146 thousand (prior year: EUR 878 thousand) is not recognised in the consolidated annual financial statements pursuant to Article 28(1) EGHGB.

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

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

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

(5) Currency translation

Assets and liabilities denominated in foreign currency were translated using the average spot market rate on the balance sheet date. Where the residual term is less than one year, the acquisition cost no longer represents the upper value limit and gains must be recognised in income. The assets and liabilities of all companies within the Group are translated using the period-end closing rate. Differences arising from the debt consolidation are included in the items "change in equity from currency translation" without affecting net income. Historic exchange rates are used for all equity items. Expenses and income are converted at the annual average rate published by the European Central Bank.

(6) Changes in comprehensive income for the period from 1 January to 31 December 2019

in EUR thousand	Acquisition and production costs					
	Balance on 1/1/2019	Currency translation	Additions	Reclassifi-cations	Disposals	Balance on 31/12/2019
I. Intangible assets						
1. Purchased software and other rights	5,558	1	369	0	194	5,734
2. Goodwill	566	0	0	0	0	566
	6,124	**1**	**369**	**0**	**194**	**6,300**
II. Tangible assets						
1. Land and buildings	132,632	230	317	211	140	133,250
2. Machines and equipment	211,782	552	2,669	3,577	30,703	187,877
3. Other equipment, furniture and fittings	54,918	17	1,717	65	32,541	24,176
4. Prepayments and assets under construction	4,106	38	9,900	-3,853	1	10,190
	403,438	**837**	**14,603**	**0**	**63,385**	**355,493**
III. Long-term financial assets						
1. Equity interest in affiliated companies	26	0	0	0	0	26
2. Investments	16	0	0	0	0	16
3. Other loans	1	0	0	0	0	1
	43	**0**	**0**	**0**	**0**	**43**
	409,605	**838**	**14,972**	**0**	**63,579**	**361,836**

Cumulative depreciation amounts						Net carrying amounts	
Balance on 1/1/2019	Currency translation	Additions	Write-downs	Disposals	Balance on 31/12/2019	Balance on 31/12/2019	Balance on 31/12/2018
3,250	1	683	0	193	3,741	1,993	2,308
38	0	113	0	0	151	415	528
3,288	**1**	**796**	**0**	**193**	**3,892**	**2,408**	**2,836**
83,074	70	1,902	359	78	84,609	48,641	49,558
171,427	350	7,435	0	30,576	148,636	39,241	40,355
50,803	14	1,196	0	32,419	19,594	4,582	4,115
0	0	0	0	0	0	10,190	4,106
305,304	**434**	**10,533**	**359**	**63,073**	**252,839**	**102,654**	**98,134**
0	0	0	0	0	0	26	26
0	0	0	0	0	0	16	16
0	0	0	0	0	0	1	1
0	**0**	**0**	**0**	**0**	**0**	**43**	**43**
308,592	**435**	**11,329**	**359**	**63,266**	**256,731**	**105,105**	**101,013**

(7) Inventories

	31 Dec. 2019	31 Dec. 2018
Raw materials, consumables and supplies	12,484	17,111
Unfinished goods, services in progress	2,783	3,291
Finished goods and merchandise	14,434	17,250
	29,701	**37,652**

(8) Accounts receivable and other assets

	31 Dec. 2019	31 Dec. 2018
Trade receivables	18,706	20,036
Receivables from affiliated companies	91	68
Finished goods and other assets	4,852	3,047
	23,649	**23,151**

Other assets include items with a term of over one year amounting to EUR 8 thousand (prior year: EUR 0 thousand). The remaining receivables items do not include any long-term items, as was the case for the previous year.

The receivables from affiliated companies are all trade receivables.

(9) Cash and cash equivalents

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

(10) 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. EUR 1,092 thousand in deferred tax assets were also recognised for consolidation entries during the 2019 fiscal year.

The following table shows the development of deferred tax assets and liabilities during fiscal 2019:

	2019	2018	Change
Deferred tax assets	1,092	1,107	-15
Deferred tax liabilities	684	684	0

(11) 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.

(12) Authorised capital

With a resolution dated 12 July 2019, 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 11 July 2024, whereby the shareholders' subscription rights may be excluded. To date, the Management Board has not exercised its authority to increase the share capital.

(13) 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.

(14) Revenue reserves

	2019	**2018**
Revenue reserves on 1 January	51,454	46,754
Allocations pursuant to Section 58(3) AktG	1,500	2,000
Allocations pursuant to Section 58(2) AktG	1,300	2,700
Revenue reserves on 31 December	**54,254**	**51,454**

(15) Appropriation of net profit

	2019	**2018**
Consolidated net gains/losses on 1 January	1,586	-538
Allocation to other revenue reserves by the Annual General Meeting pursuant to Section 58(3) AktG	-1,500	-2,000
Dividend payment	-1,361	-1,198
Accumulated consolidated losses brought forward	-1,275	-3,736
Consolidated net income for the year	2,708	8,022
Allocation to other revenue reserves by the Management Board and the Supervisory Board pursuant to Section 58(2) AktG	-1,300	-2,700
Consolidated net gains on 31 December	**133**	**1,586**

(16) Provisions

	31 Dec. 2019	31 Dec. 2018
Provisions for pensions and similar obligations	10,172	10,421
Excess of plan assets over pension liability	-1,272	-1,272
Disclosure of pension provisions	8,900	9,149
Tax provisions	255	870
Other provisions	10,480	11,790
	19,635	**21,809**

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

(17) Liabilities

	31 Dec. 2019	31 Dec. 2018
Liabilities to banks	41,211	51,587
Trade payables	5,573	6,800
Liabilities on bills accepted and drawn	135	134
Liabilities to affiliated companies	6,370	6,179
Other liabilities	1,367	1,296
of which taxes	(380)	(341)
of which social security	(143)	(144)
	54,656	**65,996**

Liabilities to affiliated companies include EUR 6,366 thousand (prior year: EUR 6,174 thousand) to the principal shareholder ERWO Holding AG and other companies of the ERWO affiliated group. Of that amount, EUR 4,384 thousand (prior year: 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. At EUR 162 thousand (prior year: EUR 205 thousand), liabilities to affiliated companies relate to delivery and service translations with EUR 1,824 thousand (prior year: EUR 1,620 thousand) with other liabilities.

Residual maturity	31 Dec. 2019			31 Dec. 2018		
	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	5,137	36,074	0	10,399	41,188	0
Trade payables	5,573	0	0	6,800	0	0
Liabilities on bills accepted and drawn	135	0	0	134	0	0
Liabilities to affiliated companies	6,370	0	0	6,179	0	0
Other liabilities	1,367	0	0	1,296	0	0
of which taxes	(380)	(0)	(0)	(341)	(0)	(0)
of which social security	(143)	(0)	(0)	(144)	(0)	(0)
	18,582	**36,074**	**0**	**24,808**	**41,188**	**0**

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

(18) Classification of sales

	2019	2018
By division		
Hoftex	20,474	22,735
Neutex	13,383	15,243
Tenowo	134,918	133,871
Other	2,276	2,254
	171,051	**174,103**
By region		
Germany	68,974	70,056
Other EU member states	50,357	49,742
Rest of world	51,720	54,305
	171,051	**174,103**

(19) Other operating income

	2019	2018
Income from the reversal of provisions	1,601	1,641
Income from currency movements	277	336
Income from the disposal of fixed assets	260	1,972
Income from the recovery of receivables written off in prior periods and income from reduction in valuation allowances	303	288
Income from revaluation of fixed assets	359	0
Other prior-period income	264	164
Other operating income	426	225
	3,490	**4,626**

(20) Cost of materials

	2019	2018
Cost of raw materials, consumables and supplies, and of purchased merchandise	80,387	84,244
Cost of purchased services	3,380	2,963
	83,767	**87,207**

The cost of materials ratio based on gross revenue amounts to 50.2% (prior year: 50.2 %).

(21) Personnel expenses

	2019	2018
Wages and salaries	37,625	37,116
Social security, post-employment and other employee benefit costs	8,631	8,440
of which for post-employment benefits	(459)	(453)
	46,256	**45,556**

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

	2019	2018
Commercial employees	769	830
Salaried employees	323	323
	1,092	**1,153**

Beyond this, there were 44 apprentices on average (prior year: 44).

(22) Other operating expenses

	2019	2018
Addition to valuation allowances, derecognition of receivables	328	250
Expenses resulting from currency movements	153	462
Other prior-period expenses	236	192
Other general and administrative expenses	5,578	5,694
Operating costs	8,795	8,732
Selling expenses	7,500	7,943
Other operating expenses	1,159	1,286
	23,749	**24,559**

(23) Net investment income

	2019	2018
Income from associated companies	0	650

(24) Net interest income

	2019	2018
Other interest and similar income	52	136
of which from affiliated companies	(0)	(92)
Interest and similar expenses	-1,666	-1,906
of which to affiliated companies	(-202)	(-250)
of which from the reversal of discounting on pension obligations	(-312)	(-366)
	-1,614	**-1,770**

The excess of plan assets over pension obligations amounts to EUR 34 thousand (prior year: EUR 31 thousand).

(25) Taxes on income

	2019	2018
Corporate income tax fiscal year	-367	-386
Release of prior-year tax provisions	0	137
Corporate income tax refunds	381	52
Additional corporate tax payments	-42	-100
Trade tax fiscal year	-268	-292
Release of prior-year tax provisions	45	250
Trade tax refund	272	0
Trade tax arrears	-149	-50
Changes in deferred taxes	-15	-76
	-143	**-465**

(26) Other taxes

		2019		2018
Property tax		-584		-581
Motor vehicle tax		-15		-15
Other taxes				
- in Germany	-90		-73	
- in the US	118		-20	
- in China	-70		-51	
- in Italy	-5		0	
		-47		-144
Wage taxes and VAT from tax audit		-50		-30
		-696		**-770**

(27) Auditors' fees

Our Munich-based auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft charged fees totalling EUR 310 thousand (prior year: EUR 344 thousand).

The following table provides a breakdown of the fees:

	2019	2018
Auditing services	190	205
Other certification services	25	30
Tax consultancy services	95	74
Other services	0	35
	310	**344**

(28) Remuneration of the Supervisory Board and Management Board

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

The remuneration of the Supervisory Board members amounts to EUR 89 thousand (prior year: EUR 90 thousand).

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 305 thousand (prior year: EUR 332 thousand). Provisions totalling EUR 3,317 thousand (prior year: EUR 3,309 thousand) have been recognised for pension obligations to former members of the Management Board and their survivors.

(29) 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.

(30) Contingent liabilities

	2019	2018
Guarantee obligations	70	120

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

(31) Other financial commitments

The other financial commitments include EUR 5,062 thousand (prior year: EUR 5,513 thousand) resulting from purchase commitments and leasing contracts.

(32) 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 (macro-hedge). For the purpose of hedging against the interest rate risk on variable-interest long-term loans, the Company entered into two interest swaps with a combined value of EUR 16,500 thousand to minimise the risk of future interest rate increases. With a term of 24 months, the maturities of the interest rate hedges held on 31 December 2019 correspond to those of the underlying transactions and these have been combined with these underlying transactions to create net hedges. Therefore, 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 171 thousand.

On 31 December 2019, the fair value of the Group's interest rate hedges is as follows:

Fair value	Nominal value	Carrying value	Fair value	Swap rate
23 Dec. 2021	EUR 10.0 million	EUR 0 thousand	EUR -106 thousand	0.5225 %
23 Dec. 2021	EUR 6.5 million	EUR 0 thousand	EUR -65 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.

(33) Events after the reporting date

The Hoftex Group is also affected by the current Covid-19 crisis. The Management Board does not expect the economy to recover and stabilise until the third quarter of 2020 at the earliest. This is why we are predicting much lower Group sales and a much lower EBITDA for the 2020 fiscal year. For more detailed statements we refer to the information we provided in the sections "Risks and opportunities" and "Outlook – business performance" in the Group Management Report.

(34) Members of the Supervisory Board

Tom Steger Chairman 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 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

(35) Members of the Management Board

Klaus Steger Chairman of the Management Board, Chief Executive Officer Nuremberg
Robert Seibold Chief Financial Officer Abenberg

(36) 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 themselves 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.

(37) 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 0.15 per share on the subscribed capital of EUR 13,919,988.69 (= 5,444,800 no-par value shares)	EUR 816,720.00
Allocation to the revenue reserves pursuant to Section 58(3) AktG	EUR 1,000,000.00
Carry forward to new account	EUR 861,521.21
Net retained profits	**EUR 2,678,241.21**

Hof, 30 April 2020

HOFTEX GROUP AG

The Management Board

Steger Seibold

Independent Auditor's Report

To HOFTEX GROUP AG, Hof/Saale

Audit opinion

We have audited the consolidated annual financial statements of HOFTEX GROUP AG, Hof/Saale, and its subsidiaries (the Group) – comprising the balance sheet as of 31 December 2019, the consolidated income statement, the statement of changes in equity, cash flow statement and notes for the fiscal year from 1 January to 31 December 2019 and the notes to the consolidated annual financial statements, 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 2019 to 31 December 2019. 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 2019 and the results of its operations for the fiscal year from 1 January 2019 to 31 December 2019 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. Moreover,

- 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 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 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Löffler
Auditor

Tanja Markert
Auditor

HOFTEX GROUP AG, Hof/Saale
Balance Sheet as of 31 December 2019

Assets in EUR thousand	31 Dec. 2019	31 Dec. 2018
Fixed assets		
Intangible fixed assets	1,845	2,212
Tangible fixed assets	1,314	1,241
Long-term financial assets	104,476	104,596
	107,635	**108,049**
Current assets		
Accounts receivable and other assets	62,571	55,366
Cash and cash equivalents	17,218	27,136
	79,789	**82,502**
Accrued and deferred items	**75**	**84**
Balance sheet total	**187,499**	**190,635**

Equity and liabilities in EUR thousand	31 Dec. 2019	31 Dec. 2018
Equity		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Revenue reserves	57,215	54,415
Net retained profits	2,678	2,968
	114,971	**112,461**
Provisions	**7,811**	**8,768**
Liabilities		
Liabilities to banks	41,000	50,000
Trade payables	201	315
Liabilities to affiliated companies	23,418	18,999
Other liabilities	98	92
	64,717	**69,406**
Balance sheet total	**187,499**	**190,635**

HOFTEX GROUP AG, Hof/Saale
Income Statement for the 2019 fiscal year

in EUR thousand	2019	2018
Sales	4,506	4,146
Other operating income	149	349
Personnel expenses	-3,085	-3,052
Depreciation, amortisation and write-downs	-843	-722
Other operating expenses	-1,881	-2,033
Net investment income	4,793	6,561
Net interest income	515	666
Taxes on income	-207	-381
Earnings after tax	**3,947**	**5,534**
Other taxes	-76	-113
Net income for the fiscal year	**3,871**	**5,421**
Retained profits brought forward	107	247
Appropriation to revenue reserves	-1,300	-2,700
Net retained profits	**2,678**	**2,968**

HOFTEX GROUP
TEXTILE TECHNOLOGIES

HOFTEX GROUP AG
Fabrikzeile 21
95028 Hof
Germany

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

vorstand@hoftexgroup.com
www.hoftexgroup.com

Title page: Room installation by artist Ina von Jan at the new TENOWO administrative building in Mittweida