HOFTEX GROUP
TEXTILE TECHNOLOGIES

# ANNUAL REPORT

2020

# KEY FIGURES
## for the Hoftex Group

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| **External sales** | EUR million | 139.3 | 171.1 | 174.1 | 182.6 | 181.4 |
| **Gross revenue** | EUR million | 138.9 | 166.8 | 173.6 | 181.0 | 182.4 |
| **Gross profit** [1] | EUR million | 74.7 | 83.0 | 86.4 | 88.7 | 89.3 |
| **Cash flows from operating activities** | EUR million | 19.8 | 19.2 | 18.4 | 16.3 | 21.7 |
| **Employees** | | 1,053 | 1,136 | 1,197 | 1,220 | 1,206 |
| **Capital expenditure on tangible fixed assets** | EUR million | 8.0 | 14.6 | 11.7 | 8.8 | 16.0 |
| **Depreciation, amortisation and write-downs** | EUR million | 11.3 | 11.3 | 10.5 | 10.6 | 11.6 |
| **Result current year** | EUR million | 3.1 | 2.7 | 8.0 | 6.8 | 7.8 |
| **Earnings per share** | EUR | 0.6 | 0.5 | 1.5 | 1.3 | 1.4 |
| **Cash flows** | EUR million | 11.7 | 11.5 | 17.0 | 15.0 | 18.9 |
| **EBITDA** | EUR million | 15.5 | 15.4 | 20.8 | 20.4 | 22.2 |
| **Net senior debt to EBITDA ratio** | x-fold | 0.6 | 1.2 | 1.0 | 1.9 | 1.4 |
| **Dynamic debt-equity ratio** [2] | Years | 3.6 | 4.5 | 3.4 | 5.1 | 3.9 |
| **Balance sheet total** | EUR million | 176.7 | 182.8 | 194.3 | 188.6 | 191.2 |
| of which tangible fixed assets | EUR million | 98.6 | 102.7 | 98.1 | 92.8 | 97.4 |
| balance-sheet equity | EUR million | 107.6 | 107.8 | 105.8 | 98.0 | 96.4 |
| economic equity [3] | EUR million | 106.8 | 107.0 | 104.4 | 96.8 | 95.3 |
| **Equity ratio** [4] | % | 60.4 | 58.5 | 53.7 | 51.3 | 49.9 |

1) Gross revenue less cost of materials

2) Debt capital 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 REPORT

During the 2020 fiscal year, which was largely shaped by the global impact of the COVID-19 pandemic, 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 Chairman 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 five regular meetings. Due to the COVID-19 pandemic, the Supervisory Board was compelled to hold all of its meetings either via conference call or in virtual format. The Supervisory Board also met at a constituent meeting following the new elections by the Annual General Meeting, which was also conducted virtually with the help of electronic communications media. No extraordinary meetings were convened. All members of the Supervisory Board attended the discussions in each meeting. The Supervisory Board formed a personnel committee that is responsible for the Management Board's HR affairs. The personnel committee met once during the period under review to pass a resolution. This meeting was also held virtually. The Supervisory Board did not form any additional committees during the reporting period.

During its meeting on 27 March 2020, the Supervisory Board conferred on recurring issues along with the effects of the COVID-19 pandemic on business performance. The Management Board engaged in a thorough discussion focused primarily on production utilisation rates at the time and possible counteractive measures in the individual divisions. The agenda also included the resolution on an investment to expand the Tenowo location in Hof, further development of the existing risk management system and the new version of the Supervisory Board's internal rules and procedures.

At the 18 May 2020 meeting, the Supervisory Board performed an in-depth review of the annual financial statements and audit reports as of 31 December 2019 for HOFTEX GROUP AG and the Group. The Board approved the agenda for the Annual General Meeting, along with the various resolution proposals. Due to pandemic-related social distancing requirements, the Board agreed to hold the Annual General Meeting virtually without the physical presence of the shareholders. Another agenda topic was the Management Board's report on current business developments after the close of the first quarter with a focus on the effects of the coronavirus pandemic on performance and the measures taken to meet the associated challenges.

The meeting on 31 July 2020 concentrated on the business performance and financial position of the Hoftex Group as of 30 June 2020. The sustained global coronavirus crisis notably impacted sales and earnings in the three divisions Tenowo, Neutex and Hoftex. The Management Board quickly responded to the situation by implementing resolute measures such as taking advantage of short-time work, securing liquidity and optimising current assets.

The Management Board presented key figures for the Group as of August 2020 during the 25 September 2020 meeting. Another subject covered during the meeting was the approval of an investment project for the Tenowo division at the nonwoven plant in Hof.

In the final meeting of the fiscal year on 14 December 2020, the Management Board presented the Group's current business performance as of October 2020, the 2020 forecast, the Group's plans for the 2021 fiscal year and the investment budget for 2021 including the investment forecast for 2022 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 2021 fiscal year. The meeting also included a presentation by the Neutex division. Both managing directors informed the committee in detail of the current business performance and future strategic direction. Efforts will continue to focus on promising endeavours such as expanding our digital marketing and customer base via our own online sales channels.

The Annual General Meeting appointed Munich-based Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for fiscal 2020. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2020 as well as the Group Management Report, the accounting system and the accounting-related internal control system and issued them with an unqualified audit certificate. Upon completion, all audit reports were immediately sent to the members of the Supervisory Board.

The company's auditors were present at the 17 May 2021 annual report meeting of the Supervisory Board, during which they engaged in an in-depth discussion of the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2020, 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 its 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 2020. 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 2020 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 at the request or in the interest of the controlling company. Based on the findings of these discussions and its assessment of the subordinate status report, the Supervisory Board raised no objections to this declaration.

The HOFTEX GROUP AG Management Board and Supervisory Board have the following changes to report:

Robert Seibold, incumbent Chief Financial Officer since 1 August 2018, resigned from the Management Board effective 31 July 2020. The Supervisory Board thanks Mr. Seibold for his dedication and service to the company. At the same time, the Supervisory Board appointed Ms. Manuela Spörl as member of the Board and CFO as successor to Mr. Robert Seibold effective 1 August 2020.

The Annual General Meeting on 10 July 2020 marked the end of the five-year term of office of the former Supervisory Board and the beginning of the term of office for the new Supervisory Board, which was elected by the Annual General Meeting and employees. Existing shareholder representatives Mr. Werner Berlet, Ms. Renate Dempfle, Ms. Melanie Liebert, Mr. York Riedel, Mr. Martin Steger and Mr. Tom Steger were re-elected by the Annual General Meeting. The seats of Ms. Johanna Falasa, Mr. Wolfgang Schmidt and Ms. Carmen




Teismann, representing the employees, had already been renewed on 4 June 2020. Chairman Tom Steger's position was confirmed during the subsequent constituent meeting of the Supervisory Board and Mr. Martin Steger was re-elected to his post as Deputy Chairman.

Hof, May 2021

The Supervisory Board of HOFTEX GROUP AG

Tom Steger
Chairman of the Supervisory Board

# GROUP MANAGEMENT REPORT FOR THE 2020 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 170-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 innovative textile products. Activities are organised in 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. 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 nonwovens for a variety of uses in cars along with 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. HOFTEX GROUP AG also performs largely service-oriented core duties for the Group's companies across multiple divisions. The production divisions shoulder global responsibility for assigned products, production operations, markets and customers and are individually accountable.

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 financial statements and the Group Management Report. During the Annual General Meeting, the Chairman of the Supervisory Board presents the Supervisory 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.

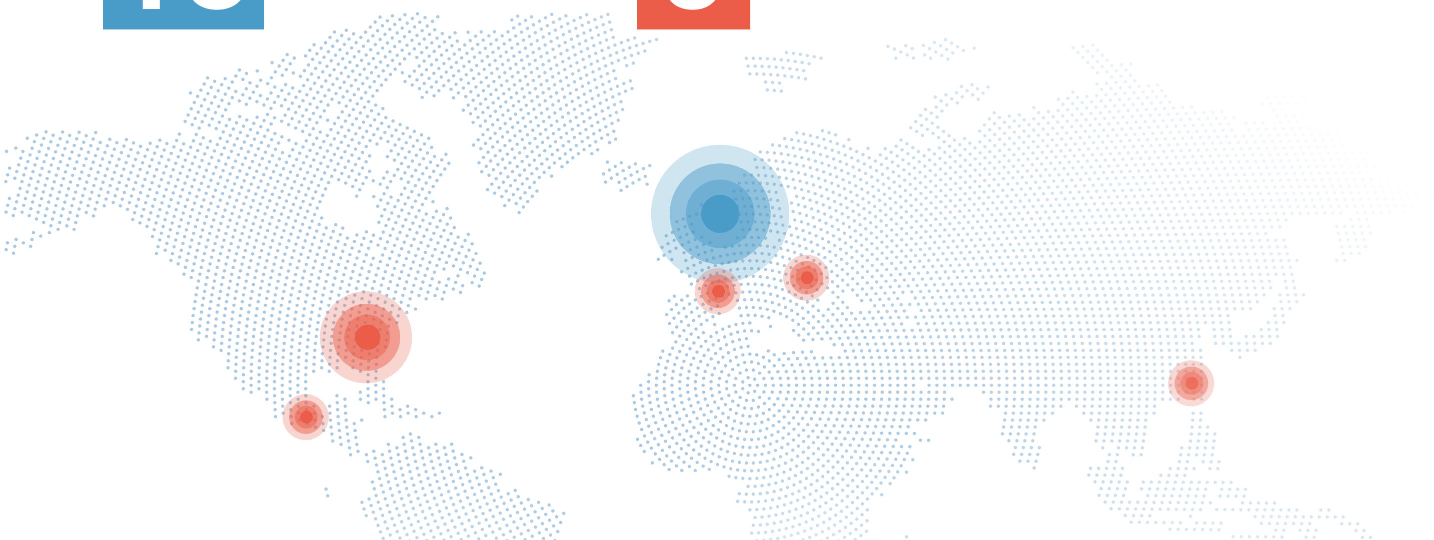
As of 31 December 2020 the Hoftex Group comprised 13 domestic (prior year: 14) and 5 foreign (prior year: 5) subsidiaries. The following chart provides an overview of the divisions and their locations:

## HOFTEX GROUP – divisions and locations

2020

**13** German companies

**5** Foreign companies



| | TENOWO | NEUTEX | HOFTEX |
|---|---|---|---|
| **Locations** | Hof (DE), Reichenbach (DE), Mittweida (DE), Lincolnton (USA), Huzhou (CN), Mailand (IT), San Luis de Potosi (MX) | Münchberg (DE), Targu Mures (RO) | Hof (DE), Selbitz (DE) |
| **Sales** in EUR million | 117.3 | 13.3 | 6.6 |
| **Unit sales** in millions | sqm 235.3 | sqm 3.5 | kg 1.1 |
| **Employees** ø 2020 | 740 | 233 | 38 |

Fig. 1: Group Overview

## 1.3. Objectives and strategy

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

The divisional strategy with homogeneous business models enables us to focus on individual markets and customer requirements. The strategic direction of the divisions is developed individually in the context of Group guidelines taking the diversified markets into account. The divisions aim to expand their positions in existing markets by supplying innovative products with the highest possible quality. They also strive to broaden the product portfolio by cultivating new business sectors.

To strengthen its position as a supplier and partner to our customers worldwide, the TENOWO division wants to achieve international growth and expand its global footprint. Customers benefit from shorter development and delivery times, which translates into a decisive advantage in global competition.

Existing business in the NEUTEX division is the basis for building and expanding digitally based sales and seizing new opportunities for profitable growth in domestic and international markets.

The HOFTEX division plans to concentrate its sales efforts on the various regional markets to generate further growth and boost its profitability.

Moreover, all of the divisions are focused on lowering production costs by using fewer raw materials and achieving higher process efficiency and optimum capacity utilisation at every location. 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. Sustainability and climate protection is one of the most important issues of our time. The use of recycled raw materials, substitution of environmentally hazardous substances and optimised, energy-efficient manufacturing steps help create greener, more sustainable products.

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 key 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.

Alongside the key performance indicators used for corporate management, other non-financial metrics are compared such as employees, seconds rates, energy consumption and on-time deliveries. Managing directors in the divisions provide the Management Board with detailed reports on the development of key indicators and performance in regular Board meetings. This information enables the Management Board to implement measures to counteract unsatisfactory developments in a timely manner.

## 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.

Research and development activities centre on finding solutions that satisfy our customers' requirements, optimising methods and processes for more sustainable and efficient management and identifying new fields of application and markets for our products. Using recycled or biodegradable raw materials is becoming increasingly important. We developed a commodities database that will enable us to perfectly coordinate specific product characteristics and environmental and sustainability requirements as early as the product development phase.

The TENOWO division uses recycled carbon fibres to create nonwovens, thereby offering a sustainable solution strategy for further processing this high-performance material. A special manufacturing process is used to develop nonwovens from recycled carbon fibres with unique properties in terms of strength and further processability to open up new fields of application and markets.

The NEUTEX Division creates new designs and product characteristics and is also developing its own ECO line, which features products manufactured from recycled and natural materials. This has led to new products made of natural fibres, such as wool blends.

**A significant portion of development work is dedicated to technology advancement and process optimisation.**

**The TENOWO Division is continuously expanding its technological expertise in nonwoven manufacturing.**

The technology centre for stitch-bonded fabrics that opened in 2019 in Mittweida uses the latest technological advances and a wide range of materials to design new product innovations. Novel non-woven technologies at the Hof location give TENOWO access to new sales markets.

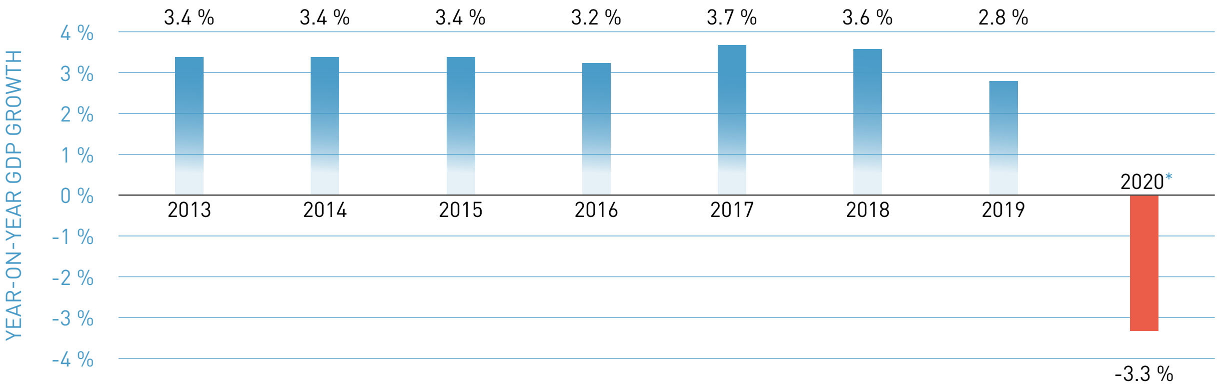
During the fiscal year just ended a total of EUR 1.3 million (prior year: EUR 1.4 million) was spent on research and development. A total of 27 staff are employed in this division. Research and development activities are performed exclusively at Hoftex Group subsidiaries.

# 2. Economic report

## 2.1. Overall economic development

2020 was largely shaped by the economic and social impacts of the COVID-19 pandemic. The rapid spread of the virus caused millions of deaths worldwide and, due to restrictions on public life and global supply chain constraints that continue to this day, resulted in a -3.3 % decline in global GDP (IMF forecast for 2020 pre-COVID-19: +3.3 %).

**Growth in global gross domestic product (GDP) from 2013 to 2020 (year-on-year)**




*) estimate

Source: Proprietary chart based on figures published by the IMF (WEO from April 2021)

Fig. 2: Growth in global gross domestic product (GDP) from 2013 to 2020

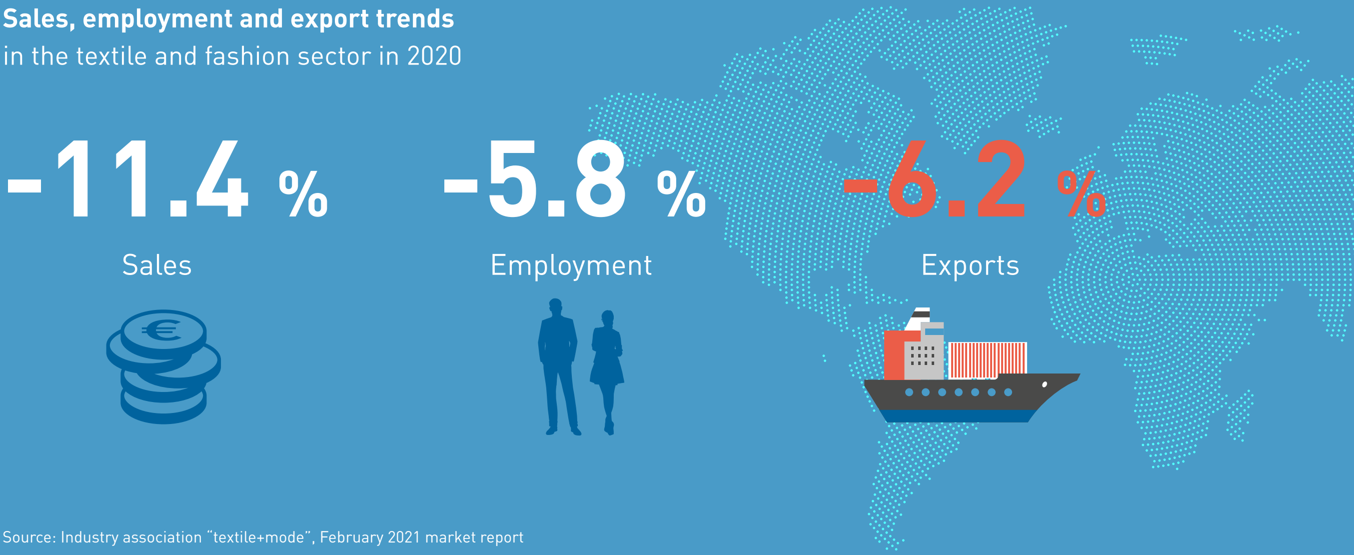
Advanced economies were hit particularly hard – with a -4.7 % downturn in GDP in industrialised nations. The Eurozone experienced a -6.6 % slump (prior year: 1.3 %). The German economy was slightly less affected compared to many neighbouring countries with a decline of -4.9 % (prior year: 0.6 %), while Spain saw a drop of -11.0 %, Italy -8.9 % and France -8.2 %. Great Britain's economy also shrank significantly with a -9.9 % decline in GDP. In contrast, the United States, which has counted a half million deaths to date and therefore suffered most worldwide from the pandemic, was somewhat more successful at cushioning the economic blow of the crisis compared to other advanced economies with a -3.5 % downturn (prior year: 2.2 %). The Japanese economy performed on par with other industrialised nations with a drop in GDP of -4.8 % (prior year: 0.3 %).

Among emerging and developing countries the picture was similar, albeit not quite as dramatic. The People's Republic of China was the only major economy to experience growth again in 2020. Nevertheless, the growth rate of 2.3 % was far below that of the previous year (2019: 5.8 %). The Association of South-East Asian Nations (ASEAN) also saw a considerable drop from 4.8 % in 2019 to -3.4 % in 2020). The Indian economy suffered severely from the effects of the pandemic with a decline in GDP of -8.0 % (prior year: 4.0 %). Even the Russian economy witnessed a downturn (from 2.0 % in 2019 to -3.1 % in 2020). Emerging and developing economies in Europe were less strongly affected with an average drop in GDP of -2.0 % compared to advanced European countries (prior year: 1.3 %).

## 2.2. Sector-specific conditions

It was a bleak year for the textile and fashion sector as one of the industries most severely impacted by the pandemic. Total sales in the German textile and fashion sector (for companies with 50 employees or more) were EUR 14.8 billion in 2020. The market report published by the "textile+mode" trade association thus revised revenues down by -11.4 %.

**Sales, employment and export trends**
in the textile and fashion sector in 2020




Source: Industry association "textile+mode", February 2021 market report

Fig. 3: Sales, employment and export trends in the textile and fashion sector in 2020

The textile segment was not struck as hard by the pandemic compared to the apparel segment, yet lost ground once again with a sales decline of -6.7 % (prior year: -5.2 %). The spinning (-16.3 %), finishing (-20.7 %) and warp/weft knitting (-30.3 %) segments were hit particularly hard. Only the ready-made (5.5 %) and nonwoven (8.5 %) segments managed to achieve positive sales growth. Consequently, after multiple years of poor performance, the nonwoven segment experienced a perceptible recovery despite pandemic-related restrictions. These statements apply to all fields of application for nonwovens, including use in the hygiene segment, which showed the highest growth rates last year. Conversely, technical textiles was in the red and was forced to sustain a decline of -11.0 %.

## **Sales trends** in the textile segments in 2020

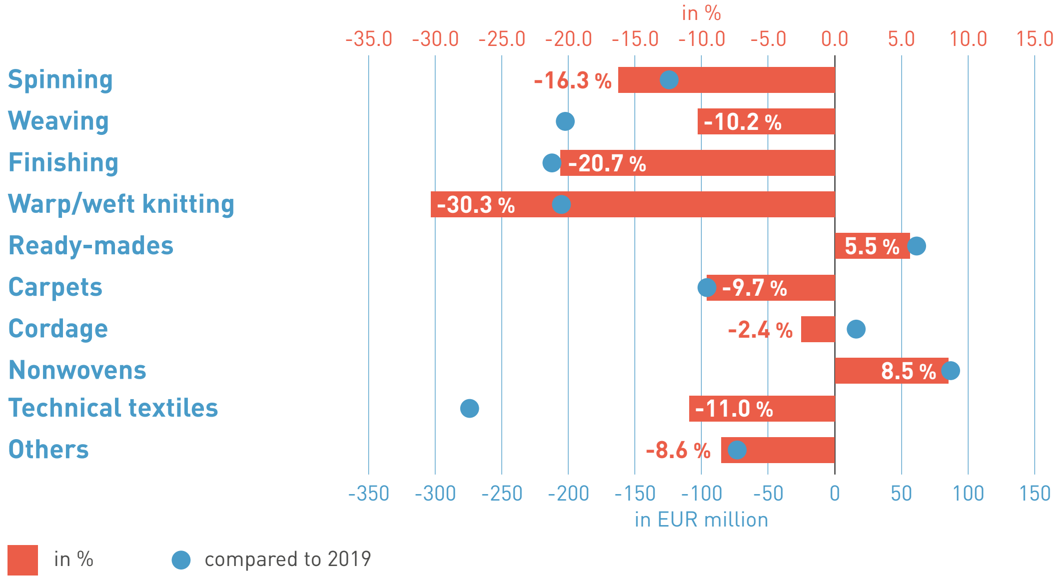





Fig. 4: Sales trends in the textile segments in 2020

Sales in the apparel segment were in freefall last year at -19.0 %. Sales spiralled to -45.0 % at times during the first lockdown in spring. Unlike the textile segment, none of the subsegments managed to achieve positive growth rates. The other outerwear segment suffered most due to the pandemic, with sales plummeting by -21.8 %.

## **Sales trends** in the apparel segments in 2020

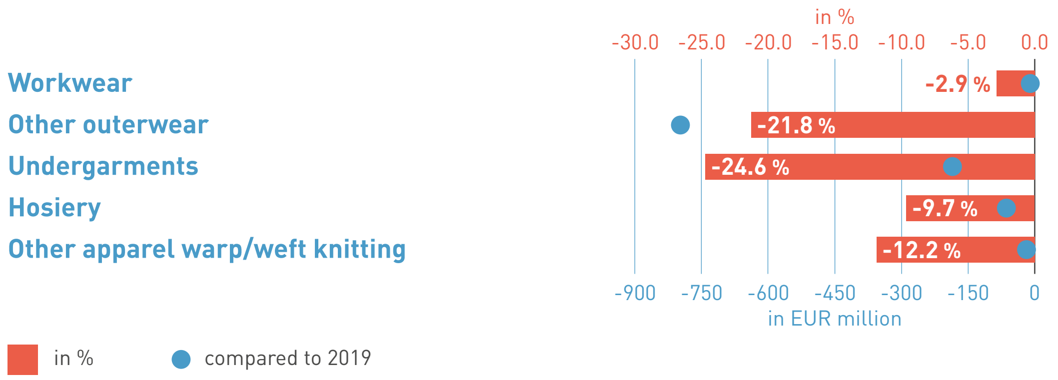





Fig. 5: 2020 sales trends in the apparel segment

Employment levels in the German textile and fashion industry also declined significantly (-5.8 %) this year due to the pandemic. Nearly half of all businesses had to register their workforces for short-time work. The textile segment saw employment levels fall by -4.4 %, while the apparel segment recorded a drop of -8.7 %.

Wage and salary levels also experienced negative development. Wages in the textile segment dropped by -5.9 % compared to the previous year, while wages in the apparel segment sank by -11.0 %.

Exports also deteriorated in nearly every country and segment at -6.2 %. China was the only country with a higher demand for exports. Export volumes remained under the preceding year's levels (-2.4 %); at -8.2 % the apparel segment fared even worse, just as with other economic metrics.

## 2.3. Overview of business performance

The COVID-19 pandemic had a powerful impact on the Hoftex Group in 2020 and greatly restricted our business activities. Business came to an abrupt halt in every division with the COVID-19 outbreak in the spring of 2020. This prompted Hoftex Group Management to issue an ad hoc announcement on 24 April 2020 outlining the anticipated impact on sales and earnings for the 2020 fiscal year. The situation was unprecedented not just in business but in society at large, making it impossible to prepare a quantified annual forecast for the remainder of the year in our key markets and thus business development for the Hoftex Group as a whole. Individual divisions performed quite differently and often unexpectedly throughout the 2020 fiscal year. Alongside the many risks, opportunities also arose for our company. Taking action in such uncertain times required tremendous flexibility both from the management team and the workforce, but it also brought innovative ideas and entrepreneurship and accelerated the expansion of our digital skills and solutions.

### TENOWO

### DIVISION

Sales generated in 2020 by the TENOWO division, which forms the core business of the Hoftex Group with the development, manufacture and sale of nonwovens, were EUR 117.3 million. This was 13.0 % below the previous year's figure (EUR 134.9 million), which was largely attributable to the COVID-19 pandemic. Sales grew as planned during the first quarter, after which TENOWO experienced a sharp drop in the various segments and regions, resulting in a decline in sales of -21.2 % compared to the same period the year prior. However, order intake recovered during the third quarter and business had stabilised by the end of the year. Some of the orders that were not received during the first lockdown were recovered by late 2020.

The automotive sector is TENOWO's largest market segment. Vehicle demand around the globe fell steeply in 2020 in the wake of the COVID-19 pandemic. Many car manufacturers responded by closing their plants for multiple weeks at a time, which resulted a radical decline in order intake and extreme under-utilisation of production capacities at all of our locations worldwide. China, a country severely affected by the pandemic during the first quarter, was the first to begin to recuperate following its successful effort to contain COVID-19. Our Chinese location recovered rapidly and enjoyed robust order intake for most of the year. In 2020 overall, TENOWO China achieved its highest gross revenue and best earnings since it was established in 2014. In contrast, the drop in sales in the automotive sector in the US and Germany did not occur until later in the year. Our location in the US, which traditionally specialises in automotive applications, was able to respond quickly and flexibly to high domestic demand in the healthcare sector and offer nonwovens for the manufacture of protective clothing. This temporary additional business helped compensate for the second-quarter drop in orders and production in the automotive segment. Like Europe, the US automotive industry also began to recover during the third quarter, enabling TENOWO USA to close the 2020 fiscal year with a positive result.

At its Italian location, TENOWO focused strictly on the healthcare business sector last fiscal. However, due to the COVID-19 pandemic, it was not possible to realise key sales and development projects with new and existing customers as planned. In addition, travel restrictions prevented development and technology experts in the parent company from providing the necessary support, making it impossible to meet sales and earnings targets.

The strategic direction focusing on new markets and applications has made the greatest strides at TENOWO Germany. Nonetheless, the global lockdown impacted target markets for the industrial and interlining segments, causing sales in industrial, food packaging and clothing applications to suffer increasingly as the crisis continued. Only the healthcare sector saw growth. Starting in the third quarter, demand in the automotive and industrial sector rose again, which resulted in stable production at the previous year's level on the heels of weeks of extreme under-utilisation or fluctuations in capacity. Demand in the traditional interlinings segment, which comprises all apparel applications, did not improve by the end of the year because of the retail crisis set in motion by the pandemic. All the same, the negative effects of the volatile order intake situation and short-term shifts in the product range could not be avoided. This led to longer periods of under-utilisation, temporary interruptions in production and decreased efficiency, all of which had a negative impact on earnings. Short-time work was a key tool used during this time as a meaningful measure for adapting personnel costs to lower overall performance.

The TENOWO division stands out due to its diverse range of technical systems and nonwoven specialities. This enables TENOWO to continue to extend the strategic direction it has followed for years to bring new markets and applications into the fold. This is why investment activities in the 2020 fiscal year also centred on machines and equipment for applications in the industrial segment, which likewise encompasses healthcare, filtration, food packaging, construction applications and composites. The pandemic also had an influence on numerous investment projects, which were largely concentrated on both production sites in Hof during the 2020 fiscal year. System parts were delivered late and assembly teams were not available to complete a number of projects on time and commission production systems as planned. This is why the major investment in a new binder line in Hof, which also includes comprehensive building renovations, will not go into operation until the middle of the 2021 fiscal year.

Overall, TENOWO managed to achieve positive earnings despite a drop in sales in the double digits due to COVID-19. Both foreign subsidiaries in China and the US in particular were able to improve earnings over the previous fiscal, thereby making a positive contribution to division results. However, TENOWO was unable to maintain the previous year's sales performance due to the market situation.

## NEUTEX

### DIVISION

The NEUTEX division, which produces and supplies decorative fabrics, internal sun protection and technical textiles, generated sales of EUR 13.3 million in 2020 (prior year: EUR 13.4 million) and was thus able to defend its market position despite the general economic decline caused by the pandemic. Like all other divisions of the Hoftex Group, sales collapsed during the first lockdown and were -16.2 % below the previous year's figures. However, following years of conservative consumer behaviour in home furnishings and decor, interest began to rise again. This led to a significant recovery in order intake at NEUTEX during the second half of the year and helped compensate for the decline in sales in the first half of the year. The powerful drive in recent years to move to a digital marketing and online customer sales strategy was a key factor in this success. Sales with this customer group have seen dynamic growth since the second quarter and contributed considerably to the division's ability to achieve its 2020 sales targets. Moreover, the exceptional situation in the area of medical personal protective equipment presented an opportunity for NEUTEX to utilise free finishing capacities for the development and production of face coverings and expand its product portfolio. This enabled NEUTEX to escape the downward spiral in unit sales, sales and production in the home decor sector and increase its market share. NEUTEX was very successful in facing challenges caused by displacements and changes in the market arising from the COVID-19 pandemic thanks to its efforts to focus sales activities on new customer segments and target markets. In particular, NEUTEX convinced customers with innovative collections and high-quality products made in Germany.
The challenge in terms of production was in navigating frequently changing capacity utilisation rates due

to the volatile order intake situation. Short-time work and encouraging employees to use up their flex-time account hours afforded NEUTEX the flexibility it needed to respond to the situation. Thanks to its incredible resilience, the Textor ready-made operation was also able to respond quickly to changes in utilisation rates and adjust its capacities accordingly. All the same, it was not possible to avoid the negative effects on workflows, which strained the results of operations. Overall, NEUTEX saw a dip in earnings with the same level of sales compared to 2019.

## HOFTEX

### DIVISION

The HOFTEX division achieved sales of EUR 6.6 million (prior year: EUR 20.5 million) with its dyeing business during the year under review. Adjusted for the spinning segment divested on 31 August 2019, comparable sales during the same period the previous year were EUR 8.4 million; i.e. HOFTEX experienced a drop of -21.4 %. HOFTEX, whose most important target market is the garment trade, experienced the economic slump and the dramatic impacts of the pandemic on retail business throughout the entire fiscal year. A critical number of order cancellations across all customer segments at the start of the second quarter followed already declining demand above all in the apparel segment. The coronavirus pandemic was the main driver behind these developments, as it not only closed brick-and-mortar textile and apparel businesses, but also drastically lowered demand for certain ranges of goods such as business attire and formal wear. Indeed, sales in brick-and-mortar apparel stores plummeted by -24.8 %.

The production location in Selbitz is a modern, efficient and resource-friendly dyeing operation that was able to respond quickly and flexibly to volatile fluctuations in order intake thanks to its specialised equipment and qualified personnel. It was possible to achieve a balanced result due to streamlined operations paired with further production optimisations. Alongside its yarn and thread-dying operations, HOFTEX still owns former production buildings, whose maintenance had a negative impact on overall earnings in the HOFTEX Division in 2020.

### OTHER

Leasing revenues for the real estate companies were EUR 2.1 million for the fiscal year just past, remaining close to the previous year's levels. The commercial property Hof-Moschendorf, which is now fully rented out following comprehensive investments in buildings and technical equipment, had a positive effect on consolidated earnings. The commercial property at Fabrikzeile in Hof is chiefly used as office and training space. A large-scale investment program for fire protection measures was initiated here, which strained net income for the year and will continue to impact costs in fiscal 2021.

## 2.4. Business performance

### EARNINGS POSITION

| in EUR million | 2020 | 2019 | Change abs. | Change in % |
|---|---|---|---|---|
| Sales | 139.3 | 171.1 | -31.8 | -18.6 |
| Gross revenue | 138.9 | 166.8 | -27.9 | -16.7 |
| Gross profit | 78.1 | 86.5 | -8.4 | -9.7 |
| Cost of materials | -64.3 | -83.8 | 19.5 | -23.3 |
| Personnel expenses | -40.5 | -46.3 | 5.8 | -12.5 |
| Net income for the fiscal year | 3.1 | 2.7 | 0.4 | +14.8 |
| **EBITDA** | **15.5** | **15.4** | **0.1** | **+0.6** |

Sales in the HOFTEX Group sank by 18.6 % to EUR 139.3 million during the reporting year as a result of the coronavirus pandemic. The TENOWO and HOFTEX divisions saw the greatest declines in sales, while NEUTEX was able to match the prior year's numbers despite the difficult market environment. We generated the majority of our sales abroad. Sales generated with other countries during the 2020 fiscal year totalled EUR 90.1 million. This is -11.8 % lower than the prior year (EUR 102.1 million). With EU member states (excluding Germany) sales tumbled from EUR 50.4 million in the previous year to EUR 40.0 million in fiscal 2020. The domestic market was affected most by the COVID-19 pandemic: Sales here fell by -28.7 % to EUR 49.2 million (prior year: EUR 69.0 million).

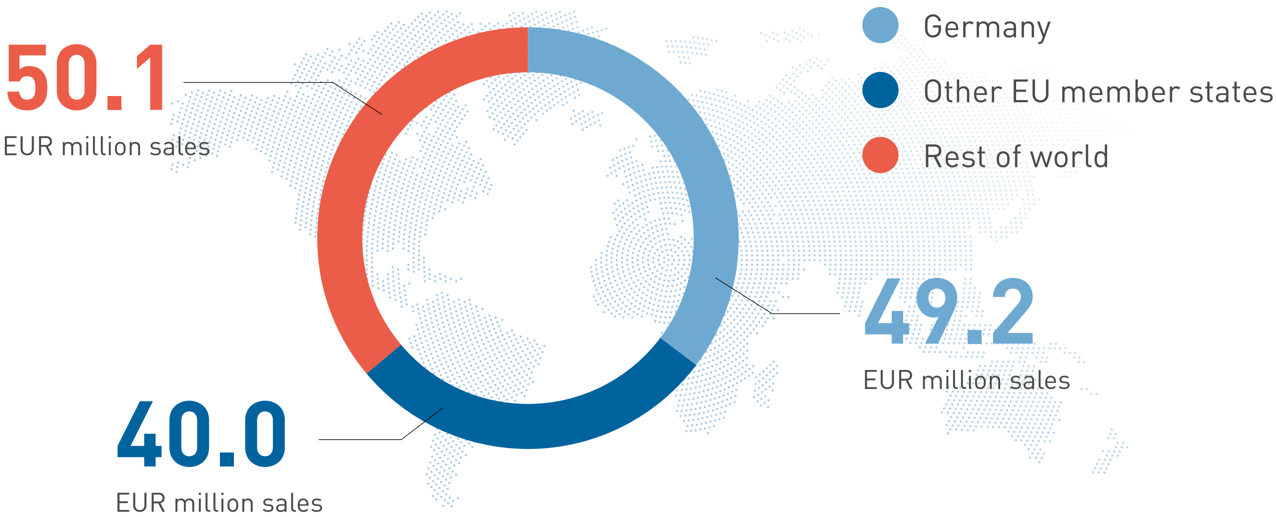



Fig. 6: Classification of sales by region

The decline in inventory levels for finished goods and unfinished goods resulted in a reduction in inventory levels of EUR -0.4 million (prior year: EUR -4.3 million). At 56.2 % the gross profit margin calculated as gross profit to gross revenue grew by 4.3 % compared to the previous year. The cost of materials ratio developed positively, decreasing from 50.2 % during the previous year to 46.3 % during the year under review. This was mainly the result of lower commodity prices throughout the course of the year, which reached their lowest point at the beginning of the second half of the year. The COVID-19 pandemic resulted in unexpected and drastic fluctuations in demand, which affected the entire supply chain along with price trends in the procurement markets. Other operating income remained close to levels recorded the year prior at EUR 3.4 million (2019: EUR 3.5 million). This includes EUR 0.9 million in funds paid out by insurance companies for property damages resulting from a fire at the TENOWO location in Hof in 2017.

Gross revenue amounting to EUR 138.9 million dropped considerably primarily due to the slump in sales (prior year: EUR 166.8 million). Based on gross revenue, the share of personnel expenses only rose slightly from 27.8 % to 29.2 %. The use of short-time work and accrued overtime made the most significant contributions here.

The decline in other operating expenses by EUR 2.2 million to EUR 21.5 million is chiefly attributable to a reduction in selling expenses. The pandemic severely restricted travel and trade fair visits, playing the key role here. Overall, earnings before interest, taxes, depreciation and amortisation (EBITDA) improved during the reporting period, reaching EUR 15.5 million (prior year: EUR 15.4 million).

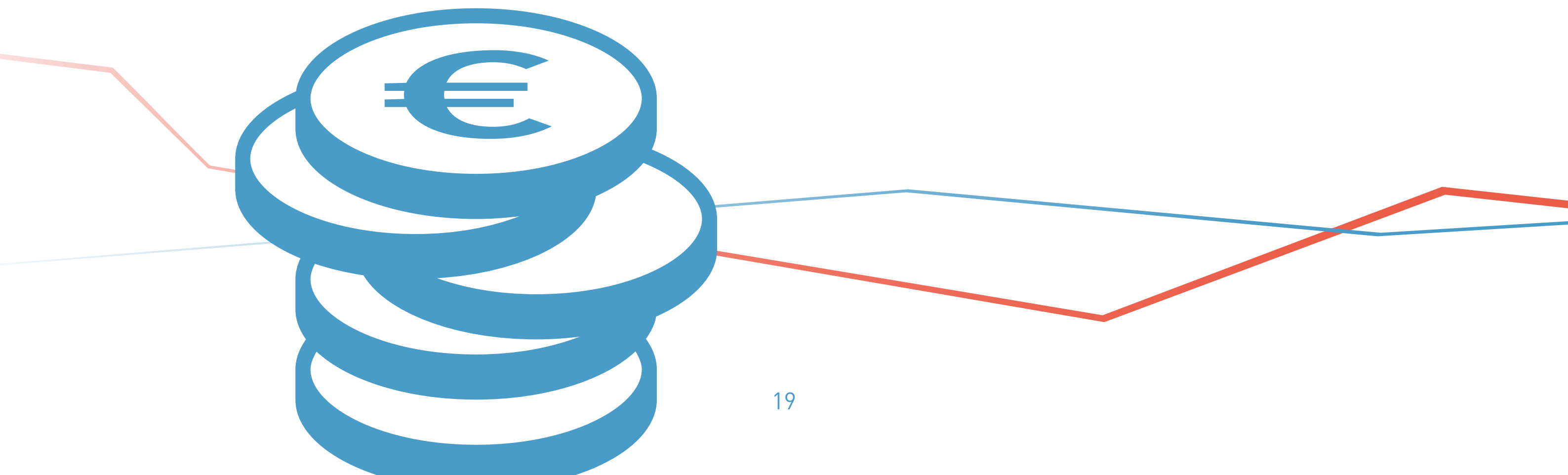
Taking into account net interest income of EUR -1.2 million (prior year: EUR -1.6 million), EUR 0.2 million in income taxes (prior year: EUR -0.1 million) and other taxes of EUR -0.7 million (prior year: -0.7 million), consolidated earnings during the year under review were EUR 3.1 million, which is EUR 0.4 million higher than the previous year. This corresponds to earnings per share of EUR 0.58 (prior year: EUR 0.50) The HOFTEX GROUP AG Supervisory and Management Boards will propose leaving the dividend unchanged at EUR 0.15 per share. The dividend payout ratio is thus 25.9 % of consolidated earnings.

## FINANCIAL POSITION

The financial structure of the Hoftex Group remains largely unchanged compared to the previous year. The *Schuldscheindarlehen*, or bonded loans, issued in fiscal year 2016 with a term of three to seven years and a total volume of EUR 50 million are variable/fixed-rate loans. These *Schuldscheindarlehen* are being repaid on schedule. The first cash repayment in the amount of EUR 9.0 million was made in late 2019 and a second cash repayment of EUR 5.0 million was made at the end of 2020. EUR 23.5 million is slated for repayment in fiscal 2021. Hoftex Group also has working capital lines totalling EUR 11.5 million at its disposal.

With consolidated earnings of EUR 3.1 million, cash flows from operating activities amounted to EUR 19.8 million (prior year: EUR 19.2 million). Above all, the positive effect related to the change in working capital, in particular reductions in receivables and other fixed assets, resulted in improvements.

Negative cash flows from investing activities of EUR -8.2 (prior year: EUR -14.3 million) are mainly attributable to payments for acquisitions of tangible fixed assets in the amount of EUR 8.0 million.



Cash flows from financing activities in 2020 amounted to EUR -7.7 million (prior year: EUR -13.0 million) and are largely the result of another payment made on the *Schuldscheindarlehen*, interest – mainly from the *Schuldscheindarlehen* – and the dividend payment.

The combined effect of cash inflows and outflows from operating activities, investing activities and financing activities during the 2020 fiscal year resulted in an increase in cash funds to EUR 26.6 million (prior year: EUR 22.9 million) as of 31 December 2020.

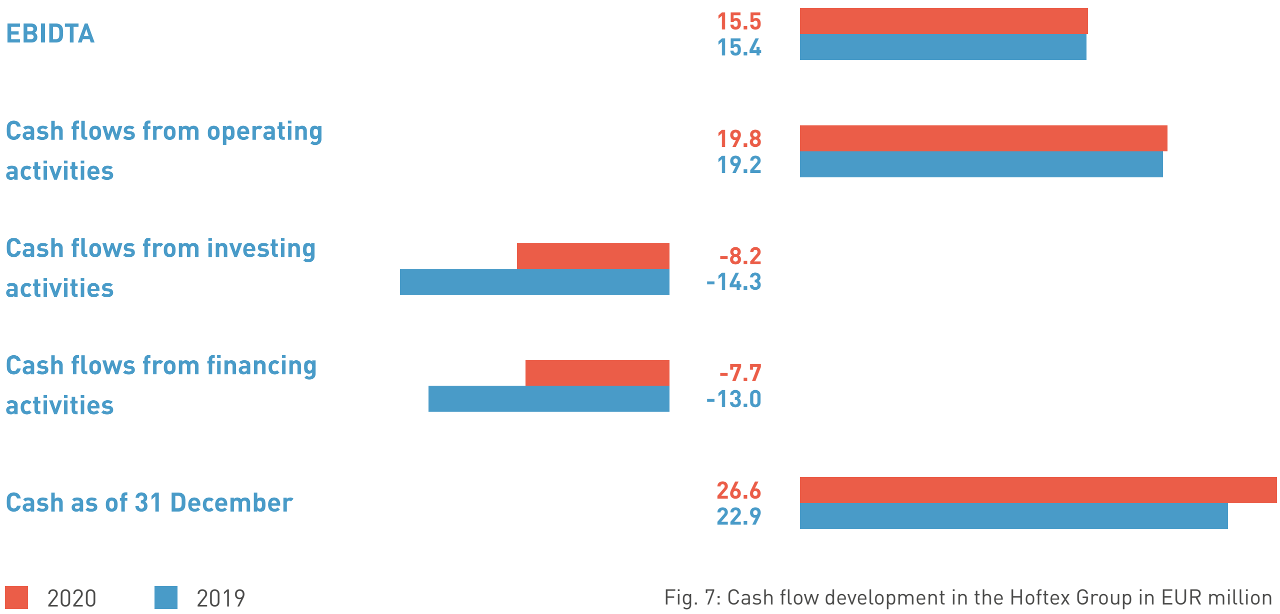



Fig. 7: Cash flow development in the Hoftex Group in EUR million

## NET ASSETS

Total assets of the Hoftex Group decreased to EUR 176.7 million as of 31 December 2020. This is EUR 6.1 million less than the previous year's value of EUR 182.8 million.

Beyond the reduction in intangible fixed assets to EUR 1.9 million (prior year: EUR 2.4 million), tangible fixed assets also fell from EUR 102.7 million to EUR 98.6 million, particularly due to the decrease in investment activity during the COVID-19 pandemic. Investment activities during the past fiscal year focused on spending related to expanding various nonwoven technologies at the TENOWO Hof and Mittweida locations. Exchange rate effects related to the development of the US dollar also contributed to the reduction in tangible fixed assets. Scheduled depreciation and amortisation totalled EUR 11.3 million during the year under review (prior year: EUR 11.3 million).

In current assets inventories dropped slightly from EUR 29.4 million by EUR 0.3 million compared to the previous year. Receivables and other assets declined from EUR 23.6 million to EUR 18.9 million. This is principally due to the to the decrease in trade receivables of EUR 2.7 million to EUR 16.0 million and the reduction in other assets of EUR 2.1 million to EUR 2.8 million. Cash equivalents rose from EUR 22.9 million to EUR 26.6 million.

Consolidated equity dipped slightly by EUR 0.2 million compared to the previous year to EUR 107.6 million as of 31 December 2020. The positive consolidated earnings during the reporting year are the primary cause, while the currency differences not affecting net income and the dividend payment to shareholders had a counteracting effect. The equity ratio was 60.9 % as of 31 December 2020 (prior year: 59.0 %).

Provisions were EUR 17.6 million, falling below the past year's value of EUR 19.6 million. Pension obligations are listed with their full values, using an interest rate of 2.30 % (prior year: 2.71 %). The allocable values of business insurance claims were deducted from this. Disclosure of pension obligations dropped by a total of EUR 0.4 million. Among other provisions, tax provisions decreased by EUR 0.2 million and other provisions decreased by EUR 1.4 million.

Liabilities totalled EUR 50.9 million (prior year: EUR 54.7 million). The main reason for the decline is the EUR 4.9 million reduction in bank liabilities due to the scheduled repayment of the *Schuldscheindarlehen* in the amount of EUR 5 million in late 2020. Trade payables and liabilities on bills accepted and drawn amounting to EUR 6.6 million decreased by EUR 0.9 million. Other liabilities of EUR 8.0 million rose by EUR 0.3 million over the previous year (EUR 7.7 million).

## 2.5. Employees

Compared to the previous year, the average number of employees in the Hoftex Group decreased by 83 to 1,053 (prior year: 1,136). The Group employed a total of 1,035 people as of the balance sheet date on 31 December 2020 (prior year: 1,071), 780 of whom worked in Germany. This makes up 75.4 % of all employees.

The largest division of the Hoftex Group, TENOWO, also had the most employees in 2020 with 740 compared to the prior year's figure of 751. The largest location in terms of employees is the headquarters in Hof with 365 employees (prior year: 371).

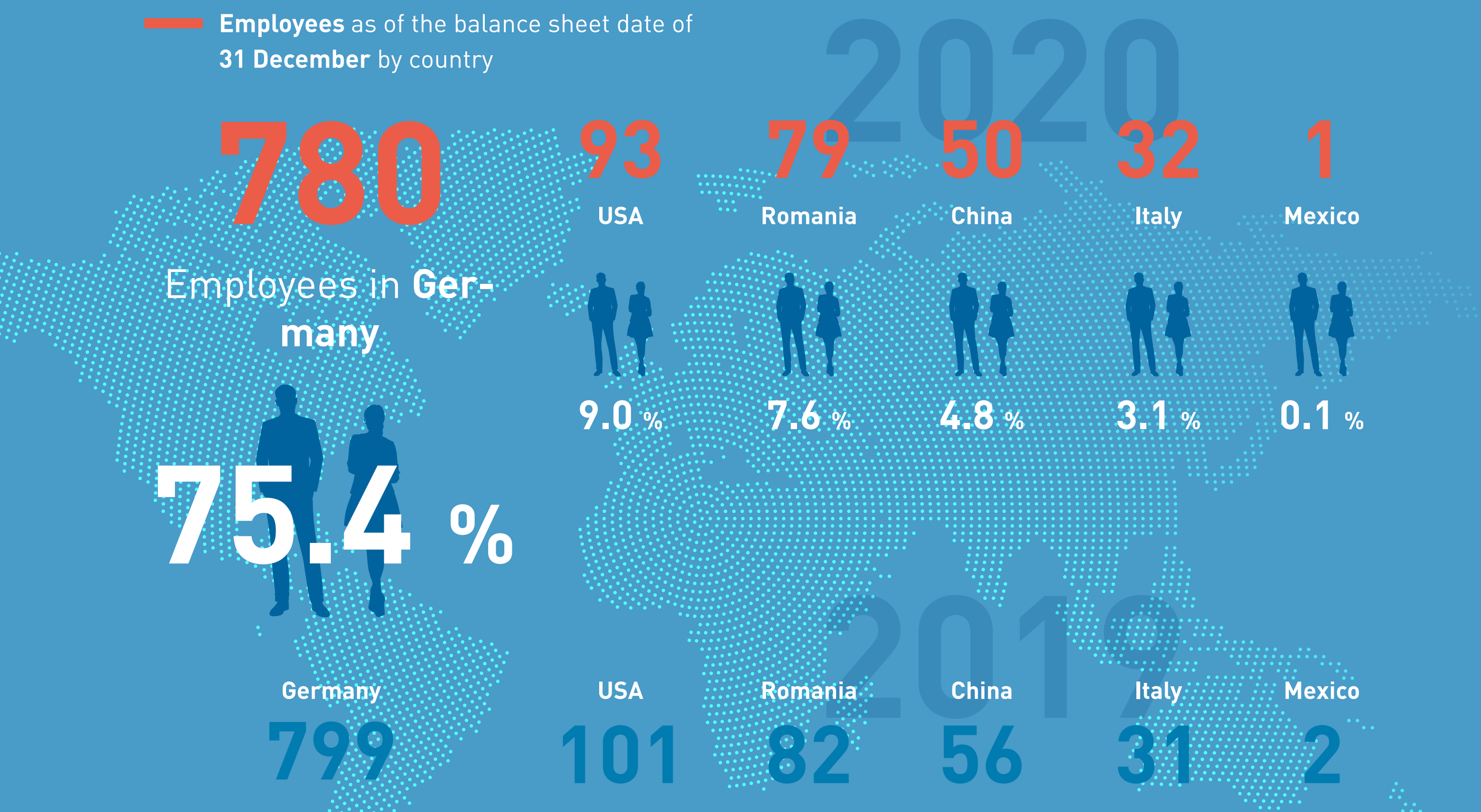



Fig. 8: Employees as of the balance sheet date of 31 December by country

The Hoftex Group thus retained a stable number of employees in spite of the COVID-19 pandemic. The use of short-time work and accrued overtime enabled us to avoid COVID-related terminations. We established a hygiene concept along with comprehensive protective measures to respond quickly to the respective situation in the different locations and offer our employees the most effective protection possible. The use of digital media and tools allowed us to offer home office solutions at short notice. Online seminars and webinars were used for further training and education and new meeting formats were established in record time. COVID-19 made many of Hoftex Group's workflows more digital and agile. We are on the precipice of a transformation in the working world and a fundamental shift in professional collaboration that will lead to many diverse methods of working. Our task is to prepare our organisation for these new challenges and support our people as effectively as possible.

## 3. Statement on Corporate Governance of HOFTEX GROUP AG pursuant to Section 289f(4) of the German Commercial Code for the 2020 fiscal year

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

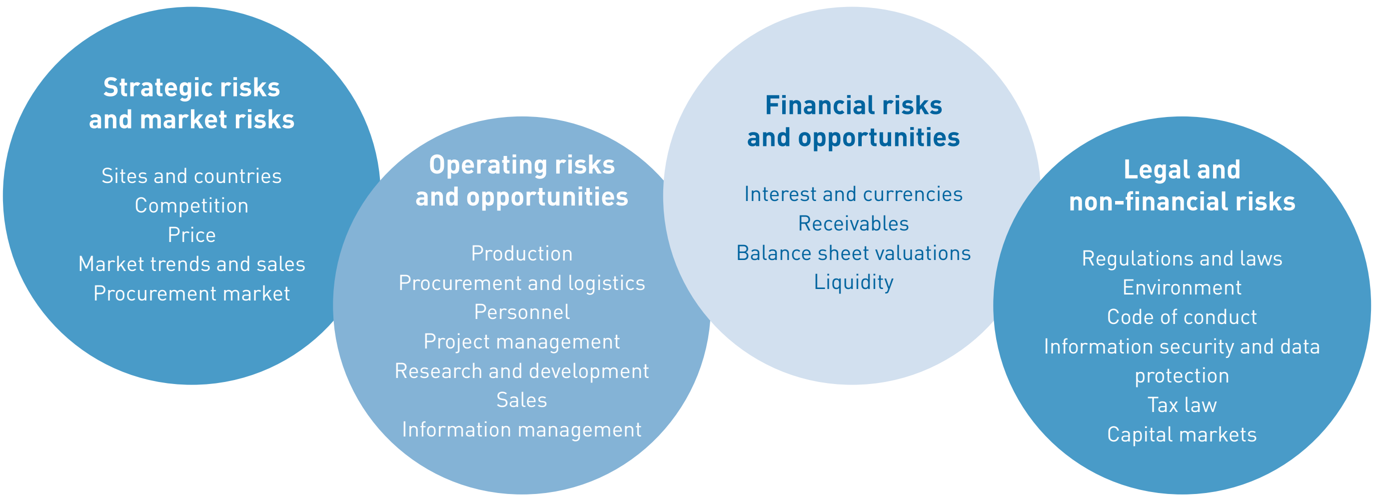
The Supervisory and Management Boards have defined target gender quotas pursuant to the "Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector". The Supervisory Board's target for the gender quota of the two-person Management Board is still 0 %. Following Robert Seibold's resignation from the Management Board effective 31 July 2020, Manuela Spörl was appointed member of the Board and CFO as successor to Robert Seibold as of 1 August 2020. The Supervisory Board resolved to appoint at least two women members by 31 December 2021. There are currently four women on the Supervisory Board: Renate Dempfle and Melanie Liebert representing the shareholders and Johanna Falasa and Carmen Teismann representing the employees. The Management Board of the HOFTEX GROUP AG has set a target of 20 % for the top management level below the Management Board on or before 31 December 2021. The gender quota for the top management level is currently 25 % 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 individual subsidiaries or those 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 key relevant areas of risk and opportunity for the Hoftex Group are outlined in the following. We will only explain the areas with notably relevant risks and opportunities.

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




## 4.1. Macroeconomic and sector-specific risks and opportunities

Even the Hoftex Group cannot completely avoid macroeconomic risks and economic slumps like those caused by the COVID-19 pandemic. These types of risks can have significant effects on our net assets, financial position and results of operations. The ongoing pandemic still holds many uncertainties, which is why it remains a material individual risk for the Hoftex Group. Despite the lower financial impact overall during the past year, we cannot exclude the possibility that the COVID-19 pandemic will have considerable cumulative effects on the results of operations in 2021. Our strategic positioning focused on a variety of markets and regions paired with our global presence gives us cause to deem this a less likely scenario.

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 and chemical 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, driven 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.

## 4.2. Operational opportunities and risks

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. Triggered by the COVID-19 pandemic, raw material prices were subject to high price volatility last year and international supply chains were disrupted. Material requirements planning is continually adapted to market conditions in procurement and sales via regular, close coordination of the internal supply chain. Practical coordination of appropriate procurement strategies reduces the risk of procurement constraints and dependence on specific suppliers.

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. Due to the pandemic, all divisions experienced major capacity fluctuations in 2020, which resulted in over or underproduction in selective cases. Close communication between the respective production facilities and through our international positioning allow us to respond swiftly to problems in order to mitigate the risks mentioned above. Short-time work and encouraging employees to use up their flex-time account hours were key tools that made it possible to bridge the gaps between phases of capacity reduction. 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 gives us the chance to use data analysis techniques to produce in an even more efficient manner, improve quality and achieve cost savings. An increasing number of 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.

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.

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 guarantee that 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.

Nevertheless, our IT systems and networks are potentially vulnerable to many forms of cybercrime along with the risk of disruptions. IT system malfunctions could significantly disrupt operations. Organisational and technical measures designed to mitigate this risk are continually under review. In addition, regular communications increase awareness among all users and training courses are offered to cultivate the desired user behaviours.

## 4.3. Financial opportunities and risks

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 Yuan (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.

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.

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.

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.

### 4.4. Legal and non-financial risks

Like other internationally operating companies, HOF-TEX 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 world-wide 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.

With our listing on the Munich Stock Exchange, HOF-TEX 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.

## 5. Forecasts and outlook

### 5.1. Outlook on macroeconomic conditions

Economic experts have a positive outlook for the coming year and anticipate further containment of the pandemic paired with a noticeable recovery in the global economy: The International Monetary Fund forecasts global economic growth of 6.0 % in its most recent outlook.

The Eurozone is expected to recover as early as 2021, with a presumptive growth rate of 4.4 %. The British economy will also likely bounce back from its sharp decline (projected growth rate: 5.3 %). Experts forecast strong growth in the US at a rate of 6.4 %. The IMF projects a growth rate of 5.1 % overall for advanced economies in 2021, with clear signs of regeneration.

The dynamic Chinese economy is expected to accelerate even further in the coming year (projected growth rate: 8.4 %). Experts anticipate a perceptible recovery in the Indian economy, with a growth forecast of 12.5 %. In contrast, the recovery outlook in emerging and developing economies in Europe is slightly less enthusiastic with a projected growth rate of 4.4 %. In total, the IMF also expects emerging and developing countries to make a clear recovery and is forecasting a growth rate of 6.7 %.

## 5.2. Outlook on sector-specific conditions

The ifo Business Climate Index has improved gradually since the spring of 2020 and is now at a level that has not been reached since November 2018. This general outlook is shared by businesses in the textile segment. The business climate in the apparel sector stands in stark contrast to these predictions, after experiencing long-term negative levels.

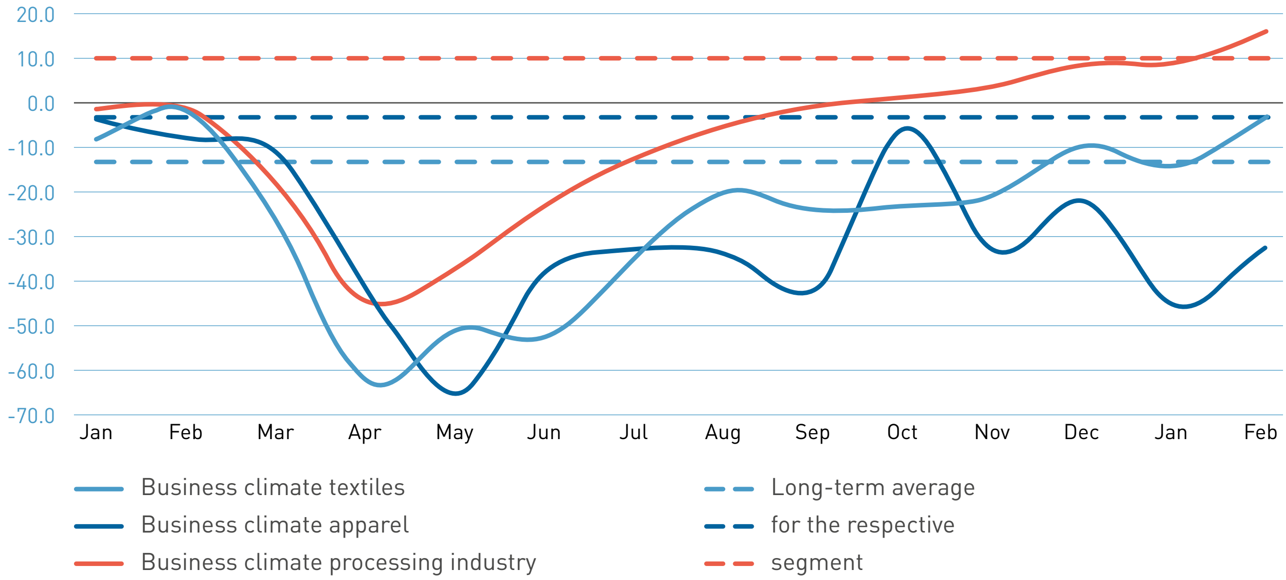



Fig. 9: Business Climate Index January 2020 to February 2021

Source: ifo economic climate index for the textile and apparel segments from Jan 2020 to Feb 2021

In light of the interaction between order backlogs and trends on the one hand and the resulting sales on the other, it is possible to make short-term forecasts like the one presented in the market report promulgated by the trade association textil+mode in February 2021. The textile segment already found itself in a negative situation in 2019. This was only exacerbated by the outbreak of the pandemic. However, if one views sales growth in the second half of 2020, the last few months in particular hint at a slight recovery. Nonetheless, these positive trends are vulnerable to mitigating effects such as high transportation costs along with continued scarcity of certain raw materials and consequential price increases. The picture is different in the apparel segment, which has been affected by especially high inventory levels and order backlogs due to the lockdowns. Sales and order backlogs currently diverge greatly, with no recovery in sight.

## 5.3. Outlook – business performance

The companies in the Hoftex Group also expect the markets to continue to recover from the COVID-19 pandemic in fiscal 2021. However, this is primarily dependent upon how successful the international community of states is in further containing COVID-19. Uncertainties still abound concerning medium-term economic impacts, which will have a dramatic influence on consumer demand and business investment policies. Furthermore, the *Bundestag* elections in Germany will be an important signpost for German and European politics in the coming years. In our presumptive scenario, we are assuming that all divisions return to or continue their path to growth.

The TENOWO division will proceed with its growth strategy of expanding various target markets and applications. It will push forward with the transformation process initiated in 2020. The internal organisation will be aligned even more closely with target markets, which should create further growth fields alongside core business in the automotive segment. That notwithstanding, we still see additional opportunities for growth in our automotive segment: The use of nonwovens will continue to rise in the future thanks to the shift towards alternative drives and the need for more energy-efficient vehicles.

Our NEUTEX division is expanding its strategic direction with its digital sales and marketing strategy and the internationalisation of its sales team and expects moderate sales growth. Dependency on brick-and-mortar retailers is still high, however, and additional lockdowns for longer periods could pose a risk.

HOFTEX, our smallest division, plans on successively reviving business during the course of the fiscal year and increasing sales in 2021, particularly in the apparel customer segment.

To achieve the growth rates predicted for 2021, however, it is decisive for all of our companies to re-establish close contact with our customers in order to launch and deploy joint development projects. In terms of production and organisation, the Hoftex Group proved last year that it is able to quickly and flexibly adapt to volatile market conditions. As conditions return to normal in 2021, we will place our focus on maintenance, internal process improvements and optimisations. Planned investments are budgeted at around EUR 10 million and will focus on completing the binder line investment project at the TENOWO location in Hof. We expect higher procurement costs for commodities, chemicals and energy in 2021, which will affect the results of operations.

Based on the assumptions and framework conditions for 2021, we forecast sales growth rates ranging from anywhere between 5 % and 15 % compared to the prior year (EUR 139.3 million). EBITDA will likely be between EUR 15.0 million and EUR 18.0 million.

This forecast is subject to the proviso that there are no unexpected disruptions to business and the COVID-19 pandemic is successfully contained. Material risks could include temporary interruptions in production, further postponement of customer projects and in-house maintenance and investment projects that could have a negative impact on sales and EBITDA.

Hof, 30 April 2021

HOFTEX GROUP AG

The Management Board

Klaus Steger

Manuela Spörl

# HOFTEX GROUP AG

## Consolidated balance sheet as of 31 December 2020

| Assets in EUR thousand | Notes | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| **A. Non-current assets** | | | |
| I. Intangible assets | 6 | 1,855 | 2,408 |
| II. Tangible assets | 6 | 98,601 | 102,654 |
| III. Long-term financial assets | 6 | 17 | 43 |
| | | **100,473** | **105,105** |
| **B. Current assets** | | | |
| I. Inventories | 7 | 29,372 | 29,701 |
| II. Accounts receivable and other assets | 8 | 18,873 | 23,649 |
| III. Cash and cash equivalents | 9 | 26,614 | 22,856 |
| | | **74,859** | **76,206** |
| **C. Accrued and deferred items** | | **284** | **370** |
| **D. Deferred tax assets** | 10 | **1,126** | **1,092** |
| **Balance sheet total** | | **176,742** | **182,773** |

| Equity and liabilities in EUR thousand | Notes | 31/12/2020 | 31/12/2019 |
|---|---|---|---|
| **A. Equity** | | | |
| I. Subscribed capital | 11 | 13,920 | 13,920 |
| II. Capital reserves | 13 | 41,158 | 41,158 |
| III. Revenue reserves | 14 | 55,254 | 54,254 |
| IV. Change in equity from currency translation | | -4,170 | -1,667 |
| V. Net retained profits | 15 | 1,455 | 133 |
| | | **107,617** | **107,798** |
| **B. Provisions** | 16 | **17,581** | **19,635** |
| **C. Liabilities** | 17 | **50,860** | **54,656** |
| **D. Deferred tax liabilities** | 10 | **684** | **684** |
| **Balance sheet total** | | **176,742** | **182,773** |

# HOFTEX GROUP AG

## Consolidated Income Statement for the 2020 fiscal year

| in EUR thousand | Notes | 2020 | 2019 |
|---|---|---|---|
| Sales | 18 | 139,340 | 171,051 |
| Change in inventories of finished and unfinished goods | | -411 | -4,279 |
| **Gross revenue** | | **138,929** | **166,772** |
| Other operating income | 19 | 3,443 | 3,490 |
| Cost of materials | 20 | -64,274 | -83,767 |
| **Gross profit** | | **78,098** | **86,495** |
| Personnel expenses | 21 | -40,457 | -46,256 |
| Depreciation, amortisation and write-downs | 6 | -11,279 | -11,329 |
| Other operating expenses | 22 | -21,453 | -23,749 |
| **Operating result** | | **4,909** | **5,161** |
| Net interest income | 23 | -1,231 | -1,614 |
| Taxes on income | 24 | 157 | -143 |
| **Earnings after tax** | | **3,835** | **3,404** |
| Other taxes | 25 | -697 | -696 |
| **Consolidated net income for the year** | | **3,138** | **2,708** |

# HOFTEX GROUP AG

## Consolidated statement of changes in equity as of 31 December 2020

| in EUR thousand | Sub-scribed capital | Capital reserves | Revenue reserves | Change in equity from currency translation | Net accu-mulated gains | Total |
|---|---|---|---|---|---|---|
| **Balance on 1/1/2019** | **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 31/12/2019** | **13,920** | **41,158** | **54,254** | **-1,667** | **133** | **107,798** |
| 2019 dividend payment | | | | | -816 | -816 |
| Consolidated net income for 2020 | | | | | 3,138 | 3,138 |
| Foreign currency translation differences | | | | -2,503 | | -2,503 |
| Appropriation to revenue reserves pursuant to Section 58(3) AktG | | | 1,000 | | -1,000 | 0 |
| **Balance on 31/12/2020** | **13,920** | **41,158** | **55,254** | **-4,170** | **1,455** | **107,617** |

## HOFTEX GROUP AG

## Consolidated cash flow statement for the 2020 fiscal year

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Consolidated net income for the year | 3,138 | 2,708 |
| +/- Depreciation, amortisation and write-downs of fixed assets/ reversals of write-downs of fixed assets | 11,279 | 10,970 |
| +/- Increase/decrease in provisions incl. pension provisions | -1,857 | -2,278 |
| +/- Other non-cash expenses and income | -850 | 93 |
| -/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities | 5,355 | 8,136 |
| +/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities | 2,204 | -995 |
| -/+ Gain/loss on disposal of results of operations assets | -34 | -226 |
| +/- Interest expense/interest income | 1,003 | 1,337 |
| +/- Income tax expense/income | -157 | 143 |
| +/- Income tax payments | -236 | -656 |
| **Cash flows from operating activities** | **19,845** | **19,232** |
| | | |
| - Payments to acquire intangible fixed assets | -305 | -369 |
| + Proceeds from disposals of financial assets | 122 | 540 |
| - Payments to acquire tangible fixed assets | -8,020 | -14,603 |
| + Proceeds from disposals from the consolidated companies | 0 | 75 |
| + Interest received | 25 | 17 |
| **Cash flows from investing activities** | **-8,178** | **-14,340** |
| | | |
| + Cash proceeds from bank loans | 166 | 0 |
| - Cash repayments of bank loans | -5,060 | -10,375 |
| - Cash repayments of short-term loans to affiliated companies | -997 | 0 |
| + Proceeds from grants/subsidies received | 64 | 86 |
| - Interest paid | -1,028 | -1,354 |
| - Dividends paid | -816 | -1,361 |
| **Cash flows from financing activities** | **-7,671** | **-13,004** |
| | | |
| **Changes in cash and cash equivalents** | **3,996** | **-8,112** |
| Effect on cash funds of exchange rate movements and remeasurement | -238 | 61 |
| Cash and cash equivalents as of 1 January | **22,856** | **30,907** |
| **Cash and cash equivalents as of 31 December** | **26,614** | **22,856** |

# Notes to the Consolidated 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 is the holding company of the Hoftex Group.

The purpose of the company corresponds in principle to the entry in the commercial register. The main activities of the Hoftex Group are the development, production and sale of nonwovens for technical applications, the construction industry and cable industry and for medical applications and the garment trade. Additional areas of activity include the manufacture and sale of decorative fabrics and textile sun protection solutions along with the operation of a yarn dyeworks.

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 German Commercial Code (HGB) and Companies Act (AktG).

The consolidated financial statements of HOFTEX GROUP AG for the year ending 31 December 2020 are prepared pursuant to the provisions of HGB and 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 2020 fiscal year were prepared on the basis of the provisions of HGB, 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 2020 include 13 (prior year: 14) domestic and 5 (prior year: 5) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and therefore exercises control over these companies. The Group relief fund, the *Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.*, is also subject to consolidation as stipulated in Section 290(2) no. 4 HGB in conjunction with Standard 19 of the German Accounting Standards (*Deutsche Rechnungslegungsstandard* or DRS).

The change in the consolidated companies was the result of merging Hof Garn Verwaltungs GmbH into the HOFTEX GROUP AG effective 1 January 2020. As part of the merger, HOFTEX GROUP AG took over the shares in Hoftex GmbH held by Hof Garn Verwaltungs GmbH, so that the HOFTEX GROUP AG now holds 100 % of all shares.

Similarly, the domestic subsidiary HBD Textil-GmbH, which was not included pursuant to Section 296(2) HGB, was merged into the HOFTEX GROUP AG effective 1 January 2020. The entitlement of the exemption outlined in Section 313(3) sentence 4 HGB is exercised here.

HOFTEX GROUP AG's consolidated companies for the year ending 31 December 2020 are as follows:
Companies:

| Company | Registered office | Share of capital in % | Currency | Equity thousand [7] | Result current year thousand |
|---|---|---|---|---|---|
| **Fully consolidated companies as defined in Section 290(2) no. 1 HGB** | | | | | |
| Hoftex GmbH | Hof | [1] 100.00 | Euro | 14,069 | (CPTA) [8] |
| Hoftex Färberei GmbH | Hof | [2] 100.00 | Euro | 800 | (CPTA) [8] |
| Hoftex Färberei Betriebs GmbH | Hof | [3] 100.00 | Euro | 150 | (CPTA) [8] |
| Tenowo GmbH | Hof | 100.00 | Euro | 63,171 | (CPTA) [8] |
| Tenowo Hof GmbH | Hof | [4] 100.00 | Euro | 150 | (CPTA) [8] |
| Tenowo Reichenbach GmbH | Hof | [4] 100.00 | Euro | 150 | (CPTA) [8] |
| Tenowo Mittweida GmbH | Hof | [4] 100.00 | Euro | 150 | (CPTA) [8] |
| Tenowo Inc. | Lincolnton, USA | [4] 100.00 | USD [9] | 12,224 | 2,943 |
| Tenowo Huzhou New Materials Co. Ltd. | Huzhou, China | [4] 100.00 | CNY [10] | 47,321 | 3,676 |
| Resintex Industriale S.r.l. | Milan, Italy | [4] 100.00 | Euro | 2,174 | -150 |
| Tenowo de Mexico S. de R.L. de C.V. | San Luis de Potosi, Mexico | [5] 100.00 | MXN [11] | -7,000 | -3,916 |
| Neutex Home Deco GmbH | Münchberg | 100.00 | Euro | 7,536 | (CPTA) [8] |
| Neutex Betriebs GmbH | Münchberg | [6] 100.00 | Euro | 150 | (CPTA) [8] |
| SC Textor S.A. | Targu Mures, Romania | [6] 100.00 | RON [12] | 13,247 | -4 |
| Textil Hof Immobilien Geschäftsführungs GmbH [13] | Hof | 100.00 | Euro | 89 | 3 |
| Hoftex Immobilien II GmbH & Co. KG [14] | Hof | 100.00 | Euro | 14,641 | 922 |
| Feinspinnerei Hof GmbH | Hof | 100.00 | Euro | 41 | -2 |
| Hoftex Immobilien I GmbH | Hof | 100.00 | Euro | 4,472 | (CPTA) [8] |
| **Fully consolidated companies as defined in Section 290(2) no. 4 HGB** | | | | | |
| *Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.* | Hof | 0.00 | Euro | - | - |

1) 100 % of all shares held by HOFTEX GROUP AG.
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 % by Tenowo Inc.
6) 100 % of all shares held by Neutex Home Deco GmbH.
7) This figure is reported <u>including</u> the result for the year.
8) CPTA = Control and profit transfer agreement
The company exercises its exemption rights pursuant to section 264(3) HGB.
9) Spot rate on the closing date 31/12/2020: 1 Euro = 1.2271 USD
10) Spot rate on the closing date 31/12/2020: 1 Euro = 8.0225 CNY
11) Spot rate on the closing date 31/12/2020: 1 Euro = 24.4160 MXN
12) Spot rate on the closing date 31/12/2020: 1 Euro = 4.8683 RON
13) General partner of Hoftex Immobilien II GmbH & Co. KG.
14) The company exercises its exemption rights pursuant to section 264b 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. 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.

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. Intangible assets relate 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. If the reasons for such write-downs no longer exist, impairment losses are reversed up to a maximum of the amortised cost.

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. These are based on tax depreciation tables (minimum rates) and empirical values.

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.

Loans are carried at face value or, in the event of permanent value impairment, at the lower of cost and fair value.

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

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 costs.

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 a simplified 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 2,570 thousand (prior year: EUR 2,835 thousand), and the settlement amount of the offset obligations amounts to EUR 4,186 thousand (prior year: EUR 4,475 thousand), resulting in a net post-employment benefit liability (provision) of EUR

1,616 thousand (prior year: EUR 1,641 thousand) resulting from purchase commitments and leasing contracts. 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 256 thousand (prior year: EUR 312 thousand) are offset against the expected return on pension plan assets of EUR 28 thousand (prior year: EUR 34 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 2.3 % interest rate and a 1.5 % rate of benefit increase. As provided in Section 253(2) sentence 2 HGB, the underlying interest rate used to discount pension obligations corresponds to the average market interest rate from the past ten financial years based on an assumed term of 15 years as calculated and published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*, or *RückAbzinsV*). The excess amount on 31 December 2020 resulting from exercising the option to choose between a seven and a ten prior year average discount rate is EUR 497 thousand (prior year: EUR 560 thousand) resulting from purchase commitments and leasing contracts. The corresponding amount for HOFTEX GROUP AG of EUR 406 thousand (prior year: EUR 453 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 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 1,432 thousand (prior year: EUR 1,562 thousand) resulting from purchase commitments and leasing contracts. Post-retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,592 thousand (prior year: EUR 2,708 thousand) resulting from purchase commitments and leasing contracts. The net liability of EUR 1,160 thousand (prior year: EUR 1,146 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 fiscal year, and for warranties granted with no legal obligation. Provisions are recognised in the amount required to meet these obligations as determined by prudent business judgement, taking all foreseeable risks into account. We have allowed for future price and cost increases where they seemed likely to occur based on objective evidence. Provisions with a remaining term of more than one year were discounted using the relevant average market interest rate from the past seven 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 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 2020

| in EUR thousand | Acquisition and production costs | | | | | |
|---|---|---|---|---|---|---|
| | Balance on 1/1/2020 | Currency translation | Additions | Reclassifi-cations | Disposals | Balance on 31/12/2020 |
| **I. Intangible assets** | | | | | | |
| 1. Purchased software and other rights | 5,734 | 5 | 305 | 0 | 5 | 6,039 |
| 2. Goodwill | 566 | 0 | 0 | 0 | 0 | 566 |
| | **6,300** | **5** | **305** | **0** | **5** | **6,605** |
| **II. Tangible assets** | | | | | | |
| 1. Land and buildings | 133,250 | -1,333 | 648 | 4,720 | 321 | 136,964 |
| 2. Machines and equipment | 187,877 | -2,891 | 3,020 | 4,427 | 307 | 192,126 |
| 3. Other equipment, furniture and fittings | 24,176 | -123 | 692 | 12 | 1,116 | 23,641 |
| 4. Prepayments and assets under construction | 10,190 | -43 | 3,660 | -9,159 | 0 | 4,648 |
| | **355,493** | **-4,390** | **8,020** | **0** | **1,744** | **357,379** |
| **III. Long-term financial assets** | | | | | | |
| 1. Equity interest in affiliated companies | 26 | 0 | 0 | 0 | 26 | 0 |
| 2. Investments | 16 | 0 | 0 | 0 | 0 | 16 |
| 3. Other loans | 1 | 0 | 0 | 0 | 0 | 1 |
| | **43** | **0** | **0** | **0** | **26** | **17** |
| | **361,836** | **-4,385** | **8,325** | **0** | **1,775** | **364,001** |

| Cumulative depreciation amounts | | | | | Net carrying amounts | |
|---|---|---|---|---|---|---|
| **Balance on 1/1/2020** | **Currency translation** | **Additions** | **Disposals** | **Balance on 31/12/2020** | **Balance on 31/12/2020** | **Balance on 31/12/2019** |
| | | | | | | |
| 3,741 | 6 | 740 | 1 | 4,486 | 1,553 | 1,993 |
| 151 | 0 | 113 | 0 | 264 | 302 | 415 |
| **3,892** | **6** | **853** | **1** | **4,750** | **1,855** | **2,408** |
| | | | | | | |
| | | | | | | |
| 84,609 | -642 | 1,955 | 267 | 85,655 | 51,309 | 48,641 |
| 148,636 | -2,096 | 7,351 | 307 | 153,584 | 38,542 | 39,241 |
| 19,594 | -93 | 1,120 | 1,082 | 19,539 | 4,102 | 4,582 |
| 0 | 0 | 0 | 0 | 0 | 4,648 | 10,190 |
| **252,839** | **-2,831** | **10,426** | **1,656** | **258,778** | **98,601** | **102,654** |
| | | | | | | |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 26 |
| 0 | 0 | 0 | 0 | 0 | 16 | 16 |
| 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| **0** | **0** | **0** | **0** | **0** | **17** | **43** |
| **256,731** | **-2,825** | **11,279** | **1,657** | **263,528** | **100,473** | **105,105** |

## (7) Inventories

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Raw materials, consumables and supplies | 12,999 | 12,484 |
| Unfinished goods, services in progress | 2,746 | 2,783 |
| Finished goods and merchandise | 13,627 | 14,434 |
| | **29,372** | **29,701** |

## (8) Accounts receivable and other assets

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Trade receivables | 15,993 | 18,706 |
| Receivables from affiliated companies | 75 | 91 |
| Other receivables and other assets | 2,805 | 4,852 |
| | **18,873** | **23,649** |

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

The full amount of receivables from affiliated companies results from trade receivables as in the previous year.

## (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 1,126 thousand in deferred tax assets was also reported for consolidation entries during the 2020 fiscal year.

The following table shows the development of deferred tax assets and liabilities during fiscal 2020:

| | 2020 | 2019 | Change |
|---|---|---|---|
| Deferred tax assets | 1,126 | 1,092 | 34 |
| 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

| | 2020 | 2019 |
|---|---|---|
| Revenue reserves on 1 Jan. | 54,254 | 51,454 |
| Allocations pursuant to Section 58(3) AktG | 1,000 | 1,500 |
| Allocations pursuant to Section 58(2) AktG | 0 | 1,300 |
| **Revenue reserves on 31 Dec.** | **55,254** | **54,254** |

## (15) Appropriation of net profit

| | 2020 | 2019 |
|---|---|---|
| Consolidated net gains on 1 Jan. | 133 | 1,586 |
| Allocation to other revenue reserves by the Annual General Meeting pursuant to Section 58(3) AktG | -1,000 | -1,500 |
| Dividend payment | -816 | -1,361 |
| Consolidated net income for the year | 3,138 | 2,708 |
| Allocation to other reserves by the Annual General Meeting pursuant to Section 58(2) AktG | 0 | -1,300 |
| **Consolidated net gains on 31 December** | **1,455** | **133** |

## (16) Provisions

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Provisions for pensions and similar obligations | 9,598 | 10,172 |
| Excess of plan assets over pension liability | -1,138 | -1,272 |
| Disclosure of pension provisions | 8,460 | 8,900 |
| Tax provisions | 58 | 255 |
| Other provisions | 9,063 | 10,480 |
| | **17,581** | **19,635** |

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

## (17) Liabilities

| | 31/12/2020 | 31/12/2019 |
|---|---|---|
| Liabilities to banks | 36,317 | 41,211 |
| Trade payables | 6,351 | 5,573 |
| Liabilities on bills accepted and drawn | 229 | 135 |
| Liabilities to affiliated companies | 5,318 | 6,370 |
| Other liabilities | 2,645 | 1,367 |
| of which taxes | (786) | (380) |
| of which social security | (138) | (143) |
| | **50,860** | **54,656** |

Liabilities to affiliated companies include EUR 5,318 thousand (prior year: EUR 6,366 thousand) to the principal shareholder ERWO Holding AG and other companies of the ERWO affiliated group. Of that amount, EUR 3,277 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 76 thousand (prior year: EUR 162 thousand), liabilities to affiliated companies relate to delivery and service translations with EUR 1,965 thousand (prior year: EUR 1,824 thousand) with other liabilities.

| Residual maturity | 31/12/2020 Less than 1 year | 31/12/2020 1 to 5 years | 31/12/2020 More than 5 years | 31/12/2019 Less than 1 year | 31/12/2019 1 to 5 years | 31/12/2019 More than 5 years |
|---|---|---|---|---|---|---|
| Liabilities to banks | 23,713 | 12,604 | 0 | 5,137 | 36,074 | 0 |
| Trade payables | 6,351 | 0 | 0 | 5,573 | 0 | 0 |
| Liabilities on bills accepted and drawn | 229 | 0 | 0 | 135 | 0 | 0 |
| Liabilities to affiliated companies | 5,318 | 0 | 0 | 6,370 | 0 | 0 |
| Other liabilities | 2,645 | 0 | 0 | 1,367 | 0 | 0 |
| of which taxes | (786) | (0) | (0) | (380) | (0) | (0) |
| of which social security | (138) | (0) | (0) | (143) | (0) | (0) |
| | **38,256** | **12,604** | **0** | **18,582** | **36,074** | **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

| | 2020 | 2019 |
|---|---|---|
| **By division** | | |
| Hoftex | 6,589 | 20,474 |
| Neutex | 13,347 | 13,383 |
| Tenowo | 117,273 | 134,918 |
| Other | 2,131 | 2,276 |
| | **139,340** | **171,051** |
| **By region** | | |
| Germany | 49,220 | 68,974 |
| Other EU member states | 40,027 | 50,357 |
| Rest of world | 50,093 | 51,720 |
| | **139,340** | **171,051** |

## (19) Other operating income

| | 2020 | 2019 |
|---|---|---|
| Income from the reversal of provisions | 1,469 | 1,601 |
| Income from currency movements | 143 | 277 |
| Income from the disposal of fixed assets | 64 | 260 |
| Income from the recovery of receivables written off in prior periods and income from reduction in valuation allowances | 152 | 303 |
| Income from revaluation of fixed assets | 0 | 359 |
| Other prior-period income | 335 | 264 |
| Other operating income | 1,280 | 426 |
| | **3,443** | **3,490** |

Other operating income includes, among other items, EUR 876 thousand in funds paid out by insurance companies for property damages resulting from a fire that broke out in the fibre blending line of the Hof-based nonwovens plant in 2017.

## (20) Cost of materials

| | 2020 | 2019 |
|---|---|---|
| Cost of raw materials, consumables and supplies, and of purchased merchandise | 60,046 | 80,387 |
| Cost of purchased services | 4,228 | 3,380 |
| | **64,274** | **83,767** |

The cost of materials ratio based on gross revenue amounts to 46.3 % (prior year: 50.2 %).

## (21) Personnel expenses

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 33,344 | 37,625 |
| Social security, post-employment and other employee benefit costs | 7,113 | 8,631 |
| of which for post-employment benefits | (126) | (459) |
| | **40,457** | **46,256** |

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

| | 2020 | 2019 |
|---|---|---|
| Commercial employees | 706 | 769 |
| Salaried employees | 304 | 323 |
| | **1,010** | **1,092** |

Beyond this, there were 43 apprentices on average (prior year: 44).

## (22) Other operating expenses

| | 2020 | 2019 |
|---|---|---|
| Addition to valuation allowances, derecognition of receivables | 872 | 328 |
| Expenses resulting from currency movements | 485 | 153 |
| Other prior-period expenses | 325 | 236 |
| Other general and administrative expenses | 5,389 | 5,578 |
| Operating costs | 8,065 | 8,795 |
| Selling expenses | 5,229 | 7,500 |
| Other operating expenses | 1,088 | 1,159 |
| | **21,453** | **23,749** |

## (23) Net interest income

| | 2020 | 2019 |
|---|---|---|
| Other interest and similar income | 25 | 52 |
| of which from affiliated companies | (0) | (0) |
| Interest and similar expenses | -1,256 | -1,666 |
| of which to affiliated companies | (-191) | (-202) |
| of which from the reversal of discounting on pension obligations | (-256) | (-312) |
| | **-1,231** | **-1,614** |

The excess of plan assets over pension obligations amounts to EUR 28 thousand (prior year: EUR 34 thousand).

## (24) Taxes on income

| | 2020 | 2019 |
|---|---|---|
| Corporate income tax fiscal year | -14 | -367 |
| Release of prior-year tax provisions | 74 | 0 |
| Corporate income tax refunds | 107 | 381 |
| Additional corporate tax payments | 0 | -42 |
| Trade tax fiscal year | -44 | -268 |
| Release of prior-year tax provisions | 0 | 45 |
| Trade tax refund | 0 | 272 |
| Trade tax arrears | 0 | -149 |
| Changes in deferred taxes | 34 | -15 |
| | **157** | **-143** |

## (25) Other taxes

Other taxes of EUR 592 thousand (prior year: EUR 584 thousand) generally refer to property taxes.

## (26) Auditors' fees

Our Munich-based auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft charged fees totalling EUR 291 thousand (prior year: EUR 310 thousand).

The following table provides a breakdown of the fees:

| | 2020 | 2019 |
|---|---|---|
| Auditing services | 174 | 190 |
| Other certification services | 20 | 25 |
| Tax consultancy services | 97 | 95 |
| | **291** | **310** |

## (27) Remuneration of the Supervisory Board and Management Board

The disclosure of the total remuneration of the Management Board in accordance with Section 314 no. 6a HGB is not required under the exemption provision of Section 314(3) sentence 2 in conjunction with Section 286(4) HGB.

The remuneration of the Supervisory Board members amounts to EUR 92 thousand (prior year: EUR 89 thousand) resulting from purchase commitments and leasing contracts.

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 293 thousand (prior year: EUR 305 thousand) resulting from purchase commitments and leasing contracts. Provisions totalling EUR 3,267 thousand (prior year: EUR 3,317 thousand) have been recognised for pension obligations to former members of the Management Board and their survivors.

## (28) 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, almost exclusively exchange rate effects, 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.

## (29) Contingent liabilities

| | 2020 | 2019 |
|---|---|---|
| Guarantee obligations | 70 | 70 |

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

## (30) Other financial commitments

Other financial commitments include EUR 3,488 thousand (prior year: EUR 5,062 thousand) resulting from purchase commitments.

## (31) 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 hedged). 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 nominal combined value of EUR 16,500 thousand to minimise the risk of future interest rate increases. With a term of 12 months, the maturities of the interest rate hedges held on 31 December 2020 correspond to those of the underlying transactions and these have been combined with these underlying transactions to create net hedges. As of the balance sheet date, the company was not obliged to recognise provisions arising from the net hedges for these transactions; in other words, the company was able to avoid setting aside provisions for contingent losses on pending transactions, corresponding to the negative fair values in the amount of EUR 86 thousand.

On 31 December 2019, the fair values of the Group's interest rate hedges were as follows

| **Fair value** | **Swap rate** | **Carrying value** | **Fair value** | **Swap rate** |
|---:|---:|---:|---:|---:|
| 23/12/2021 | EUR 10.0 million | TEUR 0 | TEUR -53 | 0.5225 % |
| 23/12/2021 | EUR 6.5 million | TEUR 0 | TEUR -33 | 0.5000 % |

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

## (32) Events after the reporting date

There were no significant events after the balance sheet date.

## (33) Members of the Supervisory Board

**Tom Steger**
Chairman
Independent Attorney
Nuremberg

**Renate Dempfle**
Managing Director of PDV
Inter-Media GmbH Augsburg

**York Riedel**
Independent Attorney
Nuremberg

**Martin Steger**
Deputy Chairman
Self-employed property developer
Nuremberg

**Johanna Falasa***
Commercial Employee
Münchberg

**Wolfgang Schmidt***
Chairman of the works council at
Tenowo Hof and Reichenbach
Hof

**Werner Berlet**
Retired (former IT manager at
Elmotec Statomat GmbH)
Bad Homburg v.d. Höhe

**Melanie Liebert**
Independent auditor
and tax adviser
Augsburg

**Carmen Teismann***
Laboratory employee
Schwarzenbach/Saale

* elected by employees

## (34) Members of the Management Board

**Klaus Steger**
Chairman of the Management Board,
Chief Executive Officer
Nuremberg

**Robert Seibold**
(until 31 July 2020)
Chief Financial Officer
Abenberg

**Manuela Spörl**
(from 1 August 2020)
Chief Financial Officer
Hof

## (35) Corporate group

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

## (36) 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:

| | |
|---|---|
| Payment 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 |
| Carry forward to new account | EUR 132,427.31 |
| **Net retained profits** | **EUR 949,147.31** |

Hof, 30 April 2021

HOFTEX GROUP AG

The Management Board

Klaus Steger

Manuela Spörl

# 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 2020, 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 2020 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 to 31 December 2020. 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 2020 and the results of its operations for the fiscal year from 1 January to 31 December 2020 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 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/Supervisory Board. Other information includes:

- the Supervisory Board Report,
- the statement on corporate governance of the HOFTEX GROUP AG pursuant to Section 289f(4) HGB in Section 3 of the Group Management Report,
- all other parts of the Annual Report,
- but not the consolidated financial statements, not the reviewed contents of the Group Management Report statements and not our corresponding auditor's report.

The Supervisory Board is responsible for the Supervisory Board Report. For the remainder, the Management Board is responsible for all other information.

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, we are responsible for reading the other information mentioned above and determining whether this other information

- substantially deviates from the consolidated financial statements, the reviewed Group Management Report statements 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 internal 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 principles 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 2021

**Deloitte GmbH**
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Klaus Löffler | Martin Wastlhuber |
| Auditor | Auditor |

# HOFTEX GROUP AG

## Balance Sheet as of 31 December 2020

| Assets in EUR thousand | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Fixed assets** | | |
| Intangible fixed assets | 1,284 | 1,845 |
| Tangible assets | 1,245 | 1,314 |
| Long-term financial assets | 104,343 | 104,476 |
| | **106,872** | **107,635** |
| **Current assets** | | |
| Accounts receivable and other assets | 56,994 | 62,571 |
| Cash and cash equivalents | 17,492 | 17,218 |
| | **74,486** | **79,789** |
| **Accrued and deferred items** | **78** | **75** |
| **Balance sheet total** | **181,436** | **187,499** |

| Equity and liabilities in EUR thousand | 31/12/2020 | 31/12/2019 |
|---|---|---|
| **Equity** | | |
| Subscribed capital | 13,920 | 13,920 |
| Capital reserves | 41,158 | 41,158 |
| Revenue reserves | 58,215 | 57,215 |
| Net retained profits | 949 | 2,678 |
| | **114,242** | **114,971** |
| **Provisions** | **7,150** | **7,811** |
| **Liabilities** | | |
| Liabilities to banks | 36,000 | 41,000 |
| Trade payables | 197 | 201 |
| Liabilities to affiliated companies | 23,643 | 23,418 |
| Other liabilities | 204 | 98 |
| | **60,044** | **64,717** |
| **Balance sheet total** | **181,436** | **187,499** |

## HOFTEX GROUP AG

## Income Statement for the 2020 fiscal year

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Sales | 4,585 | 4,506 |
| Other operating income | 108 | 149 |
| Personnel expenses | -2,906 | -3,085 |
| Depreciation, amortisation and write-downs | -895 | -843 |
| Other operating expenses | -2,170 | -1,881 |
| Net investment income | 209 | 4,793 |
| Net interest income | 1,068 | 515 |
| Taxes on income | 168 | -207 |
| **Earnings after tax** | **167** | **3,947** |
| Other taxes | -80 | -76 |
| **Net income for the fiscal year** | **87** | **3,871** |
| Retained profits brought forward | 862 | 107 |
| Appropriation to revenue reserves | 0 | -1,300 |
| **Net retained profits** | **949** | **2,678** |

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

HOFTEX GROUP
TEXTILE TECHNOLOGIES

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